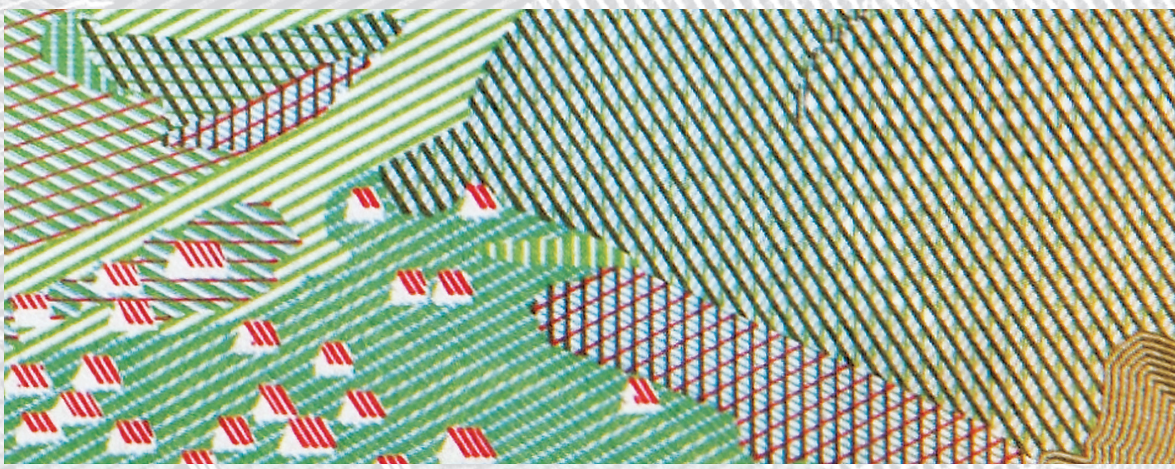
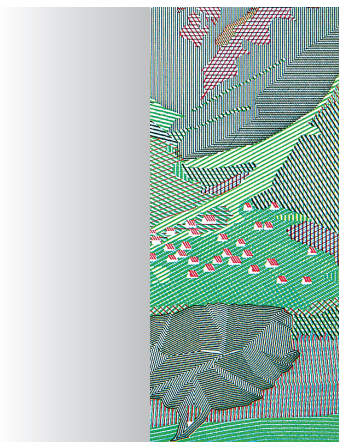
INSTITUTIONAL DEVELOPMENT





Institutional development of the Bank

Governance of the Bank



For improved governance within the Bank, an amendment was made to the Republic of Armenia Law on the Central Bank[10] in 2015. It provides for capacity to appoint two deputies to the chairman of the Bank. In this case, having a complete executive management to handle operational administration and day-to-day decision making becomes possible, while the Board will be given its original and statutory responsibility for the Bank's strategy. The amendment allowed aligning the Bank's management to the best international practices of corporate governance.

The Republic of Armenia Law on the Central Bank provides that the Board of the Bank is top management body of the Central Bank.

The Board consists of Chairman, two Deputy Chairmen of the Central Bank, and five Members. Chairman and Deputy Chairmen are included in the Board ex *officio*.

Chairman of the Central Bank is the highest official of the Bank. Chairman of the Central Bank is appointed by the Armenian National Assembly upon recommendation of President of the Republic of Armenia, for a 6-year term. Chairman is responsible for fulfillment of the Central Bank objectives. Chairman coordinates the activities of the Central Bank; represents the Central Bank in the Republic of Armenia, other states and international organizations; exercises authority not reserved to the competence of the Board. Where Chairman is absent or otherwise unable to act, such powers are to be vested with one of the Deputies, and where Deputies are absent or otherwise unable to

10 See details in the Republic of Armenia Law on the Central Bank.

act, such powers are to be vested with the eldest Board Member of the Central Bank. Deputy Chairmen of the Central Bank are appointed by President of the Republic of Armenia, for a 6-year term. Chairman and Deputy Chairmen as well as Board Members cannot serve as a member of managing body of any party, be involved in activities other than scientific research, pedagogical and creative activities.

Board Members of the Central Bank are appointed by President of the Republic of Armenia for a 5-year term. Board Members cannot hold any other position in the Bank.

Board of the Central Bank

Regular meetings of the Board are held every two weeks, on Tuesday, pursuant to the schedule set by the Board at the opening meeting of the year. Extra meeting of the Board can be held at the request of Chairman, at least one Deputy Chairman or at least three Board Members of the Central Bank.

The Board approves the Central Bank charter, monetary policy programs of the Republic of Armenia, caps and interest rates on outright operations, loans provided and deposits attracted by the Central Bank, terms and procedure for reserve requirement with the Central Bank; enacts normative regulations of the Central Bank; issues, revokes or annuls banking licenses and other activity licenses; determines the procedure of licensing to banks and other entities; approves prudential standards for banking and calculation thereof; and exercises other authorities under law.

In 2015 the Board held 70 meetings, including 7 in Dilijan Research and Training Center, and adopted 73 normative resolutions and 380 individual resolutions. In 2015 the Board issued two official clarifications about some aspects in the process of confiscation and selection of standard property appraisers for financial institutions.

As a policy approving body, the Board of the Bank has done much in improving the legislative and regulatory framework aimed to the financial system stability and development. In particular, a handful of legislative amendments proposed by the Board were endorsed by the Armenian Parliament[11].

Executive Board of the Central Bank

The Executive Board is a consultative body adjunct to Chairman of the Central Bank, and conducts its proceedings through meetings. Normally, the Executive Board meets on a biweekly basis, on Tuesday following the day on which the Board's consecutive meeting is held.

Chairman of the Central Bank takes the chair of the Executive Board's meetings; in the absence of Chairman, one of Deputy Chairmen does so.

In 2015 the Executive Board met 11 times.

11 See details in Section *Maintaining financial stability.*

Commissions and Committees of the Bank

Commissions, committees and other consultative bodies are key pillars of the Bank governance, and their structure and competence are defined based on the scope of issues and area of activity. The commissions and committees of the Bank hold meetings and draw up minutes which are approved by Chairman of the Bank. Where appropriate, Chairman makes decisions and issues orders based on such minutes. Below is a brief account of the Bank's commissions, committees as well as information about their activities.

As well as standing commissions and committees, ad-hoc committees can be set up by the directive of Chairman of the Bank and resolution of the Board when certain tasks and objectives need to be addressed.

Monetary Policy Committee

MPC is responsible for reviewing and evaluating the previous week's monetary policy, the situation in banking sector and financial market, the Bank's operations as well as monetary indicators and relations with State Budget.

MPC is set to review and evaluate the Central Bank Statistics Department's and the Republic of Armenia National Statistics Service's observations concerning inflation estimations of the previous 10 days.

MPC's meetings are held each Friday at the Bank. In 2015 MPC met 48 times.

Financial Stability Committee

FSC is a consultative body adjunct to Chairman of the Bank. It is set to review, evaluate and analyze stability of the financial system, prepare for relevant measures and propose terms and conditions for taking up such measures. FSC makes thorough situational analysis when needed.

During the meetings FSC makes a review of how risks progress in the global economy, macro-environment and financial markets in Armenia as well as domestic financial institutions and infrastructure in the previous quarter and whether they affected the financial stability. FSC also addresses the movement of the banking system stability index and its components, the results of stress-tests that evaluate the financial stability, and etc.

FSC meets once every quarter, in the second half of the month following each quarter. Extra meetings of the Committee are held as and when chairman of the committee decides so. In 2015 FSC held meetings according to the schedule.

Investment Committee

IC is an authorized decision-making body within the Central Bank structure. The Committee supervises and coordinates the investment activities, evaluates the results of financial analyses in compliance with decisions taken about management of international reserves of the Republic of Armenia as well as investment guidelines approved by the Board of the Bank.

The Committee is set to address issues of strategic and tactical management of international reserves as well as to perform monitoring of ongoing investment activities.

Normally, the Committee's meetings are held once every four weeks, on Monday. In 2015 IC met 9 times and made 7 decisions.

Licensing and Supervision Committee

LSC is set to address aspects such as granting preliminary consent to creation of banks and branch offices of foreign banks; registration and/or licensing of banks and branch offices of foreign banks; registration of branch offices, representations of banks, representations of foreign banks; registration of operational rules of regulated market operator and Central Depositary; licensing of other participants.

LSC considers whether or not to impose sanctions against the financial institutions licensed and supervised by the Bank, or whether or not to qualify price manipulation as such in the event it has found facts of such manipulation during foreign exchange trades and auctions. LSC has its proceedings through meetings which are convened as and when appropriate but not less than once a week.

In 2015 LSC met 60 times.

Young Specialists Evaluation Committee

This committee is created to examine and evaluate professional abilities and knowledge of young specialists who work at the Bank. The committee takes decisions of a consultative nature which then serve a basis for unit heads to prepare recommendation on the upcoming status of young specialists. YSEC decisions are consultative only and can be used by heads of structural units for judgment and recommendation to chairman of the Bank for consideration.

In 2015 YSEC met 4 times and assessed a total of 35 young specialists.

Job Evaluation Committee

The task of JEC is to evaluate and categorize new jobs or changed job positions at the Central Bank. The Committee is set to discuss issues on evaluation and categorization of jobs for new or changed positions and make recommendations to chairman of the Bank for consideration.

The Committee addresses the issues that are disputable with regard to performance of individual work programs of employees of the Bank.

JEC meetings are held as and when needed, by October 15 of the year. In 2015 the Committee met 6 times.

Staff Assessment Committee

This Committee is tasked to measure professional and practical abilities and knowledge of the staff of the Bank or persons who wish to apply for job (applicants) at the Bank.

Professional skills and knowledge of the staff of the Bank and applicants can be assessed through both interview and tests in writing. Chairman of the Bank who heads the committee will take a decision based on the conclusion issued by the committee about whether or not the employee or applicant is fit and proper for the proposed job position.

In 2015 SAC met 27 times.

Audit Committee

AC of the Central Bank is a specific structural unit within the Bank. Responsibilities of the Committee include issues and tasks pertinent to financial accounts of the Bank, internal control, external and internal audit. AC consists of three members, including chairman of the Committee. Members of the Committee are board members of the Bank. Chairman and deputy chairmen of the Bank cannot serve as member of Audit Committee.

The issues addressed during the year covered audit engagement, external audit, internal control and risk management system as well as day-to-day activities, methodology and area-specific issues of Audit Group.

In 2015 AC met 6 times.

In addition to these committees, an important role in corporate governance of the Bank is attributed to the Bank's Budget Committee, Information Security Committee, Information Technologies Development Committee, Tender Committee, Research and Analysis Assessment Team and Editorial Board which is responsible for upgrading the Bank's Internet homepage, as well as the development and implementation of information policy of the Bank.

Accountability of the Bank

In fulfilling its objectives, the Bank is independent from state authorities of the Republic of Armenia. The Bank maintains its accountability pursuant to the terms and procedure determined by the Republic of Armenia Law, the Central Bank strategy and internal rules and policies.

The Central Bank presents the *Monetary Policy Program and Status Report on Implementation of Monetary Policy (Inflation Report) as well as Expenditures Estimate and Capital Investment Program,* with performance sheet papers, to the National Assembly of the Republic of Armenia. Furthermore, the Bank provides its "Annual Report of the Central Bank" for public disclosure. The annual report incorporates the Bank's annual financial accounts the compliance of which to international standards is verified every year by internationally recognized audit firms.

In addition to the aforementioned papers, the Bank publishes the following periodicals: *Financial System of the Republic of Armenia: Development, Regulation and Supervision, Financial Stability Report, Central Bank Bulletin, Central Bank Review, Central Bank Statistical Bulletin, Commemorative Coins of the Republic of Armenia.*

The Bank maintains accountability also through its official website (www.cba.am) which contains the Central Bank Development Strategy, regular issues of periodical papers, the Board minutes and press releases on the refinancing rate, and other information relevant to the Bank's operations and activity and the financial system as a whole.

Management systems and organizational development

Year 2015 saw considerable progress in the Bank's information security management system.

Underscoring the importance of a developed information security system, the Bank actively supports the implementation of latest industry standards and best practices in information security. In the first quarter of 2015 the Bank passed re-certification for ISO/IEC 27001:2013 standard (new edition). In addition, most banks have been already certified for ISO/IEC 27001 Information Security Management Systems standard. This standard has started to be implemented in other organizations of the financial system.

Highlighting the importance of uninterrupted provision of services to the population, the Bank took steps for increased effectiveness of cooperation with commercial banks in emergency situations.

Cooperation with international organizations

In 2015 the Bank sustained its multilateral and bilateral cooperation with international organizations and institutions elsewhere in the world.

In February 2015 an International Monetary Fund mission, headed by Mark Horton, visited the Bank. A number of issues relating to the bilateral cooperation, current economic situation in Armenia, fiscal and monetary policies were discussed during the visit. In the framework of cooperation with the IMF, the Bank received the delegation of Masood Ahmed, an IMF Regional Director. Enhancing Armenia's international reserves, reducing public debt, maintaining stability of the banking system were the coverage of this visit.

During the year the Bank received delegations and representatives from international financial institutions and agencies, including International Finance Corporation, headed by Regional Director for Europe and Central Asia Tomasz Telma, European Investment Bank, headed by Vice-President Wilhelm Molterer, Eurasian Development Bank, headed by Chairman Dmitry Pankin, European Bank for Reconstruction and Development, headed by Chairman Suma Chakrabarti, Alliance for Financial Inclusion, headed by Executive Director Alfred Hannig, as well as Head of the EU Delegation Office Traian Hristea, and experts from Moody's, an international rating agency, to expand business contacts, learn about the country's macroeconomic situation and negotiate with the Bank.

In 2015 the Bank organized a series of business meetings, sessions, roundtables and conferences, including the meeting of Eurasian Economic Union's Member States and Eurasian Economic Commission's Consultative Committee for Financial Markets.

In 2015 the Dilijan TRC of the Bank hosted a roundtable to discuss macroeconomic policy and economic stabilization issues for EEU Member States. An EEU Board Member and Macroeconomic and Integration Minister Tatyana Valovaya, and representatives from structural units of Eurasian Economic Commission, Republic of Armenia Ministry of Economy, Ministry of Finance, and Ministry of International Economic Integration and Reform, as well as the Bank representatives attended this event.

In 2015 the Dilijan TRC hosted the 11th Advisory Panel Meeting on Currency Policy of Central (National) Banks of Member States of the EEU. The other event taken place here was International Conference for Legal Counsels in the Framework of the Central Banks Governors' Club of Central Asia, Black Sea Region and Balkan Countries. The conference participants, a total of 24, were representing Albania, Belarus, Bulgaria, Croatia, Czech Republic, Kazakhstan, Kyrgyz Republic, Macedonia, Montenegro, Poland, Romania, Russia, Tajikistan, Serbia, and China.

In the period under review, the Egmont Group convened the 23rd plenary meeting. The FMC representatives participated in the event for discussing a bunch of issues, including drafting a guideline along

with FATF based on the national information accessibility program and information exchange with financial intelligence units of foreign countries, as well as preparing status reports on Turkmenistan and Islamic Republic of Iran in connection with their membership to the Egmont Group.

Representing the Republic of Armenia in the MONEYVAL Committee, the FMC staff members participated in mutual evaluation of AML/CFT frameworks and the Committee's plenary sessions at which the 5th round assessment report on Armenia's AML/CFT framework was addressed and approved.

In September of 2015 the Bank's regional cash center of Tsaghkadzor hosted a meeting of working groups of the Board of Heads of FIUs of CIS Member States. Participants attending this event represented the FIUs of 5 countries as members of the above-mentioned Board, the Executive Committee of that Board and the International Training and Methodology Center of Financial Monitoring of the Russian Federation.

The FMC representatives also participated in the FATF plenary meeting and the 7th meeting of the Conference of Parties at which they were elected as member of the Bureau of the Conference of the Parties.

In 2015 the Bank inked more agreements and memoranda of understanding with central banks of other countries in the framework of bilateral and intergovernmental commissions.

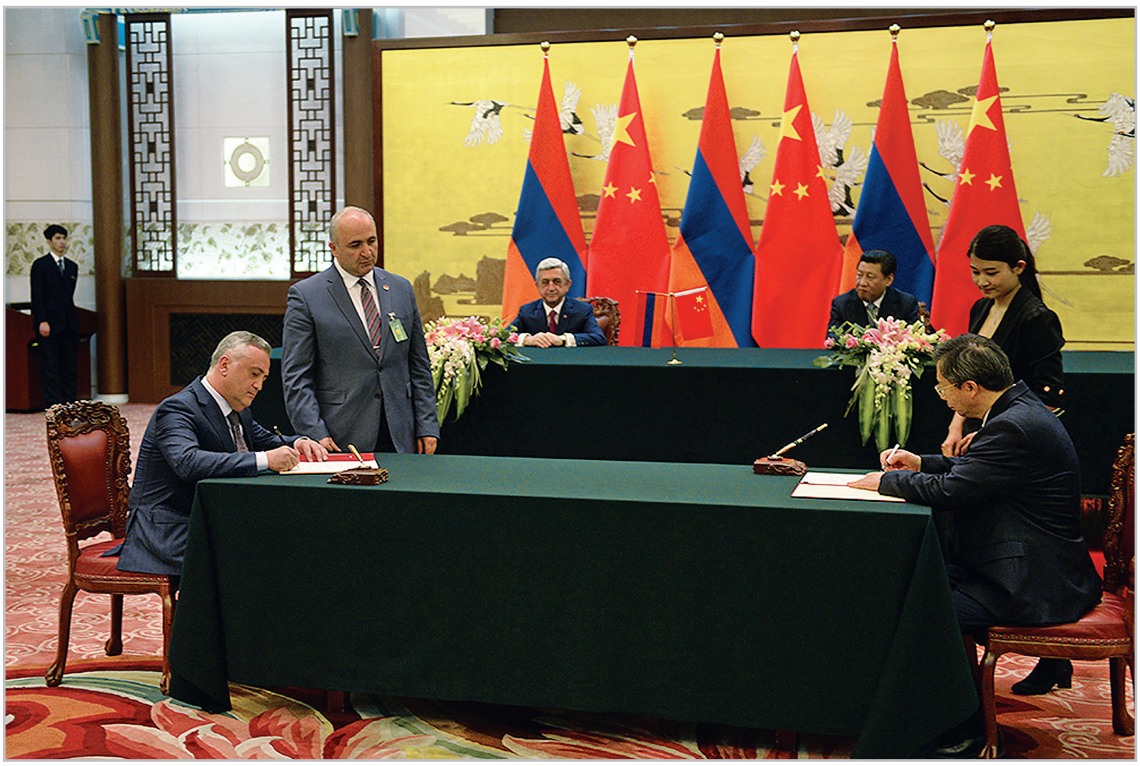
Highlighting the importance of international cooperation in maintaining the development and reliability of Armenia's payment and settlement system, a cooperation agreement was signed in 2015 between the Bank and the Central Bank of the Russian Federation for joint oversight of payment systems. The purpose of the agreement is that the signatories take a harmonious approach to regulating and control of payment systems, creating conditions for payment system and payment infrastructure development, maintaining fair competition and improving the quality of payment and settlement services provided.

In 2015 the Bank sustained its cooperation with the World Bank, KfW Bank, European Investment Bank, Asian Development Bank and other international organizations in the context of lending projects in a number of target sectors of the economy. A SME lending program funded by the European Investment Bank for agriculture, agro-processing and tourism sectors started in 2015.

The "Bilateral Currency Swap Agreement between the Central Bank of Armenia and People's Bank of China" was signed by and between the Bank and the People's Bank of China in Beijing on March 25, 2015.

During the year staff members of the Bank took part in annual meetings, forums, conferences, international banking and finance events on EEU and EU platforms and made presentations and speeches.

In March 2015 the Bank's Dilijan TRC hosted a course of qualification of evaluation experts in the field of AML/CFT, arranged by the Council of Europe's MONEYVAL Committee representatives. The right to participate in country mutual evaluations was granted to 5 rep-



resentatives from the FMC of the Bank, the Ministry of Justice and the Prosecutor's Office, as well as 28 representatives of the MONEYVAL Committee member countries.

The FMC continued enhancing ties with FIUs of other countries. For efficient cooperation, the FMC signed a memorandum of understanding with the FIU of Kazakhstan. On a basis of renewed version of the memorandum of understanding proposed by the Egmont Group, the FMC re-signed previous memoranda of understanding with FIUs of the Russian Federation and Croatia. As of 2015, the FMC has memoranda of understanding signed with FIUs of 31 countries.

Staff training

In 2015 the Bank continued cooperating with the Centre for Central Banking Studies of the Bank of England, Bank Negara Malaysia, central/national banks of the EEU and EU countries (Netherlands, Germany, Italy, France, Austria, Czech Republic, Poland) as well as the Financial Technology Transfer Agency of Grand Duchy of Luxembourg, Financial Stability Institute, Study Center Gerzensee of Swiss National Bank, Canada Toronto Centre, US Federal Reserve, European Central Bank, International Monetary Fund and a number of other banks and international financial and educational establishments.

In 2015 the Bank's employees actively participated in various training programs, courses, consultations and exchange visits in Armenia and abroad.

The Bank kept on enhancing bilateral relations with foreign banks and financial institutions, which resulted in more sustainable relations with the European Central Bank, banks of Belgium, Italy, Slovenia and

the Center of Excellence in Finance in Slovenia. As a result, more than 100 tailored and standard training and exchange programs were organized for the employees of the Bank. A two-phase course "Improving Interview and Communication Skills" was organized for the Bank's supervisors in collaboration with the Bank of Netherlands and the Group "Gooiconsult".

International workshops organized in collaboration with the Canada Toronto Centre and US Federal Reserve System were important developments in 2015 in the context of regional cooperation in the financial sector. A total of 72 employees of the Bank and 13 representatives from 13 foreign banks have attended these workshops.

In the framework of cooperation between central/national banks of the EEU member states, the Dilijan TRC arranged 6 training courses which were attended by representatives not only from banks of the EEC countries but also other countries. The Bank has organized special workshops at which 13 representatives of the Bank presented best practices of the Central Bank in the field of monetary policy, payment and settlement relations, financial system regulations and etc.

Seeking to increase the level of professionalism, further get-togethers were arranged in 2015 between commercial banks and other private sector representatives and the European Bank for Reconstruction and Development, the GRC Knowledge Center, the European Fund for Southeast Europe's Global Association of Professional Risk Managers, Giesecke & Devrient, a print house, the International Actuarial Association and other organizations and financial institutions.

During the year 26 educational programs, with involvement of lecturers from the world's leading academic institutions, were organized for the staff of the Bank's Economic Research Department.

In 2015, a total of 70 programs were organized in the Republic of Armenia by the Bank and jointly with the Bank for the representatives of the Bank, commercial banks, other government agencies, the private sector and foreign central/national banks.

Personnel management

In 2015 the Bank remained committed to a personnel policy that supports professional development, provides opportunities for lifelong education and pursues to engage true professionals and skilled workers.

At the end of the year the Bank had 779 employees (open-ended and fixed-term contracts) of which 441 are women and 338 men. The average age of employees is 39. A total of 50 employees left the Bank during the year in comparison with the previous year's figure of 54.

Vacancies in the Bank were filled primarily by competition. During the year, 25 positions were filled up by both internal and external competitions; 66 employees earned promotion (2 of who for a managerial position) for taking up a function of increased complexity.

The Bank further maintained a policy that encouraged recruiting young specialists (with no professional experience) while providing them with an opportunity to grow professionally and fill up vacancies

in the future. A two-month program named "The Central Bank: an introductory course" was implemented twice in 2015, and the Bank signed fixed-term employment contracts with 13 young specialists.

In 2015 the Bank successfully cooperated with universities and participated in Career Day events organized by these establishments. During the year 31 employees of the Bank lectured at a number of universities and other educational establishments, delivering their knowledge and experience to young professionals. A total of 93 students from tertiary enrollment in Armenia took their internship in the Bank.

During the year 26 students participated in the Isahak Isahakyan Stipend eligibility contest announced by the Bank. The best of them - 2 from the Faculty of Economics of Yerevan State University, 3 from Armenian State University of Economics and 2 from Artsakh State University - were awarded the Isahak Isahakyan Stipend.

Improving professional qualification

Pursuing increased qualification and professionalism of the staff, the Bank continued providing the training of its employees at financial institutions abroad, educational centers of the Republic of Armenia, including the Dilijan TRC.

Seminars organized by the use of internal resources of the Bank in 2015 addressed a great variety of aspects, such as the monetary policy objective, strategy, channels of transmission and implementation of monetary policy, consumer protection, financial stability and macroprudential analysis, rules of legal techniques, asset and risk management, financial system supervision, bank mergers and acquisitions. These seminars provide an excellent opportunity for transfer of knowledge and experience of the staff, communicating current objectives and functions of the Bank and developing skills required for professional activity.

Training courses were offered to as many as 162 employees of the Bank, which were aimed at enhancing their professional knowledge and skills in strategic areas of the Bank. A total of 21 employees of the Bank took part in 9 training courses that focused on actuarial calculations, monetary policy analysis, asset management, strategic paper writing and a number of other areas of research, as well as implementation of best international practices.

During the year 35 employees of the Bank attended on-line training courses on financial supervision offered by the Financial Stability Institute.

In 2015, to maintain a pool of management personnel, enhance knowledge and improve the skills of young professionals, a total of 17 employees moved to other positions through rotation within the Bank.

In the period under review employees of the Bank passed international certification and qualification exams in the field of finance, accounting, audit, insurance, information technologies, fraud, and personnel management. As of 2015, 41 employees have earned international certificates of qualification and 45 are taking exams. Six employees of the Bank are full members of CFA and five full members of ACCA.

Public relations

In 2015 the Bank continued communicating its activity, undertakings and reforms relating to financial sector as well as events in the financial market to the general public. The Bank further cooperated with the Union of Banks of Armenia and maintained ties with public unions and non-governmental organizations.

The Bank regularly announced its actions, projects, undertakings about monetary policy, financial supervision and financial stability to financial market participants, and arranged meetings to discuss matters of interest.

During the year 9 Board decisions on repo operations (refinancing rate) were published. Brief statement on the Board decisions came immediately after the decision by the Board while the Board Minutes were published within 10 days. A total of 4 Board Minutes were published in the periodical "Inflation Report".

The representatives of mass media were offered educational seminars on a variety of topics such as consumer protection, monetary policy objectives, Eurasian Economic Union and economic impact of exchange rate. Meetings were organized with the participation of heads of mass media industry and representatives of the Bank.

A documentary film "The Master" featuring the first chairman of the Central Bank Isahak Isahakyan and telling about his life history was aired on November 22nd, which is the Banker's Day.

During the year the Bank organized 3 events with the participation of mass media and 20 interviews. In 2015 the Bank received 26 queries in writing to which responses were given through an established procedure under law. The Bank had 167 press releases issued for public disclosure of its activities. There were 26 releases on the meetings of the Board of the Bank and 9 releases on the refinancing rate of the Bank published during the year.

Visitor Center

In 2015 the Visitor Center[12] received around 9000 visitors (7000 schoolchildren and students and 2000 teachers), which is 11% higher from the relevant figure reported in the previous year.

In Yerevan, people having visited the Center at the Bank numbered 7356.

The Center's new educational project "One Day at the Central Bank" was again for the servicemen and alumni of educational institutions of the Armenian Ministry of Defense. This year, the students and teaching staff of Educational Complex of the Police of the Republic of Armenia joined the project. In 2015 the Center received a total of 770 servicemen/alumni and teaching staff. In May 2015, upon proposal by the Ministry of Culture, the Visitor Center participated for the first time in the international program "Free Museums Night", and received 588 visitors.

From September 22nd to October 2nd of 2015 a regular exhibition titled "History of Money Cycle in Armenia: finances for all" was organized in Vanadzor, Armenia. Such exhibitions are designed to acquaint

12 See details on www.visitorcentre.cba.am, www.museum.cba.am, www.cba.am

people and especially students with the history of the national currency, the security features of the Dram, the main functions of the financial system, the rights of users of financial services. The exhibition in Vanadzor gathered nearly 1600 visitors, including 1130 schoolchildren/students and 470 teachers, lecturers and general public.

In 2015 the Visitor Center cooperated with the OSCE Yerevan Office, Children of Armenia Fund, Junior Achievements of Armenia, Center for Agribusiness and Rural Development, Office of Financial System Mediator, hosting schoolchildren and students from almost all regions of Armenia. Educational workshops were organized for teaching staff of the Faculty of Economics at the Armenian National Agrarian University, basic school No. 173 after V. Vardevanyan and high school No. 159 in Yerevan.

Internal audit

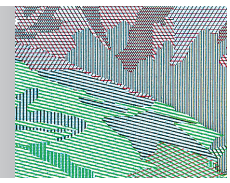
The function of internal audit of the Bank is entitled to the Audit Group which is set up by the Board of the Bank according to the Republic of Armenia Law on the Central Bank. The Group performs its functions in compliance with Armenian law, international professional practices framework of the Institute of Internal Auditors as well as statutes developed by COSO Internal Control - Integrated Framework and CobIT information technologies documentation.

The employees of the Group are members to the IIA, Information System Audit and Control Association, Association of Chartered Certified Accountants, and take international qualification exams (CIA, CRMA, CISA, CRISC, ACCA) as established by these institutions. In 2015 two employees of the Group received international qualification certificates ACCA, CIA, CISA.

Pursuant to a risk-based annual audit plan for 2015, approved by the Board of the Bank, the Group took on audit engagements to enhance efficiency in risk management, control and governance processes. Reports with appropriate recommendations and indication of agreed action for their implementation was prepared for each engagement.

In 2015 the Group continued to actively cooperate with partner banks and other organizations, including German Bundesbank, De Nederlandshe Bank, Bank of Italy, International Monetary Fund, Alliance for Financial Inclusion, Institute of Internal Auditors, Association of Chartered Certified Accountants, Information Systems Audit and Control Association.

Dilijan Training and Research Center



During the year 20 more Bank staff, involved in research and analytics, moved to Dilijan TRC. As of end-2015, the number of employees having moved to Dilijan TRC totaled 144.

Furnished with latest technical solutions, the Dilijan TRC of the Bank focuses on scientific and research activities. Keeping abreast with ever-progressing economic theories, the Economic Research Department, now entirely at the Dilijan TRC, conducted macro- and micro-economic research in line with international practices, which was aimed at effective implementation of monetary and financial policies. Gifted specialists with good research capacities from leading universities in Armenia and abroad took part in these activities. In 2015 the Economic Research Department launched a new phase of work whereby every employee was given a subject for research, with supervisor appointed for that purpose. Researchers were divided into 4 main groups in order to make more effective and in-depth research. The results of their work in form of articles/papers will be published in renowned periodicals, journals of the world. During the year advanced economics courses were organized, at which well-known specialists from best universities of the world (Swiss Federal Institute of Technology in Zurich, University of Barcelona, University of Notre Dame, Stanford University, etc.) delivered lectures. For exchange of experience and learning innovative solutions, the Dilijan TRC also works with universities with highly qualified scientific profile. The Center is of great interest to professionals and scientists of other countries.

In 2014 the Dilijan TRC hosted a number of managerial skills enhancement courses for the Bank. The courses addressing market structure theories, advanced macroeconomics, leadership were conducted by professors invited from universities of Harvard, Columbia, Oxford and London Imperial University. Further, a conference titled "Empirical Macroeconomics: achievements and development" was organized, and 22 world-renowned economists attended this interesting event. Visits of experts from other central banks and international organizations to the Center have become a commonplace. A total of 213 employees of the Bank attended the courses.

Five Harvard University students, a Boston Consulting Group student had their 2-month summer work internship at Dilijan TRC. A Stanford University student and two students from the University of California, Berkeley, worked on a special project that involved big data.

The activities of the "Knowledge for Development" Center, which functions within the structure of the Bank, expanded. Various target groups from town Dilijan and neighboring areas continued visiting the Visitor Center at the Dilijan TRC. During the year the library had about 1205 readers. The number of visitors to "Tumo", a Center for Creative Technologies, grew this year to 402. The students at Tumo learn various skills and technologies for the 21st century, including 3D modeling, graphic design, music, photography, robotics, etc.

According to an agreement with the American University of Armenia, the "Knowledge for Development" Center has a "Development Unit" where young people learn foreign languages and management, and have the opportunity to attend the training course "Tourism and Hospitality Management".



ANNUAL FINANCIAL ACCOUNTS

OF THE CENTRAL BANK

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Central Bank of the Republic of Armenia

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2015

INDEPENDENT AUDITOR'S REPORT

To the Board of the Central Bank of the Republic of Armenia

We have audited the accompanying consolidated financial statements of the Central Bank of the Republic of Armenia and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 intrenal control. An audit also includes evaluating the approriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.



Altaf Tapia
Managing Partner

Anahit Gyozalyan
Auditor

22 April 2016
Yerevan, Republic of Armenia

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Central Bank of the Republic of Armenia
Consolidated Statement of Profit or Loss and Other Comprehensive Income

In thousands of Armenian Drams

	Note	2015	2014
Interest income	4	37,900,805	20,105,848
Interest expense	5	(13,194,070)	(11,078,566)
Net interest income		**24,706,735**	**9,027,282**
Fee and commission income		74,272	126,103
Fee and commission expense		(598,098)	(441,704)
Net foreign exchange gain	6	3,622,430	30,384,095
Net (loss)/gain on derivatives	7	(2,326,440)	5,549,363
Net gain on financial instruments at fair value through profit or loss	8	1,729,051	2,742,597
Other income	9	4,298,004	4,254,263
Cost of production of banknotes, coins and numismatics	10	(2,261,951)	(957,693)
Other expenses	11	(18,697,378)	(18,839,977)
Profit before tax		**10,546,625**	**31,844,329**
Income tax expense		(1,201,644)	(661,845)
Profit for the year		**9,344,981**	**31,182,484**
Other comprehensive loss:			
Items that may be reclassified subsequently to profit or loss:			
Net unrealised loss from changes in fair value of available-for-sale assets		(1,351,040)	(1,016,791)
Other comprehensive loss for the year		**(1,351,040)**	**(1,016,791)**
Total comprehensive income for the year		**7,993,941**	**30,165,693**
Profit is attributable to:			
- Owners of the Bank		9,330,663	31,125,330
- Non-controlling interest		14,318	57,154
Profit for the year		**9,344,981**	**31,182,484**
Total comprehensive income is attributable to:			
- Owners of the Bank		7,976,405	30,108,539
- Non-controlling interest		17,536	57,154
Total comprehensive income for the year		**7,993,941**	**30,165,693**

These consolidated financial statements were approved by the Board of the Central Bank of the Republic of Armenia on 31 March 2016 and were signed by:

ARTHUR JAVADYAN

Chairman of the Central Bank of the Republic of Armenia



HAYKANUSH HAKOBYAN

Chief Accountant of the Central Bank of the Republic of Armenia



The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

Central Bank of the Republic of Armenia
Consolidated Statement of Financial Position

In thousands of Armenian Drams

	Note	31 December 2015	31 December 2014
ASSETS			
Foreign currency assets			
Cash		12,117,804	18,230,986
Placements with banks and other financial institutions	12	270,495,708	238,346,216
Financial instruments at fair value through profit or loss	13	512,762,352	355,266,581
Derivative assets	14	103,306	-
Available-for-sale assets	15	2,222,840	2,718,999
Held-to-maturity assets	15	63,733,713	94,150,359
Placements with the IMF	16	63,055,674	66,268,240
Other assets		98,682	240,418
Total foreign currency assets		**924,590,079**	**775,221,799**
Domestic currency assets			
Placements and investments with banks and other financial institutions	12	316,776,643	381,855,350
Financial instruments at fair value through profit or loss	13	1,665,748	2,117,870
Available-for-sale assets	15	101,286,020	127,026,270
Non-current assets held for sale		-	2,757,046
Property and equipment	17	76,882,574	78,234,823
Intangible assets	18	1,739,384	1,781,769
Other assets	19	12,593,456	10,248,776
Total domestic currency assets		**510,943,825**	**604,021,904**
TOTAL ASSETS		**1,435,533,904**	**1,379,243,703**
LIABILITIES			
Foreign currency liabilities			
Deposits and accounts of financial and other institutions	20	186,992,916	138,720,805
Due to the Government of the Republic of Armenia	23	1,309,572	2,984,769
Derivative liabilities	14	30,727	833,832
Due to the IMF	16	252,939,131	261,737,845
Other borrowed funds	21	99,940,464	72,658,257
Other liabilities		393,461	356,633
Total foreign currency liabilities		**541,606,271**	**477,292,141**
Domestic currency liabilities			
Notes and coins in circulation		413,613,757	412,344,941
Deposits and accounts of financial and other institutions	20	324,813,907	335,444,193
Due to the Government of the Republic of Armenia	23	135,230,179	116,830,511
Debt securities issued	24	3,244,388	4,040,952
Other liabilities	22	3,014,206	2,373,446
Total domestic currency liabilities		**879,916,437**	**871,034,043**
TOTAL LIABILITIES		**1,421,522,708**	**1,348,326,184**

Consolidated Statement of Financial Position
(continued)

In thousands of Armenian Drams

	Note	31 December 2015	31 December 2014
EQUITY			
Issued capital	25	100,000	100,000
General reserve		23,614,115	17,389,049
Additional paid-in capital	25	136,194,821	136,194,821
Revaluation reserve for available-for-sale assets	25	(1,131,000)	223,258
Accumulated deficit		(145,493,256)	(123,698,589)
Net assets attributable to owners of the Bank		**13,284,680**	**30,208,539**
Non-controlling interest		**726,516**	**708,980**
TOTAL EQUITY		**14,011,196**	**30,917,519**
TOTAL LIABILITIES AND EQUITY		**1,435,533,904**	**1,379,243,703**

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

Central Bank of the Republic of Armenia
Consolidated Statement of Changes in Equity

In thousands of Armenian Drams

	Attributable to owners of the Bank							
	Issued capital	General reserve	Additional paid-in capital	Revaluation reserve for available-for-sale assets	Accumulated deficit	Total	Non-controlling interest	Total equity
Balance at 1 January 2014	**100,000**	**17,389,049**	**128,185,512**	**1,240,049**	**(154,823,919)**	**(7,909,309)**	**651,826**	**(7,257,483)**
Profit for the year	-	-	-	-	31,125,330	**31,125,330**	57,154	**31,182,484**
Other comprehensive loss	-	-	-	(1,016,791)	-	**(1,016,791)**	-	**(1,016,791)**
Total comprehensive (loss)/income for the year	-	-	-	**(1,016,791)**	**31,125,330**	**30,108,539**	**57,154**	**30,165,693**
Extension of the promissory note by the Government of the Republic of Armenia	**-**	**-**	8,009,309	-	-	**8,009,309**	**-**	**8,009,309**
Balance at 31 December 2014	**100,000**	**17,389,049**	**136,194,821**	**223,258**	**(123,698,589)**	**30,208,539**	**708,980**	**30,917,519**
Distribution of profit	-	6,225,066	-	-	(31,125,330)	**(24,900,264)**	-	**(24,900,264)**
Profit for the year	-	-	-	-	9,330,663	**9,330,663**	14,318	**9,344,981**
Other comprehensive loss	-	-	-	(1,354,258)	-	**(1,354,258)**	3,218	**(1,351,040)**
Total comprehensive (loss)/income for the year	-	-	-	**(1,354,258)**	**9,330,663**	**7,976,405**	**17,536**	**7,993,941**
Balance at 31 December 2015	**100,000**	**23,614,115**	**136,194,821**	**(1,131,000)**	**(145,493,256)**	**13,284,680**	**726,516**	**14,011,196**

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

Central Bank of the Republic of Armenia
Consolidated Statement of Cash Flows

In thousands of Armenian Drams

	Note	2015	2014
Cash flows from operating activities			
Profit before tax		10,546,625	31,844,329
Adjustments to reconcile profit for the year to cash provided by operations:			
Depreciation and amortisation	11	4,798,352	4,575,453
Gain from disposal of property and equipment		(18,318)	(11,649)
Change in interests receivable		492,606	2,593,742
Change in interests payable		143,094	(494,733)
Net gain from foreign exchange translation	6	(2,747,923)	(29,398,749)
Net loss from re-measurement of financial instruments at fair value		2,273,328	2,259,335
Income tax paid		(764,929)	(553,014)
Cash flows from operating activities before changes in operating assets and liabilities		**14,722,835**	**10,814,714**
Net (increase)/decrease in operating assets:			
Placements with banks and other financial institutions in foreign currency		35,363,728	(37,350,827)
Financial instruments at fair value through profit or loss		(164,127,883)	173,021,619
Available-for-sale assets		(41,714)	(7,407,611)
Placements and investments with banks and other institutions in domestic currency		65,488,664	(140,114,875)
Other assets		345,871	(772,312)
Net increase/(decrease) in operating liabilities:			
Notes and coins in circulation		1,268,815	(34,488,229)
Deposits and accounts of financial and other institutions		38,355,781	(8,130,400)
Due to the Government of the Republic of Armenia		17,352,744	(76,265,662)
Debt securities issued		(796,564)	1,781,249
Other liabilities		(72,015)	436,177
Net cash from/(used in) operating activities		**7,860,262**	**(118,476,157)**
Cash flows from investing activities			
Purchase of property, equipment and intangible assets		(3,198,718)	(2,855,458)
Proceeds from sale of property and equipment		113,996	44,022
Purchase of held-to-maturity assets		(90,363,945)	(105,173,398)
Proceeds from redemption of held-to-maturity assets		119,874,639	133,846,115
Net cash from investing activities		**26,425,972**	**25,861,281**

Consolidated Statement of Cash Flows
(continued)

In thousands of Armenian Drams

	Note	2015	2014
Cash flows from financing activities			
Loans received		42,113,260	28,518,405
Loans redeemed		(14,641,932)	(41,550,145)
Net cash from/(used in) financing activities		**27,471,328**	**(13,031,740)**
Effect of exchange rate changes on cash and cash equivalents		**(1,559,643)**	**15,872,344**
Net increase/(decrease) in cash and cash equivalents		**60,197,919**	**(89,774,272)**
Cash and cash equivalents at the beginning of the year	28	206,405,683	296,179,955
Cash and cash equivalents at the end of the year	28	**266,603,602**	**206,405,683**
Supplementary information			
Interest received		38,393,411	23,079,858
Interest paid		(13,050,976)	(11,573,299)

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

1. Principal activities

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as at 31 December 2015 and for the year then ended for the Central Bank of the Republic of Armenia or the Central Bank of Armenia (the "Bank") and its subsidiaries (together referred to as the "Group").

The Bank is a legal entity the sole founder of which is the Republic of Armenia.

The Bank operates in accordance with the Constitution of the Republic of Armenia, Law "On the Central Bank of the Republic of Armenia" (the "Law") and other laws of the Republic of Armenia.

The registered address of the Bank is 6 Vazgen Sargsyan Street, Yerevan 0010, Republic of Armenia. The average number of employees of the Bank during 2015 was 779 (2014: 791).

The Bank does not aim to earn profits. The financial results of the Bank's activities, as well as the structure of its assets, liabilities and equity are defined by the functions of the Bank.

In accordance with the Law the basic objective of the Bank is ensuring stability of prices in the Republic of Armenia. It is achieved through elaboration and implementation of monetary policy. In addition to its basic objective, the Bank is also responsible for:

- ensuring the stability, liquidity, solvency and other necessary conditions for sound operation of the financial system in the Republic of Armenia; and
- creation and development of an effective payment and settlement system.

The Bank also:

- issues the national currency of the Republic of Armenia and regulates its circulation;
- organises and regulates anti money laundering and anti-terrorism financing activities;
- is the financial agent and advisor of the Government of the Republic of Armenia (the "Government");
- licenses commercial banks and, in cases envisaged by the legislation, other entities, supervises and regulates their activities;
- is the lender of last resort to commercial banks; and
- owns, uses and manages international reserves of the Republic of Armenia.

The Bank's largest subsidiaries are as follows:

Name	Country of incorporation	Principal activity	Controlled %		Date of establishment
			2015	2014	
"Armenian Card" CJSC	Republic of Armenia	Payment and settlement services	57.5	57.5	March 2000
"Hayincassatsia" CJSC	Republic of Armenia	Transportation/ delivery of cash	100	100	April 1998
"Panarmenian Bank" OJSC	Republic of Armenia	Banking	100	100	December 2009
"National Mortgage Company" RCO CJSC	Republic of Armenia	Mortgage refinancing	100	100	June 2009
"Home for Youth" RCO CJSC	Republic of Armenia	Mortgage refinancing	100	100	February 2010
"Small and Medium Business Credit Support" CJSC	Republic of Armenia	Lending support	100	100	December 2010
"Vehicle Single Window" CJSC	Republic of Armenia	Insurance Infrastructure support	100	100	December 2013

2. Summary of significant accounting policies

Statement of compliance. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as of and for the year ended 31 December 2015 for the Bank and its subsidiaries.

Basis of measurement. The consolidated financial statements have been prepared under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss including derivative financial instruments. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Form of presentation of the financial statements. In exceptional circumstances detailed disclosure of the information about the operations which occur in the respective reporting period may lead to a loss of confidence spreading through the financial system of the Republic of Armenia as a whole. Accordingly, although the financial effects of such operations will be included into the consolidated financial statements of the Group, the Group may provide only limited disclosure in respect of such types of operations.

Functional and presentation currency. The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand unless otherwise indicated.

Use of estimates and judgments. In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

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

Assessment of impairment. The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Transactions with related parties. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. 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 judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 27.

Accounting for operations with the International Monetary Fund. In accordance with the "Financial Organisation and Operations of the IMF" Pamphlet, each member of the IMF designates a fiscal agency (ministry of finance, central bank, or similar entity) to conduct financial transactions with the IMF and a depository (central bank or similar agency) to maintain the accounts of the IMF (the IMF No. 1 and No. 2 Accounts and the Securities Account).

In accordance with the Law of the Republic of Armenia "On Membership of the Republic of Armenia in the International Monetary Fund (the "IMF"), International Bank for Reconstruction and Development, International

Finance Corporation, International Development Association, European Bank for Reconstruction and Development, Multilateral Investment Guarantee Agency and International Center for Settlement of Investment Disputes", the Bank acts as the fiscal agent of the Republic of Armenia in accordance with clause 1, article 5 of the IMF articles of agreement. The Bank also is considered to be a depository of the Republic of Armenia.

In the case when central bank performs fiscal agent function, the amounts of assets and liabilities and results of transactions with the IMF are recorded in the statement of financial position and profit or loss of the central bank. When the central bank performs depositary function in operations with the IMF, all transactions are made through correspondent accounts of central bank, however balances outstanding as a result of these transactions and respective profit or loss are not reflected in the central bank's statement of financial position and profit or loss.

Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2015:

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.The amendment did not have any material impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'. The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2015.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

These amendments did not have any impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

These amendments did not have any impact on the Group's consolidated financial statements.

Basis of consolidation. The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2015. Subsidiaries are those investees that the Group controls. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- power to direct relevant activities of the investees that significantly affect their returns,

- exposure, or rights, to variable returns from its involvement with the investees, and
- the ability to use its power over the investees to affect the amount of investor's returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at the non-controlling interest's proportionate share of net assets of the acquiree or fair value.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Foreign currency translation and presentation of foreign currency items. Transactions in foreign currencies are initially recognised in the functional currency, converted at the exchange rate published by the Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are recalculated at the exchange rate published by the Bank at the reporting date.

Gains and losses resulting from the translation of foreign currency transactions are recognised in profit or loss as net foreign exchange gain/(loss). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate published by the Bank at the date of the transaction are included in the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2015 and 31 December 2014, the rates of exchange used for translating foreign currency balances were as follows:

	31 December 2015	31 December 2014
AMD/1 US Dollar	483.75	474.97
AMD/1 Euro	528.69	577.47
AMD/1 SDR (Special Drawing Rights)	670.35	688.09

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Group considers cash, nostro accounts with banks and SDR holdings in the IMF to be cash and cash equivalents. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the counterparty's current account or interest payments or disbursement of loans credited to the counterparty's current account, deposits placement through transfer of funds from counterparties' current account to their deposit account, which represents cash or cash equivalent from the counterparty's perspective.

Financial instruments - key measurement terms. The Group measures financial instruments, such as, financial instruments at fair value through profit or loss, available-for-sale assets and derivatives at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 29.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the Group. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial instruments at fair value through profit or loss, loans and receivables, held-to-maturity assets, or available-for-sale assets, as appropriate. When financial assets 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. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in the cases described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial instruments classified as held for trading are included in the category “Financial assets measured at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss.

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value.

The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative.

Gains and losses resulting from these instruments are included in profit or loss as net gain on financial instruments at fair value through profit or loss or derivatives or net foreign exchange gain/(loss), depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in profit or loss.

Held-to-maturity assets

Non-derivative assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included into this category. Held-to-maturity assets are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the assets are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets include placements with banks and other financial institutions, holdings with the IMF, loans and reverse repurchase agreements and investments classified as loans and receivables. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale assets

Available-for-sale assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale assets are measured at fair value with gains or losses being recognised in other comprehensive income until the assets are derecognised or until the assets are determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets held for trading may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified to other categories at their fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include deposits and accounts of financial and other institutions, amounts due to the Government and the IMF, other borrowed funds and debt securities issued.

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

Accounting for zero interest rate loans. The benefit of the funds which are obtained by the Group from the international financial institutions at zero rate of interest is treated and accounted for as a government grant. The benefit of zero rate of interest is measured as the difference between the fair value of the funds obtained and the proceeds received and recognised as deferred income as at the date of the funds initial recognition. The amount of deferred income is recognised in the profit or loss over the period in which the Group recognises as expenses the related costs. Grant related income is deducted in reporting the related expense.

Derecognition of financial assets and liabilities. A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;

- the Group 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 Group 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 Group 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 Group'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 Group 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 Group's continuing involvement is the amount of the transferred asset that the Group 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 Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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 profit or loss.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Repurchase and reverse repurchase agreements. Sale and repurchase agreements ("repo") are treated as secured financial transactions.

Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within deposits and accounts of financial

and other institutions. The difference between the sale and repurchase price is treated as interest expense and accrued over the life of the repo agreements.

Funds provided to purchase securities under agreements to resell ("reverse repo agreements") are recorded as placements with banks and other financial institutions. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lending and borrowing. Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within net gain on financial instruments at fair value through profit or loss in profit or loss. The obligation to return them is recorded within financial liabilities at fair value through profit or loss.

Notes and coins in circulation. Notes and coins in circulation issued by the Bank are presented in the consolidated statement of financial position as a liability at nominal value. Printing and production costs of notes and coins are recognised in profit or loss as incurred.

Numismatic coins. Numismatic coins are measured at the lower of cost and net realisable value. The cost of numismatic coins is based on the first-in first-out principle, and includes expenses incurred in acquiring the numismatic coins and bringing them to their existing location. Net realisable value is the estimated selling price less the estimated costs necessary to make the sale. During the sale the inflow amount is recognised as income in the consolidated statement of profit or loss and other comprehensive income for the current year, and the amount of carrying value is recognised as expense in the consolidated statement of profit or loss and other comprehensive income for the current year.

Property and equipment. Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Likewise, when a major repair is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

All other repair and maintenance costs are recognised in profit or loss as incurred.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

Depreciation. Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	2015	2014
Land and buildings		
– Buildings	30-80 years	30-80 years
– Building technical systems	3-15 years	3-15 years
Networks, computer and other equipment	2-20 years	2-15 years
Vehicles	5 years	5 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Non-current assets classified as held for sale. Non-current assets, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Held for sale non-current assets are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises are not depreciated.

Intangible assets. Intangible assets include computer software and licenses. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Computer software maintenance costs are recognised in profit or loss as incurred.

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

Impairment. The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation 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.

Placements with banks and other financial institutions

For amounts due from financial institutions carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them 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 an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of profit or loss and other comprehensive income. The interest income is accrued at the initial effective interest rate of asset. Placements with banks and other financial institutions together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognised in profit or loss as income.

The present value of the estimated future cash flows is determined by their discounting at the financial asset's original effective interest rate. If a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. 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 foreclosure is probable.

Future cash flows from a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity assets

For held-to-maturity assets the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are recognised in profit or loss as income.

Available-for-sale assets

For available-for-sale assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition costs and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Non-financial assets. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

All impairment losses are recognised in consolidated statement of profit or loss and other comprehensive income and reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised.

Provisions. Provisions are recognised when the Group 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.

Taxation. The Bank is not subject to any taxes except for import duties. At the same time the Bank acts as a tax agent according to the procedures envisaged by the laws of the Republic of Armenia. The Group's subsidiaries are subject to income tax and other taxes on their operations in accordance with the laws of the Republic of Armenia.

Issued capital. Issued capital represents the authorised capital of the Bank which is the property of and belongs to the Republic of Armenia and may not be pledged, confiscated or otherwise alienated against the obligations of the Republic of Armenia.

The non-interest bearing promissory note extended by the Government as envisaged by the article 11.4 of the Law to cover excess of the losses of the Group over its reserves is recognised as *additional paid-in capital*.

Profit allocation. The profit of the Bank determined based on its consolidated financial statements shall be allocated as follows:

a. 20% of the profit shall be addressed to replenish the general reserve until its total amounts 25% of the broad money,
b. appropriations shall be made to cover redemption expenses of the promissory note which have been previously issued by the Government to the Bank.

The balance of the profit of the Bank remaining after hereinbefore deductions shall be paid to the state budget.

The calculation of the profit of the Bank to be distributed shall not include positive difference of income and expense, generated from revaluation and acquisition of gold, SDR, foreign currency and their equivalents, adjusted to the extent of provisioning to recompense adverse results of previous.

Contingencies. Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Interest income and expense. For all financial instruments measured at amortised cost and interest bearing securities classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

Fee and commission income. Fees earned for the provision of services over a period of time are accrued over that period.

3. New accounting pronouncements

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

Management anticipates that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the

Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not relevant for the Group's consolidated financial statements.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers (issued in May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal.

Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The standard is not expected to have any material impact on the Group's consolidated financial statements.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The standard is not expected to have any material impact on the Group's consolidated financial statements.

Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Group is currently assessing the impact of the amendments on its financial statements.

Disclosure Initiative - Amendments to IAS 7 (issued in 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in

liabilities arising from financing activities. The Group is currently assessing the impact of the amendment on its financial statements.

Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued in May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments are not expected to have impact on the Group's consolidated financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued in May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments are not expected to have impact on the Group's consolidated financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued in September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Annual Improvements to IFRSs 2014 (issued in September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards.

IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.

The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.

The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise.

IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial

report". The improvements are not expected to have any material impact on the Group's consolidated financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The amendments are not expected to have impact on the Group's consolidated financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued in 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued in 12 August 2014 and effective for annual periods beginning 1 January 2016).

4. Interest income

In thousands of Armenian Drams

	2015	2014
Interest income from foreign currency assets		
Assets held-to-maturity	296,485	366,438
Term deposits	157,314	105,783
Nostro accounts	121,076	73,406
Placements with the IMF	784	2,159
Other	49,582	48,103
Total interest income from foreign currency assets	**625,241**	**595,889**
Interest income from domestic currency assets		
Placements and investments with banks and other financial institutions	35,031,817	17,471,143
Available-for-sale assets	2,243,747	2,038,816
Total interest income from domestic currency assets	**37,275,564**	**19,509,959**
Total interest income	**37,900,805**	**20,105,848**

5. Interest expense

In thousands of Armenian Drams

	2015	2014
Interest expense on foreign currency liabilities		
Other borrowings	1,362,662	751,284
Due to the IMF	1,137,224	1,199,188
Other	1,867	6,745
Total interest expense on foreign currency liabilities	**2,501,753**	**1,957,217**
Interest expense on domestic currency liabilities		
Due to the Government (Note 27)	10,008,453	8,217,776
Debt securities issued	357,806	336,209
Deposits and accounts of financial and other institutions	240,398	448,993
Other	85,660	118,371
Total interest expense on domestic currency liabilities	**10,692,317**	**9,121,349**
Total interest expense	**13,194,070**	**11,078,566**

6. Net foreign exchange gain

In thousands of Armenian Drams

	2015	2014
Net gain from foreign exchange translation	2,747,923	29,398,749
Net gain on spot transactions	874,507	985,346
Total net foreign exchange gains	**3,622,430**	**30,384,095**

Included in the net gain from revaluation of monetary assets and liabilities is a foreign exchange translation loss of AMD 3,509,024 thousand on financial instruments at fair value through profit or loss (2014: gain in the amount of AMD 40,908,776 thousand).

7. Net (loss)/gain on derivatives

In thousands of Armenian Drams

	2015	2014
Net loss on futures under own management	(984,393)	(570,944)
Net (loss)/gain on forward contract with the Government (Note 27)	(978,171)	5,881,610
Net (loss)/gain on swaps	(363,876)	238,697
Total net (loss)/gain on derivatives	**(2,326,440)**	**5,549,363**

In accordance with the agreement dated 5 January 2007 with the Government the Bank is obliged to exchange main foreign currency denominated state budget inflows and outflows at exchange rates determined in the Government's budget message for the given year which is a basis for the calculation of indexes in the Law "On the State budget of the Republic of Armenia". Gain or loss of the Bank as a result of such foreign currency exchange operations is accounted for as result on derivatives.

8. Net gain on financial instruments at fair value through profit or loss

In thousands of Armenian Drams

	2015	2014
Net gain on foreign securities under own management (excluding foreign exchange translation*)	1,406,599	1,588,806
Net gain on assets under trust management (excluding foreign exchange translation*)	290,126	1,219,400
Net gain on the Government securities	213,702	163,748
Trust management fees (excluding foreign exchange translation*)	(181,376)	(229,357)
Total net gain on financial instruments at fair value through profit or loss	**1,729,051**	**2,742,597**

**The foreign exchange translation of assets is included in "Net foreign exchange gain" (Refer to Note 6).*

9. Other income

In thousands of Armenian Drams

	2015	2014
Financial agency fee	1,379,925	1,674,456
Numismatic coins	607,117	660,188
Other	2,310,962	1,919,619
Total other income	**4,298,004**	**4,254,263**

Financial agency fee represents fee which is obtained by the Bank as an agent of the Government in accordance with the agency agreements. Based on the conditions of the agency agreements the Bank provides loans to commercial banks and other financial institutions.

During the year ended 31 December 2015, the amount of AMD 1,764,297 thousand included in "Other" line represents the revenue of two subsidiaries of the Bank which render cash collection and plastic cards processing services (2014: AMD 1,736,373 thousand).

10. Cost of production of banknotes, coins and numismatics

In thousands of Armenian Drams

	2015	2014
Production of banknotes and coins	1,773,953	433,376
Production of numismatic coins sold during the year	487,998	524,317
Total cost of production of banknotes, coins and numismatics	**2,261,951**	**957,693**

11. Other expenses

In thousands of Armenian Drams

	2015	2014
Employee compensation, staff training and related payments	8,115,218	7,546,770
Depreciation and amortisation	4,798,352	4,575,453
Repairs and maintenance	1,764,893	1,629,316
Security and insurance expenses	441,635	459,749
Expenses on establishment and service of payment system	399,446	313,617
Expenses for Basel requirements implementation	306,682	286,855
Education, research and development of new projects	204,030	1,642,560
Professional services	192,686	165,872
Other	2,474,436	2,219,785
Total other expenses	**18,697,378**	**18,839,977**

There are no expenses for the year ended 31 December 2015 and 31 December 2014 in relation to statutory pension contributions within employee compensation, staff training and related payments due to changes in Armenian legislation.

During the year ended 31 December 2015 and 31 December 2014, the expenses included into “Other” line represent subscription fees, representation expenses, printing expenses, communication expenses, utilities, rent expenses and stationary.

Amounts of employee compensation, staff training and related payments, depreciation and amortisation and repairs and maintenance expenses for the year ended 31 December 2015 and 31 December 2014 also include respective amounts of expenses of the Group’s subsidiaries.

12. Placements and investments with banks and other financial institutions

Placements with banks and other financial institutions in foreign currency

In thousands of Armenian Drams

	31 December 2015	31 December 2014
Placements with banks and other financial institutions in foreign currency		
Nostro accounts	253,102,636	185,210,899
Term deposits	15,440,510	28,792,806
Cash included in assets under trust management	1,952,562	2,789,677
Repurchase agreements	-	21,378,513
Margin requirement of interest rate futures	-	124,081
Other	-	50,240
Total placements with banks and other financial institutions in foreign currency	**270,495,708**	**238,346,216**

Concentration of placements with banks and other financial institutions in foreign currency

As at 31 December 2015 the Group had placements in one bank with individual balance exceeding 10% of total placements. The gross value of these placements as of 31 December 2015 amounted to AMD 190,866,648 thousand (31 December 2014: placements with one bank amounted to AMD 143,387,405 thousand).

The term deposits have up to three months remaining maturity with the interest rate from 0.51% to 0.52% (31 December 2014: 0.02% to 0.5%).

As at 31 December 2015 AMD 1,952,562 thousand balance of cash included in assets under trust management (31 December 2014: AMD 2,789,677 thousand balance of cash included in assets under trust management and AMD 124,081 thousand balance of margin requirement of interest rate futures) represent balance maintained by the Bank for settlements under operations with foreign securities within the framework of Agreement on investment management. As at 31 December 2015 the amount of margin reserve for settlements under interest rate futures was included into the line “Cash included in assets under trust management”.

As at 31 December 2015 AMD 1,452,060 thousand of term deposits denominated in foreign currency (31 December 2014: AMD 1,425,753 thousand of term deposits) are pledged to secure bonds issued by the Group (refer to Note 24).

As at 31 December 2015 there are no receivables under repurchase agreements (31 December 2014: receivables of the Group under repurchase agreements were collateralised by foreign government and state agencies bonds with fair value of AMD 21,915,181 thousand).

Placements and investments with banks and other financial institutions in domestic currency

In thousands of Armenian Drams

	31 December 2015	31 December 2014
Placements and investments with banks and other financial institutions in domestic currency		
Repurchase agreements and other overnight facilities	122,365,066	227,566,937
Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	85,351,415	64,620,390
Mortgage refinancing	49,183,495	39,868,360
Deposits and current accounts placed in commercial banks	42,527,391	29,947,531
Investments classified as loans and receivables	6,448,154	-
Subordinated loans	3,079,245	12,618,347
Other loans	7,821,877	7,233,785
Total placements and investments with banks and other financial institutions in domestic currency	**316,776,643**	**381,855,350**

Concentration of placements and investments with banks and other financial institutions in domestic currency

As at 31 December 2015 placements with two banks had balances individually exceeding 10% of total placements with banks and other financial institutions denominated in domestic currency (31 December 2014: two banks).

Loans issued to commercial banks under reverse repurchase agreements represent short-term loans which are issued to commercial banks on a regular basis via the tender process.

The Group accepted securities on reverse repurchase agreements as collateral for commercial loans, which the Group is permitted to sell or repledge. As at 31 December 2015 amounts receivable under reverse repurchase agreements are with 16 resident banks and two other financial institutions (31 December 2014: 18 resident banks and two other financial institutions) and are collateralised by the following securities:

In thousands of Armenian Drams

	Fair value as at 31 December 2015	Fair value as at 31 December 2014
Treasury bonds of the Government	109,253,680	169,576,189
Eurobonds issued by the Government	11,837,588	14,841,093
Corporate bonds	4,761,830	4,189,454
Total	**125,853,098**	**188,606,736**

AMD 821,663 thousand out of AMD 4,761,830 thousand corporate bonds as at 31 December 2015 (31 December 2014: AMD 2,078,953 thousand out

of AMD 4,189,454 thousand) represents debt securities of the Group's subsidiary.

Loans to resident banks under the agreements with the KfW, Asian Development Bank (ADB), European Investment Bank (EIB) and the World Bank are provided by the Group to commercial banks under the following programs which are financed by KfW Banking Group, EIB, ADB and International Bank for Reconstruction and Development (member of the World Bank):

- *SME Support.* The objective of the SME support Programs of the World bank and KfW is to develop SMEs in Armenia, in particular by providing the necessary funding to the commercial banks and universal credit organisations in order to make lending to micro, small and medium size private enterprises efficient and profitable. This is supported by introducing new loan technologies in partner banks and organising the teaching and training of qualified loan experts. During 2014 a new credit line was received within the framework of the ADB "Women Entrepreneurship Support Sector Development" Program. The main objective of the program is to stimulate entrepreneurship development among women by increasing the availability of domestic currency funds for women-owned SMEs via the financial system of the Republic of Armenia. During 2015 a new loan was received from EIB, the loan will be used in order to make lending to SMEs in agro-processing, rural and tourism sectors through commercial banks and universal credit organisations.
- *Development of the Renewable Energies.* The overall objective of the Program is to contribute to an improved energy supply and to the further development of the private sector in Armenia by the cost-effective utilisation of renewable energy sources for electricity production. The Program envisages promoting the utilisation of renewable energy, in particular Small Hydro Power Plants ("SHPP"), by enhancing the access to loans for private entrepreneurs and private enterprises.
- *Development of sustainable housing market*. The purpose of the Program is the expansion of sustainable lending to private households by commercial banks and credit organisations for the purpose of either purchase or modernisation of housing.

In accordance with the conditions of the programs the Group appoints eligible Armenian banks and financial institutions using technical and finance criteria, and places funds with appointed banks and financial institutions according to contracts signed with these counterparties. The banks and financial institutions specify final borrowers and assume risks for the loans extended.

As at 31 December 2015 loans to resident banks under the agreements with the KfW, the World Bank, ADB and EIB are provided to 15 domestic banks (31 December 2014: 18 domestic banks) and seven financial institutions (31 December 2014: five financial institutions).

Mortgage refinancing has been provided to financial institutions with remaining maturity period up to 14 years (2014: 15 years).

As at 31 December 2015 mortgage refinancing loans were collateralised with claims under loan agreements with the banks' and other financial institutions' customers in the amount of AMD 49,059,324 thousand (31 December 2014: AMD 39,555,684 thousand).

As at 31 December 2015 mortgage refinancing loans in the amount of AMD 4,287,045 thousand (31 December 2014: AMD 6,229,074 thousand) are pledged to secure the Group's borrowings from the Government (refer to Note 23) and bonds issued (refer to Note 24).

Current accounts and deposits placed in commercial banks represent on-demand and short-term placements made by the Group's subsidiaries in commercial banks.

As at 31 December 2015 AMD 30,000 thousand of deposits and current accounts placed in banks are pledged to secure bonds issued by the Group (31 December 2014: AMD 30,000 thousand) (refer to Note 24).

The management of the Group has classified investments in the amount of AMD 6,448,154 thousand acquired during the year ended 31 December 2015 as loans and receivables. Such decision was made due to the absence of liquid market for these investments and taking into account that the Group has ability and intention to hold them for the foreseeable future.

Subordinated loans category include loans provided to commercial banks on subordinated terms starting from 2009 with initial maturity of five years aimed to build sufficient capacity in the banking system in order to absorb potential crisis-derived risks.

Other loans are secured by real estate in the amount of AMD 5,516,166 thousand (31 December 2014: AMD 5,524,719 thousand), movable property and other assets in the amount of AMD 1,680,204 thousand (31 December 2014: AMD 1,249,964 thousand).

13. Financial instruments at fair value through profit or loss

In thousands of Armenian Drams

	31 December 2015	31 December 2014
Assets		
Debt and other fixed-income instruments* in foreign currency - *Quoted		
Foreign bonds under own management	434,162,433	270,272,110
Foreign bonds under trust management	78,599,919	84,994,471
Total financial instruments at fair value through profit or loss in foreign currency - *Quoted*	**512,762,352**	**355,266,581**
Debt and other fixed-income instruments in domestic currency		
Securities of the Government of the Republic of Armenia	1,665,748	2,117,870
Total financial instruments at fair value through profit or loss in domestic currency	**1,665,748**	**2,117,870**
Total financial instruments at fair value through profit or loss	**514,428,100**	**357,384,451**

As at 31 December 2015 and 31 December 2014 foreign securities at fair value under own management include:

In thousands of Armenian Drams

	31 December 2015	31 December 2014
Government bonds	248,812,939	125,188,957
State agency bonds	106,179,924	80,130,938
Other securities	79,169,570	64,952,215
Total	**434,162,433**	**270,272,110**

Debt securities at fair value through profit or loss under own management represent securities issued by governments of European countries and US treasury bills, securities issued by state agencies, foreign banks and other financial institutions.

As at 31 December 2015 and 31 December 2014 the foreign bonds under trust management include:

In thousands of Armenian Drams

	31 December 2015	31 December 2014
State agency bonds	17,227,083	22,216,243
Government bonds	13,215,316	38,032,306
Other securities	48,157,520	24,745,922
Total	**78,599,919**	**84,994,471**

Securities under trust management represent financial instruments under discretionary asset management by the international financial institution in accordance with Investment Management Agreement.

As at 31 December 2015 and 31 December 2014 government securities denominated in domestic currency are represented by coupon treasury bills of the Government.

14. Derivative financial instruments

In thousands of Armenian Drams

	31 December 2015	31 December 2014
Derivative financial assets		
Foreign currency contracts under trust management	103,306	-
Total derivative financial assets	**103,306**	**-**
Derivative financial liabilities		
Forward contract with the Government (Note 27)	30,727	245,189
Swap contracts	-	588,643
Total derivative financial liabilities	**30,727**	**833,832**

As at 31 December 2015 the Group had 139 short futures contracts with the nominal value of EUR 19,304 thousand or AMD 10,206,001 thousand at the year-end official exchange rate of EUR to Armenian Dram, which were under discretionary asset management by the international financial institution for the purposes of regulating the interest rate risk. These operations were performed as a part of Investment Management Agreement. As at 31 December 2014 the Group did not have any such contracts under trust management.

In thousands of Armenian Drams

	Nominal value		Fair value			
	2015	2014	2015		2014	
			Asset	Liability	Asset	Liability
Interest rate futures	10,206,001	-	103,306	-	-	-
Total foreign exchange futures contracts under trust management	**10,206,001**	**-**	**103,306**	**-**	**-**	**-**
Currency forward contract with the Government	1,226,884	1,801,947	-	30,727	-	245,189
Currency swap contracts	-	5,789,520	-	-	-	588,643
Total	**11,432,885**	**7,591,467**	**103,306**	**30,727**	**-**	**833,832**

15. Investment securities

In thousands of Armenian Drams

	31 December 2015	31 December 2014
Available-for-sale investments in foreign currency - Unquoted		
Foreign securities	2,221,194	2,717,353
Equity investments at cost		
SWIFT	1,646	1,646
Total available-for-sale investments in foreign currency - Unquoted	**2,222,840**	**2,718,999**
Available-for-sale investments in domestic currency		
Debt instruments		
Treasury bonds of the Government of the Republic of Armenia	13,770,172	14,722,231
Promissory note of the Government (Note 25)	81,275,373	106,175,637
Corporate bonds	5,629,794	5,561,948
Total debt instruments	*100,675,339*	*126,459,816*
Equity investments at cost		
Other investments	610,681	566,454
Total equity investments	*610,681*	*566,454*
Total available-for-sale investments in domestic currency	**101,286,020**	**127,026,270**
Total available-for-sale investments	**103,508,860**	**129,745,269**
Held-to-maturity investments in foreign currency		
Foreign bonds	63,733,713	94,150,359
Total held-to-maturity investments in foreign currency	**63,733,713**	**94,150,359**

Foreign securities classified as available-for-sale as at 31 December 2015 and as at 31 December 2014 represent investment of one of the Group's subsidiaries into the development fund initiated and led by the KfW. The development fund was established with the aim to foster economic development and prosperity in the Southeast Europe region including the Republic of Armenia through the sustainable provision of additional development finance.

Debt securities denominated in domestic currency and classified as available-for-sale represent coupon securities issued by the Government of the Republic of Armenia and securities issued by local investment and development funds.

Available-for-sale debt investment securities are recorded at fair value determined using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

In 2015 a non-interest bearing on-demand promissory note in the amount of AMD 81,275,373 thousand (2014: AMD 106,175,637 thousand) was re-issued by the Government.

The management believes that the carrying amount of the promissory note approximates its fair value.

Foreign securities classified as held to maturity include coupon and discount securities issued by governments of European countries and Japan, securities issued by state agencies, foreign banks and other financial institutions.

16. Operations with the International Monetary Fund

Assets due from the IMF

In thousands of Armenian Drams

	31 December 2015	31 December 2014
Placements with the IMF		
Membership quota in the IMF (subscription)	61,672,200	63,304,280
SDR holdings in the IMF	1,383,162	2,963,798
Accrued interest	312	162
Total placements with the IMF	**63,055,674**	**66,268,240**

The Republic of Armenia is a member of the International Monetary Fund. The Bank holds the quota for the Republic of Armenia membership in the IMF.

The quota balance is a special type asset. Quotas vary based on the economic size of each country and are determined by the Board of Governors of the IMF. The quota determines a member's voting power in the IMF, the limits of access to the financial resources of the IMF and a participant's share in the allocation of SDRs, the IMF's unit of account. The quota of the Republic of Armenia was paid in the form of non-interest-bearing promissory notes issued to the IMF by the Bank. As at 31 December 2015 the quota of the Republic of Armenia in the IMF amounted to SDR 92,000 thousand, or AMD 61,672,200 thousand at the year-end official exchange rate of Armenian Dram to SDR (31 December 2014: SDR 92,000 thousand, or AMD 63,304,280 thousand at the year-end official exchange rate of Armenian Dram to SDR). The quota does not earn interest and is a non-current asset.

The Bank maintains an SDR-denominated current account with the IMF used for processing and settlement of transactions with the IMF. This current account earns interest based on the SDR Interest Rate which is published by the IMF on a weekly basis.

Movements in SDR holdings account during the year ended 31 December 2015 and 31 December 2014 were as follows:

In thousands of Armenian Drams

	2015	2014
Balance of SDR holdings as at 1 January	**2,963,798**	**770,729**
Receipt of funds from the IMF under Extended Fund Facility program:		
in favour of the Bank	4,658,010	15,289,937
Purchase of SDRs	6,960,067	50,442,279
Repayment of loans to the IMF:		
on behalf of the Bank		
PRGT	(3,020,627)	(4,845,104)
SBA	(1,923,050)	(32,301,854)
EFF	(4,862,374)	(1,003,464)
on behalf of the Government		
SBA	(2,035,810)	(24,426,872)
Payment of loan related commission	(62,663)	(99,966)
Other income	15,616	22,990
Other fees	(999)	(379)
Payment of interest for use of the IMF resources:		
on behalf of the Bank	(1,087,467)	(1,196,787)
on behalf of the Government	(12,639)	(196,082)
Payment of interest for use of funds received under SDR allocation	(29,537)	(51,807)
Income on SDR holdings	633	3,216
Translation differences	(179,796)	556,962
Balance of SDR holdings as at 31 December	**1,383,162**	**2,963,798**

During 2015 funds totalling SDR 11,740 thousand were received under Extended Fund Facility (the “EFF”) program. The SDR 7,000 thousand were received into SDR holdings account. The remaining part was denominated in USD and received by the Bank on one of its corresponding accounts denominated in USD. All these funds were obtained by the Bank on behalf of itself.

During 2014 funds totalling SDR 23,480 thousand were received into SDR holdings account under the EFF program. All these funds were obtained by the Bank on behalf of itself.

The amounts of transactions in the table above are represented in AMD equivalent at SDR/AMD exchange rates at the dates when each of transactions had place.

Liabilities due to the IMF

In thousands of Armenian Drams

	31 December 2015	31 December 2014
Securities account	140,663,079	140,663,079
Adjustment account for AMD liabilities to the IMF	143,670	11,547,540
Account 1	27,929,924	19,987,383
Account 2	2,606	2,492
SDR allocation	58,983,198	60,544,116
ECF:	25,021,484	28,803,447
Carrying value	*23,740,786*	*27,067,655*
Deferred income	*1,280,698*	*1,735,792*
Interest accrued	195,170	189,788
Total liabilities due to the IMF	**252,939,131**	**261,737,845**

The Securities account, Adjustment account and Account 1 represent the amounts of the liability of the Bank as per Stand-By Arrangement, EFF and the membership quota. Currently all major settlements with the IMF are made through Account 1. Account 2 is used by the IMF for administrative purposes.

As at 31 December 2015 part of the Bank's liabilities to the IMF and the membership quota are covered by the promissory note in the amount of AMD 140,663,079 thousand (31 December 2014: AMD 140,663,079 thousand).

Except for membership quota and liability in respect of SDR allocation, the Bank's liability to the IMF as at 31 December 2015 represents liabilities as per Extended Credit Facility and Extended Fund Facility (31 December 2014 Extended Credit Facility, Stand-By Arrangement and Extended Fund Facility).

The Extended Credit Facility provides financial assistance to the countries with protracted balance of payments problems. The ECF was created under the newly established Poverty Reduction and Growth Trust (the "PRGT") as part of a broader reform to make the IMF's financial support more flexible and better tailored to the diverse needs of Low Income countries, including in times of crisis. As at 31 December 2015 the ECF bears no interest (31 December 2014: 0%). The loans outstanding as at 31 December 2015 mature in May 2016 - June 2023 (31 December 2014: May 2015 – June 2023).

The Extended Fund Facility (the "EFF") is provided to the countries to overcome medium-term payment problems. The EFF interest rate is floating and published by the IMF on a weekly basis as Adjusted Rate of Charge. The loans outstanding as at 31 December 2015 mature in June 2020 - November 2025 (31 December 2014: June 2020 – December 2024). As at 31 December 2015 the nominal amount withdrawn by the Bank under this facility equaled SDR 159,870 thousand (AMD 107,168,855 thousand at the

year-end official exchange rate) (31 December 2014: SDR 155,422 thousand (AMD 106,944,095 thousand at the year-end official exchange rate) and the carrying amount equaled SDR 159,714 thousand (AMD 107,064,470 thousand at the year-end official exchange rate) (31 December 2014: SDR 155,311 thousand (AMD 106,867,985 thousand at the year-end official exchange rate).

The Stand-By Arrangement (the “SBA”) is provided by the IMF to member countries to overcome their payment problems during crisis. Part of loans under the SBA was obtained directly by the Bank and another part was obtained by the Bank on behalf of the Government. The SBA interest rate is floating and published by the IMF on a weekly basis as Adjusted Rate of Charge. Till November 2012 the IMF accounted surcharge of 2% per annum on the part of the SBA and the EFF exceeding 300% of the membership quota. From November 2012 to 30 September 2013 the IMF accounted surcharge of 3% per annum, as it was already three years that the total amount of SBA and the EFF exceeded 300% of the membership quota.

Starting from October 2013 the IMF does not account any surcharge as the amount of the SBA and the EFF is less than 300% of the membership quota.

As at 31 December 2014 the amount of liability of the Bank under the SBA was SDR 2,944 thousand (AMD 2,025,737 thousand at the year-end official exchange rate). On 31 March 2015 the Bank has fully repaid the part of loans under the SBA recorded as liability of the Bank.

The IMF for the purpose of increasing the international reserves of the member countries makes SDR allocations to the member countries. The SDR allocation interest rate is floating and published by the IMF on a weekly basis as SDR interest rate. The SDR allocation has no maturity date but can be cancelled by the IMF.

17. Property and equipment

In thousands of Armenian Drams

	Land and buildings	Networks, computer and other equipment	Vehicles	Construction in progress	Total
Cost					
Balance as at 1 January 2014	**63,450,522**	**21,717,294**	**573,122**	**3,127,360**	**88,868,298**
Additions	11,406	1,245,139	52,367	3,643,424	4,952,336
Disposals	-	(234,601)	(7,351)	-	(241,952)
Transfer	1,186,125	385,250	-	(1,571,375)	-
Balance as at 31 December 2014	**64,648,053**	**23,113,082**	**618,138**	**5,199,409**	**93,578,682**
Additions	24,450	450,098	77,184	2,524,907	3,076,639
Disposals	(150,508)	(311,133)	(25,668)	-	(487,309)
Transfer	7,313,395	125,510	-	(7,438,905)	-
Balance as at 31 December 2015	**71,835,390**	**23,377,557**	**669,654**	**285,411**	**96,168,012**
Depreciation					
Balance as at 1 January 2014	**3,655,788**	**7,283,404**	**315,215**	**-**	**11,254,407**
Charge for the period	2,433,422	1,801,532	61,035	-	4,295,989
Disposals	-	(199,553)	(6,984)	-	(206,537)
Balance as at 31 December 2014	**6,089,210**	**8,885,383**	**369,266**	**-**	**15,343,859**
Charge for the period	2,528,036	1,820,554	68,340	-	4,416,930
Disposals	(149,001)	(302,736)	(23,614)	-	(475,351)
Balance as at 31 December 2015	**8,468,245**	**10,403,201**	**413,992**	**-**	**19,285,438**
Carrying amount					
At 31 December 2015	**63,367,145**	**12,974,356**	**255,662**	**285,411**	**76,882,574**
At 31 December 2014	**58,558,843**	**14,227,699**	**248,872**	**5,199,409**	**78,234,823**

Construction in progress consists mainly of construction of premises. Upon completion, assets are transferred to premises and equipment respectively.

18. Intangible assets

In thousands of Armenian Drams

	Computer software
Cost	
Balance as at 1 January 2014	**3,199,189**
Additions	310,484
Disposals	(746,557)
Balance as at 31 December 2014	**2,763,116**
Additions	341,909
Disposals	(13,607)
Balance as at 31 December 2015	**3,091,418**
Amortisation	
Balance as at 1 January 2014	**1,438,019**
Charge for the period	279,464
Disposals	(736,136)
Balance as at 31 December 2014	**981,347**
Charge for the period	381,422
Disposals	(10,735)
Balance as at 31 December 2015	**1,352,034**
Carrying amount	
At 31 December 2015	**1,739,384**
At 31 December 2014	**1,781,769**

19. Other assets

In thousands of Armenian Drams

	31 December 2015	31 December 2014
Numismatic coins	7,168,991	7,366,813
Prepayments	2,141,070	2,371,944
Other	3,283,395	510,019
Total other assets	**12,593,456**	**10,248,776**

As at 31 December 2015 buildings with carrying value of AMD 2,528,851 thousand were reclassified from Non-current assets held for sale to Other assets due to change in expectation in respect of period during which they will be sold and are included into “Other” line. This transaction did not require the use of cash and cash equivalents and was excluded from the statement of cash flows.

20. Deposits and accounts of financial and other institutions

In thousands of Armenian Drams

	31 December 2015	31 December 2014
Foreign currency liabilities		
Vostro accounts and deposits of domestic banks	184,852,856	135,944,337
Current accounts and term deposit of Deposit Guarantee Fund	1,850,415	2,021,254
Current accounts of other legal entities	289,645	755,214
Total foreign currency liabilities	**186,992,916**	**138,720,805**
Domestic currency liabilities		
Vostro accounts and deposits of domestic banks	324,424,899	334,596,232
Current accounts of other legal entities	271,271	844,580
Current accounts and term deposit of Deposit Guarantee Fund	117,737	3,381
Total domestic currency liabilities	**324,813,907**	**335,444,193**
Total deposits and accounts of financial and other institutions	**511,806,823**	**474,164,998**

Concentration of deposits and accounts of financial and other institutions

As at 31 December 2015 two counterparty banks had balances individually exceeding 10% of the total amount of deposits and accounts of financial and other institutions amounting to AMD 166,323,130 thousand (31 December 2014: three banks with total balance of AMD 157,530,035 thousand).

21. Other borrowed funds

In thousands of Armenian Drams

	31 December 2015	31 December 2014
Due to the KfW	41,396,010	44,158,097
Due to the EIB	30,320,617	-
Due to the World Bank	23,270,697	23,480,856
Due to the ADB	3,496,469	3,589,001
Other	1,456,671	1,430,303
Total other borrowed funds	**99,940,464**	**72,658,257**

The loans due to the KfW are provided under an intergovernmental agreement on financial cooperation between the Government and the Federal Republic of Germany to finance special loan programs placed through domestic commercial banks (Note 12). The loans mature from 2016 to 2048 (31 December 2014: from 2015 to 2048). The repayment of the loans to the KfW is guaranteed by the Government.

The loan due to the World Bank is provided by the World Bank for financing small and medium enterprises through domestic commercial banks and financial institutions (Note 12). The loan matures during the period from 2016 to 2035 (31 December 2014: from 2015 to 2035).

The loan due to ADB provided by the ADB for financing women-owned small and medium enterprises (Note 12) through commercial banks and financial institutions matures during the period from 2016 to 2044 (31 December 2014: from 2015 to 2044).

During the year ended 31 December 2015 the Group obtained loan from EIB for on-lending to smaller projects. The loan will target particularly the agro-processing and rural sectors (Note 12). The loan matures during the period from 2018 to 2030.

The loan obtained by one of the Group's subsidiaries from French Agency for Development included into category "Other" matures during the period from 2016 till 2025 (31 December 2014: from 2015 to 2025). As at 31 December 2015 the balance outstanding under this loan facility is AMD 1,456,671 thousand (31 December 2014: AMD 1,430,303 thousand).

22. Other liabilities

In thousands of Armenian Drams

	31 December 2015	31 December 2014
Other liabilities in domestic currency		
Payables	1,866,393	1,605,596
Demand deposits of employees	676,635	674,466
Other liabilities	471,178	93,384
Total other liabilities in domestic currency	**3,014,206**	**2,373,446**

23. Due to the Government of the Republic of Armenia

In thousands of Armenian Drams

	31 December 2015	31 December 2014
Foreign currency liabilities		
Current accounts of the Government	1,061,467	2,839,117
Payables	248,105	145,652
Total foreign currency liabilities	**1,309,572**	**2,984,769**
Domestic currency liabilities		
Term deposits	86,130,956	35,191,972
Current accounts of the Government	46,845,662	78,741,063
Loans from the Government	2,253,561	2,897,476
Total domestic currency liabilities	**135,230,179**	**116,830,511**
Total due to the Government of the Republic of Armenia	**136,539,751**	**119,815,280**

Term deposits of the Government have maturity of less than one year and interest rate is ranging from 10.1% to 11.2% (31 December 2014: from 6.4% to 7.6%).

Loans from the Government outstanding as at 31 December 2015 and 31 December 2014 represent loans obtained by one of the Group's subsidiaries from the Government under the Mortgage Loan Market Refinancing Project based on the general agreement signed on 13 June 2009. Loan's nominal interest rate is 7% per annum. Loans are repaid by equal parts on a semi-annual basis with the grace period till 16 December 2012.

As at 31 December 2015, mortgage refinancing loans to banks and financial institutions with a gross value of AMD 1,902,052 thousand (31 December 2014: AMD 2,306,675 thousand) serve as collateral for loans from the Government.

24. Debt securities issued

At 31 December 2015 the subsidiary company of the Group had in issue the three-year coupon bonds at AMD 2,000,000 thousand par value and the five-year coupon bonds at AMD 1,200,000 thousand par value (31 December 2014: one-year discount bonds at AMD 805,000 thousand par value, the three-year coupon bonds at AMD 2,000,000 thousand par value and the five-year coupon bonds at AMD 1,200,000 thousand par value).

The average annual yield on these bonds is from 9.8% to 11.82% (31 December 2014: from 8.68% to 11.82%). The carrying value of the issued bonds as at 31 December 2015 is AMD 3,244,388 thousand (31 December 2014: AMD 4,040,952 thousand). As at 31 December 2015 mortgage refinancing loans to banks and financial institutions in the amount of AMD 2,384,993 thousand (31 December 2014: AMD 3,922,399 thousand) and term deposits denominated in foreign and domestic currencies in the amount of AMD 1,482,060 thousand (31 December 2014: AMD 1,455,753 thousand) serve as collateral for debt securities issued.

25. Management of capital

Capital of the Group comprises the residual value of the Group's assets after deduction of its liabilities.

No external capital requirements exist for the Bank as the central bank, except for the size of the authorised (statutory) capital stipulated by the Law.

In accordance with this Law the amount of issued capital of the Bank is AMD 100,000 thousand. The authorised capital of the Bank is the property of and belongs to the Republic of Armenia and may not be pledged, confiscated or otherwise alienated against the obligations of the Republic of Armenia.

The Bank's objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the Bank and ability to perform its functions. The Bank's management considers total capital under management to be equity as shown in the consolidated statement of financial position.

Objectives and policies of managing components of the Bank's capital are defined by the respective internal regulations approved by the decisions of the Board of the Central Bank of the Republic of Armenia (the "Board"). Formation of funds and reserves of the Bank for covering financial risks associated with performance of its functions is carried out in accordance with the regulations approved by the Board and the Law.

The general reserve is formed according to the Law and cannot be distributed. General reserve is formed to cover general risks (potential

losses) arising as a result of banking operations. Additional paid-in capital represents a contribution made by the Government by the way of issuing a promissory note in the case when the losses in the result of the financial year in the consolidated financial statements of the Bank exceed the aggregate amount of its reserves.

In December 2015 the Bank allocated 80% of profit for the year-ended 31 December 2014 to recover the amounts as per promissory note which has been previously issued by the Government to the Bank. Remaining part of profit for the year ended 31 December 2014 was transferred to general reserve. The non-interest bearing promissory note was re-issued at the nominal amount of AMD 81,275,373 thousand (refer to Note 15). Profit allocation to recover the amounts as per promissory note and transfer of profit to general reserve did not require the use of cash and cash equivalents and were excluded from the statement of cash flows.

The difference between the amount of additional paid-in capital as at 31 December 2015 of AMD 136,194,821 thousand and the nominal value of the promissory note issued by the Government of AMD 81,275,373 thousand recognised by the Group within “Available-for-sale” assets denominated in domestic currency represents amounts of transfer of the Group’s prior years’ profits for redemption of the amount of the promissory note issued by the Government.

Taking into account that the calculated amount of profit of the Bank for the year ended 31 December 2015 available for distribution to state budget (i.e. after exclusion of positive difference of income and expense, generated from revaluation and acquisition of gold, SDR, foreign currency and their equivalents, adjusted to the extent of provisioning to recompense adverse results of previous, as prescribed by the Law) is negative, the Group has not recognized any liabilities in relation to distribution of profit to the state budget as at 31 December 2015.

Revaluation reserve for available-for-sale assets in the amount of AMD 1,131,000 thousand (negative effect) as at 31 December 2015 (31 December 2014: AMD 223,258 thousand (positive effect)) represents difference between the fair value of the Group’s financial assets classified as available-for-sale as at the reporting date and their cost at initial recognition.

26. Commitments

Capital commitments

The capital commitments outstanding at 31 December 2015 related to the construction of the Group's premises (31 December 2014: related to the construction of the Group's premises and development of the software) are AMD 231,336 thousand (31 December 2014: AMD 554,025 thousand).

Litigation

The Group management is unaware of any actual, pending or threatened significant claims against the Group.

Guarantees

As at 31 December 2015 the Group has liabilities as per outstanding guarantees in the amount of AMD 745,732 thousand (31 December 2014: AMD 732,196 thousand) issued from 1994 to 1995 on behalf of construction companies and relates to earthquake zone construction. Guarantees represent irrevocable assurance that the Group will make payments in the event that a customer cannot meet its obligations to third parties and carry credit risk. During the period starting from the date of the issuance of the guarantees and till 31 December 2015 the Group has not made any payments and has not received any claims under these guarantees.

27. Related party transactions

Transactions with members of the key management

Amount of the key management remuneration included into “Employee compensation, staff training and related payments” line (refer to Note 11):

In thousands of Armenian Drams

	2015	2014
Key management including the Board members	273,310	266,218
Total	**273,310**	**266,218**

Total amount of loans issued to the members of the key management outstanding as at 31 December 2015 is AMD 127,030 thousand (31 December 2014: AMD 145,334 thousand). Total amount of loans issued to and repaid by the members of the key management during the year ended 31 December 2015 is AMD 6,624 thousand and AMD 24,928 thousand respectively (2014: AMD 129,940 thousand and AMD 48,430 thousand). Total amount of deposits placed in the Bank by the members of the key management outstanding as at 31 December 2015 is AMD 71,636 thousand (31 December 2014: AMD 56,908 thousand). Total amount of deposits placed and deposits redeemed by the members of the key management during the year ended 31 December 2015 is AMD 79,109 thousand and AMD 64,381 thousand respectively (2014: AMD 55,704 thousand and AMD 105,704 thousand). In accordance with the Bank’s internal regulations loans cannot be provided to the Bank’s employees who have deposits with the Bank.

Amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with the key management are as follows:

In thousands of Armenian Drams

	2015	2014
Consolidated statement of profit or loss and other comprehensive income		
Interest expense	(7,856)	(10,216)
Interest income	4,662	4,108

Transactions with the Government of the Republic of Armenia

The outstanding balances and average contractual interest rates with the Government are as follows:

In thousands of Armenian Drams

	31 December 2015		31 December 2014	
	Balance outstanding	Average contractual interest rate	Balance outstanding	Average contractual interest rate
Consolidated statement of financial position				
Assets				
Securities of the Government of the Republic of Armenia at fair value through profit or loss (Note 13)	1,665,748	12.1%	2,117,870	8.7%
Treasury bonds of the Republic of Armenia classified as available-for-sale (Note 15)	13,770,172	10.5%	14,722,231	11.0%
The Government promissory note extended to the Bank as additional paid-in capital (Note 15):				
Balance at 1 January	106,175,637		98,166,328	
Additions	-		8,009,309	
Decrease as a result of profit distribution	(24,900,264)		-	
Balance at 31 December	**96,711,293**		**123,015,738**	
Liabilities				
Due to the Government of the Republic of Armenia (domestic currency, Note 23)	135,230,179	7.3%	116,830,511	2.4%
Due to the Government of the Republic of Armenia (foreign currency, Note 23)	1,309,572	0.0%	2,984,769	0.0%
Balance at 31 December	**136,539,751**		**119,815,280**	

The movement of deposits included in liabilities due to the Government in domestic currency was as follows:

In thousands of Armenian Drams

	2015	2014
Balance at 1 January	**35,191,972**	**146,045,773**
Additions	701,219,056	568,727,822
Interest charge	9,599,967	7,806,486
Redemption (including interest payment)	(659,880,039)	(687,388,109)
Balance at 31 December	**86,130,956**	**35,191,972**

The movement of the loans from the Government in domestic currency was as follows:

In thousands of Armenian Drams

	2015	2014
Balance at 1 January	**2,897,476**	**3,541,341**
Interest charge	117,325	143,908
Redemption (including interest payments)	(761,240)	(787,773)
Balance at 31 December	**2,253,561**	**2,897,476**

Amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with the Government are as follows:

In thousands of Armenian Drams

	2015	2014
Consolidated statement of profit or loss and other comprehensive income		
Interest income	2,243,747	2,038,816
Net foreign exchange gain/(loss)	420,023	(1,601,422)
Net (loss)/gain on derivatives	(978,171)	5,881,610
Interest expense	(10,008,453)	(8,217,776)

In accordance with the agreement dated 5 January 2007 with the Government the Bank is obliged to exchange main foreign currency denominated state budget inflows and outflows at exchange rates determined in the Government's budget message for the given year which is a basis for the calculation of indexes in the Law "On the State budget of the Republic of Armenia". Gain or loss of the Bank as a result of such foreign currency exchange operations is accounted for as result on derivatives.

Transactions with the Deposit Guarantee Fund

The information in the tables below relates to the balances and results of transactions with the Deposit Guarantee Fund of Armenia, in the governing body of which the Bank has its representatives.

In thousands of Armenian Drams

	31 December 2015		31 December 2014	
	Balance outstanding	Average contractual interest rate	Balance outstanding	Average contractual interest rate
Consolidated statement of financial position				
Liabilities				
Due to the Deposit Guarantee Fund (domestic currency, Note 20)	117,737	8.75%	3,381	0.0%
Due to the Deposit Guarantee Fund (foreign currency, Note 20)	1,850,415	0.0%	2,021,254	0.27%
Total	**1,968,152**		**2,024,635**	

The movement of deposits and current accounts of the Deposit Guarantee Fund was as follows:

In thousands of Armenian Drams

	2015	2014
Balance at 1 January	**2,024,635**	**2,162,934**
Additions	49,791,783	36,112,264
Interest charge	11,637	12,125
Redemption (including interest payment)	(49,859,903)	(36,262,688)
Balance at 31 December	**1,968,152**	**2,024,635**

Amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with the Deposit Guarantee Fund are as follows:

In thousands of Armenian Drams

	2015	2014
Consolidated statement of profit or loss and other comprehensive income		
Interest expense	11,637	12,125

28. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is composed of the following items:

In thousands of Armenian Drams

	31 December 2015	31 December 2014
Cash	12,117,804	18,230,986
Nostro accounts (Note 12)	253,102,636	185,210,899
SDR holdings in the IMF (Note 16)	1,383,162	2,963,798
Total cash and cash equivalents	**266,603,602**	**206,405,683**

29. Fair value of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorised as follows:

In thousands of Armenian Drams

	31 December 2015				31 December 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets carried at fair value								
Financial assets								
Financial instruments at fair value through profit or loss								
- Government bonds	262,028,255	-	-	**262,028,255**	163,221,263	-	-	**163,221,263**
- State agency bonds	123,407,007	-	-	**123,407,007**	102,347,181	-	-	**102,347,181**
- Other securities	127,327,090	-	-	**127,327,090**	89,698,137	-	-	**89,698,137**
- Securities of the Government of the Republic of Armenia	-	1,665,748	-	**1,665,748**	-	2,117,870	-	**2,117,870**
Derivative assets	103,306	-	-	**103,306**	-	-	-	**-**
Investment securities available for sale								
- Foreign securities	-	2,221,194	-	**2,221,194**	-	2,717,353	-	**2,717,353**
- Treasury bonds of the Government of the Republic of Armenia	-	13,770,172	-	**13,770,172**	-	14,722,231	-	**14,722,231**
- Promissory note of the Government	-	81,275,373	-	**81,275,373**	-	106,175,637	-	**106,175,637**
- Corporate bonds	-	-	5,629,794	**5,629,794**	-	-	5,561,948	**5,561,948**
Total assets with recurring fair value measurements	**512,865,658**	**98,932,487**	**5,629,794**	**617,427,939**	**355,266,581**	**125,733,091**	**5,561,948**	**486,561,620**

In thousands of Armenian Drams

	31 December 2015		31 December 2014		
	Level 3	Total	Level 2	Level 3	Total
Liabilities carried at fair value					
Financial liabilities					
Derivative liabilities	30,727	**30,727**	588,643	245,189	**833,832**
Total liabilities with recurring fair value measurements	**30,727**	**30,727**	**588,643**	**245,189**	**833,832**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2015:

In thousands of Armenian Drams

	Fair value	Valuation technique	Inputs used
Assets carried at fair value			
Financial assets			
Financial instruments at fair value through profit or loss			
– Securities of the Government of the Republic of Armenia	1,665,748	Discounted cash flows ("DCF")	Government bonds yield curve
Investment securities available for sale			
– Foreign securities	2,221,194	DCF	EUR risk-free rate
– Treasury bonds the Government of the Republic of Armenia	13,770,172	DCF	Government bonds yield curve
– Promissory note of the Government	81,275,373	DCF	Government bonds yield curve
Total recurring fair value measurements at Level 2	**98,932,487**		

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2014:

In thousands of Armenian Drams

	Fair value	Valuation technique	Inputs used
Assets carried at fair value			
Financial assets			
Financial instruments at fair value through profit or loss			
– Securities of the Government of the Republic of Armenia	2,117,870	DCF	Government bonds yield curve
Investment securities available for sale			
– Foreign securities	2,717,353	DCF	EUR risk-free rate
– Treasury bonds the Government of the Republic of Armenia	14,722,231	DCF	Government bonds yield curve
– Promissory note of the Government	106,175,637	DCF	Government bonds yield curve
Liabilities carried at fair value			
Financial liabilities			
Derivative liabilities			
– Swap contracts	588,643	DCF	USD/AMD spot rate at the year-end
Total recurring fair value measurements at Level 2	**126,321,734**		

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2015:

In thousands of Armenian Drams

	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement
Assets carried at fair value						
Financial assets						
Investment securities available for sale						
- Corporate bonds	5,629,794	DCF	1) Government bonds yield curve	1) 14%	1) ± 150 b.p.	1) (89,041)/ 91,164
			2) Credit risk	2) 3%	2) ± 200 b.p.	2) (139,685)/ 122,035
			3) Recovery rate	3) 50%	3) ± 20%	3) 60,536/ (89,041)
Liabilities carried at fair value						
Financial liabilities						
Derivative liabilities	30,727	DCF	1) AMD risk-free rate	1) 10.64%	1) ± 150 b.p.	1) 1,399/(1,419)
			2) USD risk-free rate	2) 5.43%	2) ± 75 b.p.	2) (723)/728
			3) EUR risk-free rate	3) 4.79%	3) ± 75 b.p.	3) (33)/33
			4) USD/AMD spot rate at the year-end	4) 483.75	4) n/a	4) n/a
			5) EUR/AMD spot rate at the year-end	5) 528.69	5) n/a	5) n/a
			6) Expected net amount of external debt - USD	6) USD 2,416 thousand	6) ±10%	6) 2,970/(2,970)
			7) Expected net amount of external debt - EUR	7) EUR 100 thousand	7) ± 10%	7) 103/(103)

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2014:

In thousands of Armenian Drams

	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement
Assets carried at fair value						
Financial assets Investment securities available for sale						
- Corporate bonds	5,561,948	DCF	1) Government bonds yield curve	1) 10.406%	1) ± 150 b.p..	1) (153,665)/ 159,488
			2) Credit risk	2) 3%	2) ± 200 b.p.	2) (253,000)/ 213,990
			3) Recovery rate	3) 50%	3) ± 20%	3) 105,662/ (153,665)
Liabilities carried at fair value						
Financial liabilities						
Derivative liabilities	245,189	DCF	1) AMD risk-free rate	1) 8.635%	1) ± 150 b.p.	1) 1,855/(1,883)
			2) USD risk-free rate	2) 4.670%	2) ± 75 b.p.	2) (1,119)/1,128
			3) USD/AMD spot rate at the year-end	3) 474.97	3) n/a	3) n/a
			4) Expected net amount of external debt	4) USD 3,781 thousand	4) ±10%	4) 24,519/ (24,519)

The above tables disclose sensitivity to valuation inputs for derivative liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly. For this purpose, significance was judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity. The sensitivity of fair value measurement disclosed in the above tables shows the direction that an increase or decrease in the respective input variables would have on the valuation result.

(b) Valuation processes for recurring level 3 fair value measurements

Level 3 valuations are periodically reviewed by the Accounting and Finance Departments of the Bank with making decision in respect of the appropriateness of the valuation technique which is used and analysis of the valuation model inputs. The level three instruments are valued at the net present value of estimated future cash flows using discount factors

determined based on the characteristics of each individual financial instrument. When appropriate, the back testing is performed by the Group.

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of financial assets not measured at fair value are as follows:

In thousands of Armenian Drams

	31 December 2015				31 December 2014		
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Carrying value
Financial assets							
Placements with banks and other financial institutions in foreign currency							
- Nostro accounts	-	253,102,636	-	**253,102,636**	-	185,210,899	**185,210,899**
- Term deposits	-	15,493,099	-	**15,440,510**	-	28,792,806	**28,792,806**
- Cash included in assets under trust management	-	1,952,562	-	**1,952,562**	-	2,789,677	**2,789,677**
- Repurchase agreements	-	-	-	**-**	-	21,378,513	**21,378,513**
- Margin requirement of interest rate futures	-	-	-	**-**	-	124,081	**124,081**
- Other	-	-	-	**-**	-	50,240	**50,240**
Placements and investments with banks and other financial institutions in domestic currency							
- Repurchase agreements and other overnight facilities	-	122,365,066	-	**122,365,066**	-	227,566,937	**227,566,937**
- Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	-	85,653,331	-	**85,351,415**	-	64,631,779	**64,620,390**
- Mortgage refinancing	-	49,183,495	-	**49,183,495**	-	38,119,840	**39,868,360**
- Deposits and current accounts placed in commercial banks	-	42,431,842	-	**42,527,391**	-	29,772,716	**29,947,531**
- Investments classified as loans and receivables	-	-	3,610,240	**6,448,154**	-	-	**-**
- Subordinated loans	-	3,068,234	-	**3,079,245**	-	12,539,067	**12,618,347**
- Other loans	-	7,536,402	-	**7,821,877**	-	6,899,204	**7,233,785**
Investment securities held to maturity							
- Government bonds	16,232,891	-	-	**16,232,827**	52,171,940	-	**52,160,613**
- State agency bonds	29,834,116	-	-	**29,810,650**	23,702,517	-	**23,692,490**
- Other securities	17,695,047	-	-	**17,690,236**	18,322,541	-	**18,297,256**
Total	**63,762,054**	**580,786,667**	**3,610,240**	**651,006,064**	**94,196,998**	**617,875,759**	**714,351,925**

The management believes that the carrying amount of deposits and accounts of financial and other institutions in foreign currency and in domestic currency, amounts due to the IMF and other borrowed funds approximates their fair value. The fair value hierarchy for these financial liabilities is Level 2.

Fair values analysed by level in the fair value hierarchy and carrying value of the remaining financial liabilities not measured at fair value are as follows:

In thousands of Armenian Drams

	31 December 2015		31 December 2014	
	Level 2	Carrying value	Level 2	Carrying value
Financial liabilities				
Due to the Government of the Republic of Armenia				
Foreign currency liabilities				
- Current accounts of the Government	1,061,467	**1,061,467**	2,839,117	**2,839,117**
- Payables	248,105	**248,105**	145,652	**145,652**
Domestic currency liabilities				
- Current accounts of the Government	46,845,662	**46,845,662**	78,741,063	**78,741,063**
- Term deposits	86,173,942	**86,130,956**	35,157,816	**35,191,972**
- Loans from the Government	2,253,561	**2,253,561**	2,897,476	**2,897,476**
- Debt securities issued	3,054,691	**3,244,388**	3,973,086	**4,040,952**
Total	**139,637,428**	**139,784,139**	**123,754,210**	**123,856,232**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

30. Risk management

Introduction

Risk is inherent in the Group's activities but it 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 Group to be able to perform its main functions and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group 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 Group's strategic planning process.

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

The Board

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

Institutional framework

International reserves of the Republic of Armenia are the Central Bank claims on non-residents in freely convertible foreign currencies. The reserves are reflected in the consolidated statement of financial position of the Bank. The Bank manages the reserves in accordance with the principles envisaged by the article 52 of the Law, by investing the reserves within the Investment framework set by the Board.

The reserves can be used to finance external payments/trade imbalances, to regulate indirectly the impact of such imbalances on the exchange rate, and to ensure the international obligations of Armenia are duly performed. The Bank uses reserves to provide foreign exchange services to the Government and state agencies of Armenia, e.g. foreign currency conversions or external debt servicing.

Starting from 2007 the Bank has established a new reserve management framework in compliance with best international practices. The Group adopted a three level decision-making system, whereby the Board sets the Strategic Asset Allocation framework for the reserves management for a long-term time horizon (three years), whereas the Investment Committee of the Bank was given executive power on short-term tactical benchmarks. Portfolio managers, in turn, have been delegated authority to decide on current management issues within the framework of tactical benchmarks and active risk tolerance.

Administration and control

According to the Bank's structure, the Financial Department is responsible for Armenia's international reserves management. The Foreign Markets Operations unit of the Financial Department is in charge of operations related to day-to-day management of reserves. The International Risk Management unit is responsible for risks assessment, development of strategic asset allocation and benchmarking, compliance monitoring, performance evaluation and reporting.

Issues related to reserves management are discussed on a monthly basis by the Investment Committee of the Bank, which includes the heads of all structural units involved in the entire process of reserves management, as well as the Bank's Chairman and the Deputy Chairman.Formerly, the Committee was only a consultative body but, after the introduction of the

three level system for reserves management, it has been granted executive power. The Financial Department reports on the performance of reserves management to the Investment Committee on a quarterly basis and to the Board on a semi-annual basis. Each quarter the Bank presents information on condition and composition of international reserves to the Government and the National Assembly, and makes that information publicly available.

Asset allocation and risk management

According to the principles set forth in article 52 of the Law, Armenia's international reserves are managed based on the principle of profit maximisation while ensuring proper liquidity and security of reserves. For this purpose, the Financial Department develops drafts of strategic asset allocation and tactical benchmarks subject to approval by the Board and the Investment Committee, respectively. The investment benchmarks include all limits and rules governing the investment process as well as the structure of assets consistent with the reserves management principles set by the Board.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. For the purpose of assessment of credit quality of international reserves the Bank evaluates the counterparty creditworthiness based on the credit ratings assigned by leading internationally recognised credit rating agencies.

The Group sets minimum rating requirement for securities issued by governments, government agencies, other government authorities, financial institutions and supranational organisations. These ratings cannot be lower than certain prescribed minimum level which is regularly reviewed.

To monitor the credit risk the Group uses an in-house developed model, which allows assessing the issuer default probability based on stock prices and balance sheet data. It belongs to the class of structural models, providing an economically meaningful explanation of default based on the asset-liability structure and financial leverage. The model is based on the barrier option price equation which is one of components of implied rating issued by FITCH. Ratings and model results are used to build a matrix of investment limits for each rating group, maturity, individual counterparties, and asset classes. The matrix is the main tool for the credit risk management.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Maximum credit risk without collateral or other credit enhancement

The table below presents the Group's overall exposure to credit risk as of 31 December 2015, and 31 December 2014, without consideration of security.

In thousands of Armenian Drams

	Note	Gross maximum risk, at 31 December 2015	Gross maximum risk, at 31 December 2014
Placements with banks and other financial institutions in foreign currency	12	270,495,708	238,346,216
Placements and investments with banks and other financial institutions in domestic currency	12	316,776,643	381,855,350
Financial instruments at fair value through profit or loss	13	514,428,100	357,384,451
Derivative assets	14	103,306	-
Available-for-sale assets	15	100,675,339	126,459,816
Held-to-maturity assets	15	63,733,713	94,150,359
SDR holdings in the IMF	16	1,383,162	2,963,798
Total credit risk		**1,267,595,971**	**1,201,159,990**

Where financial instruments are recorded at fair value, the amounts above presented will denote the current risk but not the maximum one, which may arise in future as a result of changes in fair value.

Credit quality per class of financial assets

Financial assets of the Bank are classified by the lowest out of the ratings assigned to the Group's counterparties by the international rating agencies Fitch IBCA, Moody's and Standard & Poor's. The ratings are listed below as per the coding of the rating agency Moody's using the rating correspondence table of Bloomberg information system. Rating AAA+ is the rating used for identification of highly reliable international financial institutions such as the Bank for International Settlements.

In thousands of Armenian Drams

	Credit rating	31 December 2015		31 December 2014	
		Amount	% in financial assets	Amount	% in financial assets
Financial assets – neither past due nor impaired					
Placements with banks and other financial institutions in foreign currency					
- Nostro accounts	P-1	251,353,280	92.9	183,871,754	77.1
	P-2	969,674	0.4	213,764	0.1
	Unrated	379,357	0.1	250,917	0.1
	NP	400,325	0.2	874,464	0.4
- Term deposits	P-1	13,988,450	5.2	27,367,053	11.5
	Unrated	1,452,060	0.5	1,425,753	0.6
- Cash included in the assets under trust management and margin requirement of interest rate futures	P-1	1,952,562	0.7	2,913,758	1.2
- Repurchase agreements	P-1	-	-	21,378,513	9.0
- Other	P-1	-	-	50,240	0.0
Total placements with banks and other financial institutions in foreign currency		**270,495,708**	**100.0**	**238,346,216**	**100.0**
Financial instruments at fair value through profit and loss					
- Government bonds	Aaa	3,207,670	0.6	12,344,939	3.5
	Aa1-Aa3	255,403,079	49.6	150,876,324	42.2
	A1	3,417,506	0.7	-	-
- State agency bonds and other securities	Aaa	45,814,452	8.9	52,287,214	14.6
	Aa1-Aa3	55,344,888	10.8	40,422,297	11.3
	A1-A3	22,247,667	4.3	9,637,670	2.7
- Other securities	Aaa	28,822,144	5.6	37,318,878	10.4
	Aa1-Aa3	90,992,039	17.7	52,379,259	14.7
	A1-A3	7,512,907	1.5	-	-
- Securities of the Government of the Republic of Armenia	Ba2	1,665,748	0.3	2,117,870	0.6
Total financial instruments at fair value through profit and loss		**514,428,100**	**100.0**	**357,384,451**	**100.0**
Available-for-sale assets					
- Treasury bonds of the Government of the Republic of Armenia	Ba2	13,770,172	13.7	14,722,231	11.6
- Promissory note of the Government of the Republic of Armenia	Ba2	81,275,373	80.7	106,175,637	84.0
- Corporate bonds	Unrated	5,629,794	5.6	5,561,948	4.4
Total available-for-sale assets		**100,675,339**	**100.0**	**126,459,816**	**100.0**
Held to maturity assets					
- Government securities	Aa1-Aa3	5,386,249	8.4	1,514,720	1.6
	A1-A2	10,846,578	17.0	50,645,893	53.8
- State agency bonds	Aaa	7,429,017	11.7	9,866,385	10.4
	Aa1-Aa2	7,209,037	11.3	13,826,105	14.7
	A1-A3	15,172,596	23.8	-	-
- Other securities	Aaa	11,524,205	18.1	14,376,835	15.3
	Aa1	6,166,031	9.7	3,920,421	4.2
Total held to maturity assets		**63,733,713**	**100.0**	**94,150,359**	**100.0**

As at 31 December 2015 current accounts and term deposits included in the unrated credit rating category amounting to AMD 372,798 thousand and AMD 1,452,060 thousand respectively (31 December 2014: AMD 137,539

and 1,425,753 thousand) represent current accounts and placement of the Group's subsidiaries with local commercial banks.

Unrated corporate bonds in the amount of AMD 5,629,794 thousand (31 December 2014: 5,561,948 thousand) represent investments of one of the Group's subsidiaries into local investment and development funds.

In thousands of Armenian Drams

	Credit rating	31 December 2015		31 December 2014	
		Amount	% in financial assets	Amount	% in financial assets
Placements and investments with banks and other financial institutions in domestic currency					
- Repurchase agreements and other overnight facilities	Settled after the end of the reporting period	122,365,066	100.0	227,566,937	100.0
Total		**122,365,066**	**100.0**	**227,566,937**	**100.0**
- Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	Settled after the end of the reporting period	4,122,009	4.8	2,989,021	4.6
	Not due at the date of authorisation of the consolidated financial statements for issue	81,229,406	95.2	61,631,369	95.4
Total		**85,351,415**	**100.0**	**64,620,390**	**100.0**
- Mortgage refinancing	Settled after the end of the reporting period	2,108,231	4.3	1,830,026	4.6
	Not due at the date of authorisation of the consolidated financial statements for issue	47,075,264	95.7	38,038,334	95.4
Total		**49,183,495**	**100.0**	**39,868,360**	**100.0**
- Deposits and current accounts in commercial banks	Settled after the end of the reporting period	9,048,048	21.3	7,390,657	24.7
	Not due at the date of authorisation of the consolidated financial statements for issue	33,479,343	78.7	22,556,874	75.3
Total		**42,527,391**	**100.0**	**29,947,531**	**100.0**
- Investments classified as loans and receivables	Settled after the end of the reporting period	148,154	2.3	-	-
	Not due at the date of authorisation of the consolidated financial statements for issue	6,300,000	97.7	-	-
Total		**6,448,154**	**100.0**	**-**	**-**
- Subordinated loans	Settled after the end of the reporting period	1,295,790	42.1	3,231,176	25.6
	Not due at the date of authorisation of the consolidated financial statements for issue	1,783,455	57.9	9,387,171	74.4
Total		**3,079,245**	**100.0**	**12,618,347**	**100.0**
- Other loans		7,821,877	100.0	7,233,785	100.0
Total		**7,821,877**	**100.0**	**7,233,785**	**100.0**
Total placements and investments with banks and other financial institutions in domestic currency		**316,776,643**	**-**	**381,855,350**	**-**

The Bank makes decisions regarding its placements with local banks and financial institutions taking into account its role of the banking regulator and the lender of last resort and therefore does not allocate ratings to local banks and financial institutions. Thus, the analysis of credit quality of these assets is limited to the stage of respective transaction.

Impairment assessment

The main considerations for the financial assets impairment assessment include whether any payments of principal or interest are overdue more than 30 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 Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant asset within the Group's financial assets 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 realisable 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 to borrowers that are not individually significant and for individually significant financial assets 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 no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate 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.

Offsetting financial assets and financial liabilities

As at 31 December 2015 the Group had reverse repurchase contracts with commercial banks (31 December 2014: with foreign financial institutions and commercial banks) which fall under master netting arrangements, which are enforceable in case of default. The Group also made margin deposits as collateral for its outstanding derivative positions. The trust manager may set off the Group's liabilities with the margin deposit in case of default.

The geographical concentration of the Group's assets and liabilities is set out below:

In thousands of Armenian Drams

	31 December 2015				31 December 2014			
	Armenia	OECD	CIS and other foreign banks	Total	Armenia	OECD	CIS and other foreign banks	Total
Assets:								
Cash	12,117,804	-	-	**12,117,804**	18,230,986	-	-	**18,230,986**
Placements with banks and other financial institutions in foreign currency	1,824,858	268,228,226	442,624	**270,495,708**	1,563,292	235,795,132	987,792	**238,346,216**
Placements and investments with banks and other financial institutions in domestic currency	316,776,643	-	-	**316,776,643**	381,855,350	-	-	**381,855,350**
Financial instruments at fair value through profit or loss	1,665,748	512,762,352	-	**514,428,100**	2,117,870	355,266,581	-	**357,384,451**
Derivative assets	-	103,306	-	**103,306**	-	-	-	**-**
Available-for-sale assets	101,286,020	2,222,840	-	**103,508,860**	127,026,270	2,718,999	-	**129,745,269**
Held-to-maturity assets	-	63,733,713	-	**63,733,713**	-	94,150,359	-	**94,150,359**
Placements with the IMF	-	63,055,674	-	**63,055,674**	-	66,268,240	-	**66,268,240**
Non-current assets held for sale	-	-	-	**-**	2,757,046	-	-	**2,757,046**
Property and equipment and intangible assets	78,621,958	-	-	**78,621,958**	80,016,592	-	-	**80,016,592**
Other assets	12,594,907	97,231	-	**12,692,138**	10,489,194	-	-	**10,489,194**
Total assets	**524,887,938**	**910,203,342**	**442,624**	**1,435,533,904**	**624,056,600**	**754,199,311**	**987,792**	**1,379,243,703**
Liabilities:								
Notes and coins in circulation	413,613,757	-	-	**413,613,757**	412,344,941	-	-	**412,344,941**
Deposits and accounts of financial and other institutions	511,557,358	10,116	239,349	**511,806,823**	474,081,734	12,967	70,297	**474,164,998**
Derivative liabilities	30,727	-	-	**30,727**	833,832	-	-	**833,832**
Due to the Government	136,539,751	-	-	**136,539,751**	119,815,280	-	-	**119,815,280**
Due to the IMF	-	252,939,131	-	**252,939,131**	-	261,737,845	-	**261,737,845**
Other borrowed funds	-	96,443,995	3,496,469	**99,940,464**	-	69,069,256	3,589,001	**72,658,257**
Debt securities issued	3,244,388	-	-	**3,244,388**	4,040,952	-	-	**4,040,952**
Other liabilities	3,168,021	236,945	2,701	**3,407,667**	2,515,982	214,097	-	**2,730,079**
Total liabilities	**1,068,154,002**	**349,630,187**	**3,738,519**	**1,421,522,708**	**1,013,632,721**	**331,034,165**	**3,659,298**	**1,348,326,184**
Net assets	**(543,266,064)**	**560,573,155**	**(3,295,895)**	**14,011,196**	**(389,576,121)**	**423,165,146**	**(2,671,506)**	**30,917,519**

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. As a fiscal agent of the Government and the monetary authority of the Republic of Armenia, the Bank is responsible for public debt service, the Government's foreign payments service and for smoothing out sharp fluctuations in national currency in the domestic market. From this perspective proper cash and liquidity management is crucial.

Based on the international reserve management objectives Armenia's international reserves have been divided into three tranches – working capital, liquidity and investment tranches. While the first two are designed to meet short-term/instant and mid-term liquidity requirements, the purpose of the investment tranche is accumulation of wealth.

Depending on the designation of portfolio/tranche the policy varies in terms of benchmarks and the choice between active or passive management.

Analysis of financial liabilities by remaining contractual maturities

The tables below show liabilities at 31 December 2015 and 31 December 2014 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

In thousands of Armenian Drams

	31 December 2015						
	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total
Financial liabilities							
Notes and coins in circulation	413,613,757	-	-	-	-	-	**413,613,757**
Deposits and accounts of financial and other institutions	511,807,135	-	-	-	-	-	**511,807,135**
Derivative liabilities	30,727	-	-	-	-	-	**30,727**
Due to the Government	53,464,719	51,939,121	31,308,835	1,773,122	-	-	**138,485,797**
Due to the IMF	-	290,480	11,785,539	77,758,565	47,518,545	120,655,398	**258,008,527**
Other borrowed funds	399,207	-	5,963,948	33,546,794	73,919,379	-	**113,829,328**
Debt securities issued	-	-	344,000	3,754,389	-	-	**4,098,389**
Total non-discounted financial liabilities	**979,315,545**	**52,229,601**	**49,402,322**	**116,832,870**	**121,437,924**	**120,655,398**	**1,439,873,660**

In thousands of Armenian Drams

	31 December 2014						
	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total
Financial liabilities							
Notes and coins in circulation	412,344,941	-	-	-	-	-	**412,344,941**
Deposits and accounts of financial and other institutions	472,143,743	2,023,364	-	-	-	-	**474,167,107**
Derivative liabilities	245,189	-	588,643	-	-	-	**833,832**
Due to the Government	86,917,347	30,010,248	832,849	2,561,132	-	-	**120,321,576**
Due to the IMF	-	2,312,116	7,958,641	91,445,414	41,848,174	123,848,396	**267,412,741**
Other borrowed funds	372,481	-	4,402,785	23,691,905	50,271,069	-	**78,738,240**
Debt securities issued	799,412	-	365,078	3,906,462	-	-	**5,070,952**
Total non-discounted financial liabilities	**972,823,113**	**34,345,728**	**14,147,996**	**121,604,913**	**92,119,243**	**123,848,396**	**1,358,889,389**

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, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

Within the three-level management structure the Board defines the overall risk tolerance, which is the acceptable level of interest rate risk in the long run. It also outlines portfolio optimisation principles. The risk tolerance is defined as a minimum acceptable return over a certain period of time (now three years) with a 95 percent confidence level. The authority to set tactical benchmarks is delegated to the Investment Committee.

The purpose of tactical benchmarks is to maximize return in a shorter period (one year). In contrast to strategic decisions, benchmarks take into account current market trends and forecasts. Optimal portfolios are constructed based on scenario analysis using VAR-MGARCH model simulated yield curves as well as internal and market consensus expectations on interest rates and credit spreads. For optimal portfolio selection Black- Litterman and Markowitz models with certain constraints are used.

For risk monitoring, the Risk Management division of the Financial Department uses a number of widely used risk measures like Value at Risk, Key Rate Duration, Information Ratio, Spread Duration, PCA Duration, and Tracking Error.

The following table demonstrates the sensitivity of the Bank's equity, which is calculated by revaluing fixed rate available-for-sale assets at 31 December 2015 and 31 December 2014 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

Currency	2015		2014	
	Change in yield curve, b.p.	Effect on equity	Change in yield curve, b.p	Effect on equity
AMD	+150	(557,815)	+150	(699,012)
AMD	-150	611,395	-150	771,920

The following table demonstrates the sensitivity of profit of the Bank, which is calculated by revaluing financial instruments at fair value through profit and loss as of 31 December 2015 and 31 December 2014, based on the assumption of changing interest rates. Amounts included in the table below are presented in the original currency.

Currency	2015		2014	
	Change in basis points	Increase/(decrease) of net result on financial instruments as FVTPL and equity	Change in basis points	Increase/(decrease) of net result on financial instruments as FVTPL and equity
USD	+/-25	(975,175)/975,175	+/-25	(884,287)/884,287
EUR	+/-25	(773,723)/773,723	+/-25	(982,279)/982,279

The Group, also, has liabilities with floating interest rates outstanding as at 31 December 2015 and 31 December 2014.

The following table demonstrates the sensitivity of the Bank‘s profit or loss and equity as at 31 December 2015 and 31 December 2014 based on the assumption of changing interest rates on borrowings obtained by the Group:

Currency	2015		2014	
	Change in basis points	Increase/(decrease) of net interest expense and decrease/(increase) of equity	Change in basis points	Increase/(decrease) of net interest expense and decrease/(increase) of equity
USD	+/- 20	46,799/(46,799)	+/- 40	94,413/(94,413)
SDR	+/- 10	104,282/(104,282)	+/- 10	115,967/(115,967)

There were no deposits obtained by the Group outstanding as at 31 December 2015 with floating rates. The following table demonstrates the sensitivity of the Bank‘s profit or loss and equity as at 31 December 2014 based on the assumption of changing interest rates on deposits with floating rates obtained by the Group and outstanding as at 31 December 2014:

Currency		2014	
		Change in basis points	Increase/(decrease) of net interest expense and decrease/(increase) of equity
EUR		+/- 10	2,021/(2,021)

The sensitivity of the valuation technique inputs used in the fair value measurement for level 3 measurements is disclosed in Note 29.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency based on the regulations. Positions are monitored on a daily basis.

The following tables present sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the Armenian Dram with all other variables held constant:

Currency	2015		2014	
	Increase in currency rate in %	Increase/(decrease) of profit and equity	Increase in currency rate in %	Increase/(decrease) of profit and equity
USD	16.83%	69,391,445	16.83%	47,422,901
EUR	20.84%	17,805,986	20.84%	24,490,301
GBP	21.10%	9,386,843	21.10%	9,733,686
JPY	0.16%	56,262	0.18%	103,700
RUB	1.22%	1,493	1.22%	11,039
SDR	39.24%	(75,886,027)	39.24%	(78,114,450)

Currency	2015		2014	
	Decrease in currency rate in %	Increase/(decrease) of profit and equity	Decrease in currency rate in %	Increase/(decrease) of profit and equity
USD	-16.83%	(69,391,445)	-16.83%	(47,422,901)
EUR	-20.84%	(17,805,986)	-20.84%	(24,490,301)
GBP	-21.10%	(9,386,843)	-21.10%	(9,733,686)
JPY	-0.16%	(56,262)	-0.18%	(103,700)
RUB	-1.22%	(1,493)	-1.22%	(11,039)
SDR	-39.24%	75,886,027	-39.24%	78,114,450

The expected change in the exchange rates was determined by the Group based on the history of respective exchange rates fluctuations during the three-year period. Maximum fluctuations during this three-year period were used for sensitivity calculation.

The currency composition of reserves is defined for each liquidity tranche, aiming to hedge the factors underlying the creation of each tranche. Armenia's foreign public debt is the major reason for holding reserves and is the main foreign currency demand driving factor. As a result, the currency composition of the reserves mainly mirrors the currency composition of debt. Currency composition for short term liquidity tranche is affected by the composition of the flows generated from foreign trade as well as possible intervention needs and current payments. The currency composition is subject of revision at least semi-annually.

Operating risk – control over subsidiaries

As disclosed in Note 2, the Bank has equity investments in a number of subsidiaries that are engaged in financial sector development and infrastructure activities. The purpose of such investments was to support development of the Armenian financial sector to ensure stability and normal activity of the financial system of the Republic of Armenia which is one of the objectives of the Bank as prescribed by the Law.

The control over subsidiaries' activities is exercised by the Bank through the following:

- participation in the shareholders' meetings.
- Appointment of subsidiaries' management (Boards of Directors of each of subsidiaries are appointed by the shareholders and Boards of Directors appoint Executive Directors in the each of subsidiaries).
- Regular analysis of performance of subsidiaries through review of their financial information at least on an annual basis including review of results of external audit of the financial statements of subsidiaries.
- Performing analysis of subsidiaries' further development strategy including development of the divestment strategy, where appropriate.
- Review of subsidiaries' activities within the scope of the Bank's Internal Audit work which is determined based on risk assessment results.

In 2015 the Bank has adopted a policy of activation of discussions with possible potential institutional investors regarding the disposal of its investments in the subsidiaries of the Bank.

31. Maturity analysis

The following tables provide information on amounts expected to be recovered or settled before and after twelve months after the reporting period.

In thousands of Armenian Drams

	31 December 2015		
	Current	Non-current	Total
Assets			
Cash	12,117,804	-	12,117,804
Placements with banks and other financial institutions in foreign currency	269,043,647	1,452,061	270,495,708
Financial instruments at fair value through profit or loss	514,428,100	-	514,428,100
Derivative assets	103,306	-	103,306
Placements and investments with banks and other financial institutions in domestic currency	188,842,395	127,934,248	316,776,643
Available-for-sale assets	83,539,824	19,969,036	103,508,860
Held-to-maturity assets	52,948,339	10,785,374	63,733,713
Placements with the IMF	1,383,474	61,672,200	63,055,674
Property and equipment	-	76,882,574	76,882,574
Intangible assets	-	1,739,384	1,739,384
Other assets	11,944,342	747,796	12,692,138
Total assets	**1,134,351,231**	**301,182,673**	**1,435,533,904**
Liabilities			
Notes and coins in circulation	413,613,757	-	413,613,757
Deposits and accounts of other financial institutions	511,806,823	-	511,806,823
Derivative liabilities	30,727	-	30,727
Due to the Government	134,935,032	1,604,719	136,539,751
Due to the IMF	11,153,380	241,785,751	252,939,131
Other borrowed funds	4,913,593	95,026,871	99,940,464
Debt securities issued	44,389	3,199,999	3,244,388
Other liabilities	3,375,479	32,188	3,407,667
Total liabilities	**1,079,873,180**	**341,649,528**	**1,421,522,708**
Net position as at 31 December 2015	**54,478,051**	**(40,466,855)**	**14,011,196**

In thousands of Armenian Drams

	31 December 2014		
	Current	Non-current	Total
Assets			
Cash	18,230,986	-	18,230,986
Placements with banks and other financial institutions in foreign currency	236,921,306	1,424,910	238,346,216
Financial instruments as fair value through profit or loss	357,384,451	-	357,384,451
Placements and investments with banks and other financial institutions in domestic currency	284,417,772	97,437,578	381,855,350
Available-for-sale assets	107,899,919	21,845,350	129,745,269
Held-to-maturity assets	93,404,632	745,727	94,150,359
Placements with the IMF	2,963,960	63,304,280	66,268,240
Non-current assets held for sale	2,757,046	-	2,757,046
Property and equipment	-	78,234,823	78,234,823
Intangible assets	-	1,781,769	1,781,769
Other assets	9,736,762	752,432	10,489,194
Total assets	**1,113,716,834**	**265,526,869**	**1,379,243,703**
Liabilities			
Notes and coins in circulation	412,344,941	-	412,344,941
Deposits and accounts of other financial institutions	474,164,998	-	474,164,998
Derivative liabilities	833,832	-	833,832
Due to the Government	117,568,673	2,246,607	119,815,280
Due to the IMF	9,349,181	252,388,664	261,737,845
Other borrowed funds	4,101,030	68,557,227	72,658,257
Debt securities issued	844,489	3,196,463	4,040,952
Other liabilities	2,657,964	72,115	2,730,079
Total liabilities	**1,021,865,108**	**326,461,076**	**1,348,326,184**
Net position as at 31 December 2014	**91,851,726**	**(60,934,207)**	**30,917,519**

32. Presentation of financial instruments by measurement category

For the purposes of measurement, IAS 39 “Financial Instruments: Recognition and Measurement”, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2015:

In thousands of Armenian Drams

	Loans and receivables	Available-for-sale assets	Assets at FVTPL	Held to maturity	Total
Assets					
Cash	12,117,804	-	-	-	12,117,804
Placements with banks and financial institutions in foreign currency	270,495,708	-	-	-	270,495,708
Placements and investments with banks and financial institutions in domestic currency	316,776,643	-	-	-	316,776,643
Financial instruments at fair value through profit or loss	-	-	514,428,100	-	514,428,100
Derivative assets	-	-	103,306	-	103,306
Available-for-sale assets	-	103,508,860	-	-	103,508,860
Held-to-maturity assets	-	-	-	63,733,713	63,733,713
Placements with the IMF	1,383,474	61,672,200	-	-	63,055,674
Total financial assets	**600,773,629**	**165,181,060**	**514,531,406**	**63,733,713**	**1,344,219,808**

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2014:

In thousands of Armenian Drams

	Loans and receivables	Available-for-sale assets	Assets at FVTPL	Held to maturity	Total
Assets					
Cash	18,230,986	-	-	-	18,230,986
Placements with banks and financial institutions in foreign currency	238,346,216	-	-	-	238,346,216
Placements and investments with banks and financial institutions in domestic currency	381,855,350	-	-	-	381,855,350
Financial instruments at fair value through profit or loss	-	-	357,384,451	-	357,384,451
Available-for-sale assets	-	129,745,269	-	-	129,745,269
Held-to-maturity assets	-	-	-	94,150,359	94,150,359
Placements with the IMF	2,963,960	63,304,280	-	-	66,268,240
Total financial assets	**641,396,512**	**193,049,549**	**357,384,451**	**94,150,359**	**1,285,980,871**

As of 31 December 2015 and 31 December 2014, all of the Group's financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

