



Financial Statements and Independent Auditor's
Report

“SME Investments” universal credit organization
closed joint stock company

31 December 2015

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Independent auditor's report

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To the Shareholder and Board of Directors of “SME Investments” universal credit organization closed joint stock company:

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

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of “SME Investments” universal credit organization closed joint stock company as of December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gagik Gyulbudaghyan
Managing partner



Knar Petrosyan
Auditor



Grant Thornton CJSC
12 March 2016
Yerevan



Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	Year ended December 31, 2015	Year ended December 31, 2014
Interest and similar income	6	1,395,008	1,379,635
Interest and similar expense	6	(793,836)	(794,890)
Net interest income		601,172	584,745
Fee and commission expense		(484)	(532)
Net fee and commission expense		(484)	(532)
Net gain/(loss) from initial recognition of financial assets and liabilities	14,21	280,312	(92,337)
Other income	7	31,675	74,637
Impairment charge	8	(415,059)	(323,314)
Staff costs	9	(183,807)	(143,010)
Depreciation of property and equipment	16	(20,869)	(13,454)
Amortization of intangible assets	17	(734)	(845)
Other expenses	10	(64,322)	(54,429)
Profit before income tax		227,884	31,461
Income tax expense	11	(46,351)	(6,852)
Profit for the year		181,533	24,609
Other comprehensive income		-	-
Total comprehensive income for the year		181,533	24,609

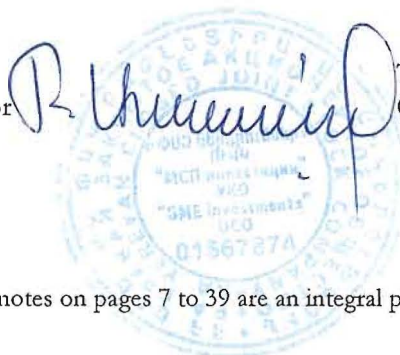
The accompanying notes on pages 7 to 399 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2015	As of December 31, 2014
ASSETS			
Cash and cash equivalents	12	517,590	1,216,851
Amounts due from other financial institutions	13	2,366,816	3,084,976
Loans to customers	14	7,225,405	5,697,575
Net investment in finance lease	15	379,672	403,335
Prepaid income taxes		-	17,138
Property, plant and equipment	16	475,068	455,095
Intangible assets	17	3,582	4,061
Repossessed assets	18	297,354	-
Other assets	19	15,672	12,303
TOTAL ASSETS		11,281,159	10,891,334
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to CBA	20	1,689,999	-
Amounts due to RA Ministry of Finance	21	7,588,399	8,692,676
Current income tax liabilities		16,076	-
Deferred tax liabilities	11	53,350	46,819
Deferred income	21	-	311,432
Other liabilities	22	35,524	124,129
Total liabilities		9,383,348	9,175,056
Equity			
Share capital	23	1,150,500	1,150,500
Statutory general reserve		256,863	232,254
Retained earnings		490,448	333,524
Total equity		1,897,811	1,716,278
TOTAL LIABILITIES AND EQUITY		11,281,159	10,891,334

The financial statements from pages 3 to 39 were signed by the Company's Executive Director and Chief Accountant on 12 March, 2016.

Arthur Badalyan
 Executive Director



Tatevik Galstyan
 Chief accountant

The accompanying notes on pages 7 to 39 are an integral part of these financial statements.

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Retained earnings	Total
As of January 1, 2014	1,150,500	113,698	427,471	1,691,669
Dividends to shareholders				
Distribution to reserve	-	118,556	(118,556)	-
Transactions with owners	-	118,556	(118,556)	-
Profit for the year	-	-	24,609	24,609
Total comprehensive income for the year	-	-	24,609	24,609
As of December 31, 2014	1,150,500	232,254	333,524	1,716,278
Distribution to reserve	-	24,609	(24,609)	-
Transactions with owners	-	24,609	(24,609)	-
Profit for the year	-	-	181,533	181,533
Total comprehensive income for the year	-	-	181,533	181,533
As of December 31, 2015	1,150,500	256,863	490,448	1,897,811

The accompanying notes on pages 7 to 399 are an integral part of these financial statements.

Statement of cash flows

In thousand Armenian drams	Year ended December 31, 2015	Year ended December 31, 2014
Cash flows from operating activities		
Interests receivable	1,275,705	1,314,547
Interests payable	(617,560)	(639,533)
Commissions paid	(484)	(532)
Staff costs	(168,278)	(135,825)
Other operating expenses paid	(109,857)	(61,794)
Other operating income received	17,454	56,861
Net cash flows from operating activities before changes in operating assets and liabilities	396,980	533,724
<i>(Increase)/decrease in operating assets</i>		
Amounts due to financial institutions	704,168	1,392,310
Loans to customers	(2,198,860)	(210,199)
Net investment in finance lease	22,595	(165,543)
Net cash flows from operating activities before changes in operating assets and liabilities	(1,075,117)	1,550,292
Income tax paid	(6,606)	(30,996)
Net cash from/(used in) operating activities	(1,081,723)	1,519,296
Cash flows from investing activities		
Purchase of property and equipment and intangible assets	(143,254)	(329,320)
Net cash used in investing activities	(143,254)	(329,320)
Cash flows from financing activities		
Amounts due to CBA	1,672,225	-
Amounts due to RA Government	(1,146,509)	(1,074,142)
Net cash flows from/(used in) financing activities	525,716	(1,074,142)
Net increase/(decrease) in cash and cash equivalents	(699,261)	115,834
Cash and cash equivalents at the beginning of the period	1,216,851	1,101,017
Cash and cash equivalents at the end of the period (Note 12)	517,590	1,216,851

The accompanying notes on pages 7 to 399 are an integral part of these financial statements.

Accompanying notes to the financial statements

1 Principal activities

“SME Investments” UCO CJSC (the “Company”) is a closed joint-stock company and is regulated by the legislation of the Republic of Armenia (RA). The Company was established by the decision of the Board of Trustees of “Small and Medium Entrepreneurship Development National Center of Armenia” dated 9 June 2009, by the decision N 717A of RA Government dated 26 June 2009 within the framework of an economy stabilization lending program.

The Company was registered on 7 August 2009 under license number 28, granted by the Central Bank of Armenia (the “CBA”).

The Company’s main activity is the crediting of small and medium enterprises. The Company’s mission is to promote the development of small and medium entrepreneurship which have a strategic importance for the economy of Armenia, focusing on the development of regions. Carrying out credit policies the Company pays special attention to programs which implementation contribute to the production volume growth, the establishment of new jobs, have strategic importance for the economy of RA and promote the development of RA regions.

The registered head office of the Company is located in Yerevan, Nairi Zaryan 74, 277-288.

2 Business environment

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

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

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

3 Basis of preparation

3.1 Statement of compliance

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

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities, as well as non-financial assets and liabilities are stated at amortised or historical cost.

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Although the new standards and amendments described below and applied for the first time in 2015, did not have a material impact on the annual consolidated financial statements of the Company.

- *Defined Benefit Plans: Employee Contributions (Amendments to LAS 19).*
- *Annual Improvements to IFRSs 2010–2012 Cycle.*
- *Annual Improvements to IFRSs 2011–2013 Cycle.*

3.5 Standards and Interpretations not yet applied by the Company

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

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

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

IFRS 9 Financial Instruments (2014)

The IASB recently released *IFRS 9 Financial Instruments (2014)*, representing the completion of its project to replace *LAS 39 Financial Instruments: Recognition and Measurement*. The new standard introduces extensive changes to IAS 39’s guidance on the classification and measurement of financial assets and introduces a new ‘expected credit loss’ model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Company’s management have yet to assess the impact of IFRS 9 on these financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

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

- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to LAS 16 and LAS 38).*
- *Annual Improvements to IFRSs 2012–2014 Cycle – various standards.*
- *Disclosure Initiative (Amendments to LAS 1).*

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Interest income and expense

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

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 recognized using the original effective interest rate applied to the new carrying amount.

Gains/losses from initial recognition of financial assets and liabilities

The Company provides loans to customers from the funds attracted from the RA Government. The Company receives income on recognition of loans with low than market interest rate and incurs losses on recognition of loans to customers with low than market interest rate in the same reporting period.

Gains from received loans and losses from extended loans should be recognised simultaneously. If the Company attracts funds but has not yet extended them as loans to customers, then income from initial recognition is deferred until the respective loans are extended to customers to avoid accounting mismatch.

Fee and commission income and expense

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Other service fees are recorded based on the applicable service contracts.

4.2 Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have

more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

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

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

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

4.3 Cash and cash equivalents

Cash and cash equivalents comprise amounts due from banks, which can be converted into cash at short notice, including highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortized cost.

4.4 Amounts due from other financial institutions

In the normal course of business, the Company maintains advances or deposits for various periods of time with other banks. Deposits and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.5 Financial instruments

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

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

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

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

Held-to-maturity investments

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

Loans and receivables

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

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

4.6 Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and 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 period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

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

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

Renegotiated loans

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

4.7 Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; and
- the Company either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Financial liabilities

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

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

4.8 Leases

Finance – Company as lessor

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

net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Operating - Company as lessee

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

4.9 Property, plant and equipment

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

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

	Useful life (years)	Rate (%)
Buildings	40	2.5%
Computers and other communication means	1	100%
Transportation	5	20%
Other fixed assets	5	20%

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

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

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

4.10 Intangible assets

Intangible assets include computer software, licences and other.

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

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an

indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Company can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

4.11 Repossessed **assets**

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

4.12 Grants

Grants relating to the assets are included in other liabilities and are credited to the statement of profit or loss and other comprehensive income on a straight line basis over the expected lives of the related assets.

4.13 Borrowings

Borrowings which include loans received from the CBA, RA Ministry of Finance and Foreign Financing Projects Management Centre of the RA Ministry of Finance are initially recognised at the fair value of the consideration received less directly attributable transaction costs. When fair value of received funds differs from the fair value of the loan, e.g. when the loan is received in low than market interest rate, during initial recognition of loan the difference between the received amount and fair value of loan is formulated as income from attraction of funds in low than market rates in the statement of profit or loss and other comprehensive income. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

4.14 Share capital

Share capital

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

Retained earnings

Include retained earnings of current and previous periods.

Dividends

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

4.15 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised

amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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

5 Critical accounting estimates and judgements

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

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

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm’s length transaction at the reporting date (see Note 26).

Related party transactions

In the normal course of business the Company enters into transactions with its related parties. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis(see Note 25).

Allowance for impairment of loans and receivables

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

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

Useful Life of PPE

Useful life evaluation of PPE is the result of judgement, based on the experience with similar assets. Future economic benefits are embodied in assets and mainly consumed along with usage. However, such factors as operational, technical or commercial depreciation often lead to decrease of asset’s

economic benefit. Management evaluates the remaining useful life according to the asset’s current technical condition and estimated period, during which the Company expects to receive benefits. For the evaluation of remaining useful life are considered the following main factors: expectable usage of assets, depending on the operational factors and maintenance program, that is depreciation and technical and commercial depreciation arising from the changes in the market conditions.

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 24.

6 Interest and similar income and expense

In thousand Armenian drams	2015	2014
Cash and cash equivalents	25,792	27,410
Amounts due from other financial institutions	497,562	594,583
Loans to customers	837,412	731,062
Financial lease	34,242	26,580
Total interest and similar income	1,395,008	1,379,635
Amounts due to CBA	22,249	-
Amounts due to RA Ministry of Finance	771,587	794,890
Total interest and similar expenses	793,836	794,890

7 Other income

In thousand Armenian drams	2015	2014
Fines and penalties received	29,901	72,982
Government grant amortization	830	830
Other income	944	825
Total other income	31,675	74,637

8 Impairment charge

In thousand Armenian drams	2015	2014
Loans to customers (Note 14)	397,978	320,148
Net investments in respect of financial lease (Note 15)	69	1,666
Other assets (Note 19)	17,012	1,500
Total impairment charge for possible losses of assets	415,059	323,314

9 Staff costs

In thousand Armenian drams	2015	2014
Compensations to employees, included relating taxes	178,755	138,250
Social security payments	4,554	4,372
Staff training costs	498	388
Total staff costs	183,807	143,010

10 Other expenses

In thousand Armenian drams	2015	2014
Leasehold expenses	9,055	18,055
Fixed assets' maintenance and servicing expenses	20,091	10,088
Payments to Financial system mediator	7,620	8,247
Consulting and other services	5,383	4,400
Insurance expenses	5,818	2,422
Office supplies	4,088	1,784
Communication	2,306	1,978
Representative expenses	1,533	1,531
Taxes, other than income tax, duties	1,296	1,077
Advertising costs	2,367	2,525
Other expenses	4,765	2,322
Total other expense	64,322	54,429

11 Income tax expense

In thousand Armenian drams	2015	2014
Current tax	39,820	9,330
Deferred tax	6,531	(2,478)
Total income tax expense	46,351	6,852

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

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

In thousand Armenian drams	2015	Effective rate (%)	2014	Effective rate (%)
Profit before tax	227,884		31,461	
Income tax at the rate of 20%	45,577	20	6,292	20
Non-deductible expenses	774	0.3	560	1.8
Total income tax expense	46,351	20.3	6,852	21.8

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of December 31, 2014	Recognized in the statement of profit or loss	As of December 31, 2015
Loans to customers	8,214	49,326	57,540
Property, plant and equipment	55	(55)	-
Other liabilities	2,547	1,593	4,140
Total deferred tax assets	10,816	50,864	61,680
Amounts due from other financial institutions	(8,707)	2,938	(5,769)
Amounts due to RA Ministry of Finance	(48,914)	(52,794)	(101,708)
Property, plant and equipment	-	(7,532)	(7,532)
Other assets	(14)	(7)	(21)
Total deferred tax liability	(57,635)	(57,395)	(115,030)
Net deferred tax liability	(46,819)	(6,531)	(53,350)

In thousand Armenian drams	As of December 31, 2013	Recognized in the statement of profit or loss	As of December 31, 2014
Loans to customers	28,225	(20,011)	8,214
Property, plant and equipment	-	55	55
Other liabilities	3,179	(632)	2,547
Total deferred tax assets	31,404	(20,588)	10,816
Amounts due from other financial institutions	(12,177)	3,470	(8,707)
Amounts due to RA Ministry of Finance	(68,524)	19,610	(48,914)
Other assets	-	(14)	(14)
Total deferred tax liability	(80,701)	23,066	(57,635)
Net deferred tax liability	(49,297)	2,478	(46,819)

12 Cash and cash equivalents

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Correspondent accounts with banks	216,443	43,304
Deposits for less than 90 days	301,147	1,173,547
Total cash and cash equivalents	517,590	1,216,851

Non-cash transactions performed by the Company during 2015 are represented by: repayment of loans by tangible assets valued at AMD 272,043 thousand.

13 Amounts due from other financial institutions

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Deposited funds with banks	2,366,816	3,084,976
Total amounts due from other financial institutions	2,366,816	3,084,976

Deposits include deposits for more than 90 days or overdue.

As of 31 December 2015 amounts due from other financial institutions are not impaired (2014: nil/same).

As of 31 December 2015 the deposits are located in two banks, accounts of which in amount of AMD 1,615,974 thousand (68%) are from one bank (2014: AMD 2,834,542 thousand (67%)).

As of 31 December 2015 average weighted effective interest rate of time deposits was 13.71% (2014: 12.22%).

14 Loans to customers

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Loans to customers	7,428,170	5,846,340
Less allowance for loan impairment	(202,765)	(148,765)
Total loans and advances to customers	7,225,405	5,697,575

As of 31 December 2015 accrued interest income included in loans to customers amounted to AMD 33,463 thousand (2014: AMD 28,869 thousand).

As of 31 December 2015 the average weighted contractual interest rate on loans to customers was 12.05% (2014: 11.6%). As loans are initially recognised at cost, for 2015 the following market interest rate was used 15.1% (2014: 14.7%). The difference between the fair value and contractual cost of loans issued in 2015 is recognised as loss from initial recognition in the statement of financial position in AMD 147,383 thousand (2014: AMD 102,444 thousand).

As of 31 December 2015 the total amount of the ten largest borrowers comprises AMD 2,976,811 thousand (40% of gross loan portfolio) (2014: AMD 2,376,300 thousand or 41%). An allowance of AMD 89,612 thousand (2014: AMD 43,233 thousand) was made against these loans.

Analysis of extended loans by economy sectors is as follows:

In thousand Armenian drams	Industry	Construction	Trading	Agriculture	Services	As of December 31, 2015	
						Other	Total
Loans	4,516,400	23,278	15,483	1,912,370	920,590	40,049	7,428,170
Impairment reserves on loans	(158,074)	(233)	(155)	(29,759)	(9,206)	(5,338)	(202,765)
Net loans	4,358,326	23,045	15,328	1,882,611	911,384	34,711	7,225,405

In thousand Armenian drams	Industry	Construction	Trading	Agriculture	Services	As of December 31, 2014	
						Other	Total
Loans	3,553,194	29,992	23,071	1,657,998	544,425	37,660	5,846,340
Impairment reserves on loans	(98,434)	(300)	(231)	(43,978)	(5,444)	(378)	(148,765)
Net loans	3,454,760	29,692	22,840	1,614,020	538,981	37,282	5,697,575

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

In thousand Armenian drams	Industry	Construction	Trading	Agriculture	Services	As of December 31, 2015	
						Other	Total
At 1 January 2015	98,434	300	231	43,978	5,444	378	148,765
Charge/(reversal) for the year	394,986	(67)	(76)	(5,587)	3,762	4,960	397,978
Amounts written off	(607,262)	-	-	(8,632)	-	-	(615,894)
Recoveries	271,916	-	-	-	-	-	271,916
At 31 December 2015	158,074	233	155	29,759	9,206	5,338	202,765
Individual impairment	-	-	-	11,064	-	5,147	16,211
Collective impairment	158,074	233	155	18,695	9,206	191	186,554
	158,074	233	155	29,759	9,206	5,338	202,765
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	-	-	-	42,898	-	20,864	63,762

In thousand Armenian drams	Industry	Construction	Trading	Agriculture	Services	As of December 31, 2014	
						Other	Total
At 1 January 2014	89,111	915	764	47,907	13,634	463	152,794
Charge for the year	333,500	(615)	(533)	(3,929)	(8,190)	(85)	320,148
Amounts written off	(338,070)	-	-	-	-	-	(338,070)
Recovery	13,893	-	-	-	-	-	13,893
At 31 December 2014	98,434	300	231	43,978	5,444	378	148,765
Individual impairment	68,159	-	-	28,717	-	-	96,876
Collective impairment	30,275	300	231	15,261	5,444	378	51,889
	98,434	300	231	43,978	5,444	378	148,765
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	525,658	-	-	150,068	-	-	675,726

As of 31 December 2015 the loan right in amount of AMD 4,317,630 thousand (2014: AMD 5,025,748 thousand) was pledged by the Company for loans received from RA Ministry of Finance (Note 20).

As it is mentioned in Note 26 at 31 December 2015 and 31 December 2014 the estimated fair value of loans to customers approximates their carrying value.

The risks inherent in the loan portfolio are disclosed in Note 29. The information on related party balances is disclosed in Note 25.

Maturity analysis of loans and advances to customers are disclosed in Note 28.

15 Net investments in finance lease

Information on financial lease is presented below:

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Gross investment in finance leases		
Not later than 1 year	80,172	71,688
Later than 1 year and not later than 5 years	319,378	356,167
Later than 5 years	98,586	103,701
	<u>498,136</u>	<u>531,556</u>
Unearned future finance income on finance leases		
Not later than 1 year	(4,009)	(3,443)
Later than 1 year and not later than 5 years	(69,758)	(79,285)
Later than 5 years	(40,553)	(41,418)
	<u>(114,320)</u>	<u>(124,146)</u>
Impairment charge on finance lease	(4,144)	(4,075)
Net investment in finance leases	<u>379,672</u>	<u>403,335</u>

The movement in allowance for impairment losses on financial lease is as follows:

In thousand Armenian drams	Total
At 1 January 2014	2,409
Charge for the year	1,666
At 31 December 2014	<u>4,075</u>
Charge for the year	69
At 31 December 2015	<u>4,144</u>
Collective impairment	<u>4,144</u>

As of 31 December 2015 supposed interest rate in respect of financial lease is 9.4% (2014: 9.1%).

Maturity analysis of amounts to customers in respect of financial lease is disclosed in Note 28.

16 Property, plant and equipment

In thousand Armenian drams

	Capital investments	Office equipment and furniture	Computers	Vehicles	Other	Total
COST						
At January 1, 2014	-	8,649	15,633	43,710	564	68,556
Additions	422,000	2,426	6,980	-	27	431,433
Disposal	-	-	(38)	-	-	(38)
At December 31, 2014	422,000	11,075	22,575	43,710	591	499,951
Additions	-	13,748	5,661	13,773	7,660	40,842
Disposal	-	-	-	-	(287)	(287)
At December 31, 2015	422,000	24,823	28,236	57,483	7,964	540,506
ACCUMULATED DEPRECIATION						
At January 1, 2014	-	4,140	13,306	13,580	414	31,440
Charge for the year	-	1,577	3,073	8,742	62	13,454
Disposal	-	-	(38)	-	-	(38)
At December 31, 2014	-	5,717	16,341	22,322	476	44,856
Charge for the year	5,275	1,959	4,855	8,377	403	20,869
Disposal	-	-	-	-	(287)	(287)
At December 31, 2015	5,275	7,676	21,196	30,699	592	65,438
CARRYING VALUE						
At December 31, 2015	416,725	17,147	7,040	26,784	7,372	475,068
At December 31, 2014	422,000	5,358	6,234	21,388	115	455,095
At January 1, 2014	-	4,509	2,327	30,130	150	37,116

Fully depreciated items

As of 31 December 2015 fixed assets included fully depreciated assets in amount of AMD 34,464 thousand (2014: AMD 12,343 thousand).

In 2014 the Company has acquired building for exploitation as the Company’s head office. The building is put into exploitation in 2015.

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

17 Intangible assets

In thousand Armenian drams

	Licenses and certificates	Computer software	Other	Total
COST				
At January 1, 2014	242	6,138	800	7,180
Additions	44	-	-	44
At December 31, 2014	286	6,138	800	7,224
Additions	-	255	-	255
Disposal	(286)	-	-	(286)
At December 31, 2015	-	6,393	800	7,193
ACCUMULATED AMORTISATION				
At January 1, 2014	124	2,194	-	2,318
Amortization charge	139	706	-	845
At December 31, 2014	263	2,900	-	3,163
Amortization charge	23	711	-	734
Disposal	(286)	-	-	(286)
At December 31, 2015	-	3,611	-	3,611
CARRYING VALUE				
At December 31, 2015	-	2,782	800	3,582
At December 31, 2014	23	3,238	800	4,061
At January 1, 2014	118	3,944	800	4,862

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

18 Repossessed assets

Details of financial and non-financial assets obtained by the Company during the year by taking possession of collateral held as security against loans and advances as at December 31 are shown below:

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Property	244,704	-
Equipment	52,650	-
Total	297,354	-

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

19 Other assets

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Prepayments and other debtors	5,671	3,539
Total other financial assets	5,671	3,539
Prepayments	4,749	3,344
Unamortised insurance payments	4,373	2,973
Future expenses	64	59
Small value items	847	2,388
Total non-financial assets	10,033	8,764
Impairment charge of other assets	(32)	-
Total other assets	15,672	12,303

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

In thousand Armenian drams	Total
At January 1, 2014	-
Charge for the year	1,500
Amounts written off	(1,500)
At December 31, 2014	-
Charge for the year	17,012
Amounts written off	(16,980)
At December 31, 2015	32

20 Amounts due to CBA

The Company has signed a loan agreement with the Central Bank of RA in 2015 upon the agreement between the European Investment Bank and Central Bank of RA with 9% of the contractual interest rate and 7,5 years of maturity. The loan is received in tranches. The principal amount and the interest are to be paid semi-annually. The total contractual amount of loans received from the Central Bank of RA on December 31, 2015 amounted to AMD 1,672,225 thousand.

21 Amounts due to RA Ministry of Finance

In thousand Armenian drams	As of 31 December 2015	As of December 31, 2014
Loans from RA Ministry of Finance	7,410,416	8,491,519
Loans from International Financial program management centre	177,983	201,157
Total amounts due to RA Ministry of Finance	7,588,399	8,692,676

In 2009 the Company signed the contract with the RA Ministry of Finance for the loan with contractual interest rate 7%. The total contractual amount is AMD 3,883,281 thousand. The loan is received in tranches. The interest is to be paid semi-annually. In 2015 changes have been made in the contract, according to which the term of the loan contract has been extended until 2026. The repayment of the principal amount is defined at the due date of the lump-sum credit contract.

In 2013 the Company signed the second contract with the RA Ministry of Finance for the loan with contractual interest rate 7%. The total contractual amount is AMD 3,900,000 thousand, the interest is to be paid semi-annually and the principal is to be paid at the end of contract term. The repayment of the principal amount is defined at the due date of the lump-sum credit contract. In 2015 changes have been made in the loans contract, according to which the term of the loan contract has been extended until 2026.

The total contractual amount of loans received from the RA Ministry of Finance under both contracts is AMD 7,783,281 thousand and AMD 8,892,790 thousand as of 31 December 2015 and 2014 respectively.

In 2013 the Company signed the contract with Foreign Financing Projects Management Centre of the RA Ministry of Finance (FFPMC) for financing the finance lease. The contractual interest rate is 4%. The loan is received in tranches. The loan matures in 2020, the interest is to be paid quarterly, and the principal is to be paid in accordance with lease payment starting from 2014. As of 31 December 2015 the total contractual amount received from FFPMC is AMD 214,418 thousand (31 December 2014: AMD 251,418 thousand).

The loans are initially recognised at fair value, market rate 8% is used. The difference between the first loan received from the RA Ministry of Finance and loan received from FFPMC is recognised as gain on initial recognition in amount of AMD 233,984 thousand for the period ended in 31 December 2015 and in amount of AMD 10,107 thousand for the period ended in 31 December 2014.

For the second loan received from the RA Ministry of Finance for the period ended in 31 December 2015 was recognised as gain after initial recognition in AMD 193,711 thousand and as deferred tax in AMD 311,432 thousand as at 31 December 2014.

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

22 Other liabilities

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Accounts payables	1,605	106,436
Due to personnel	21,192	14,805
Total other financial liabilities	22,797	121,241
Tax payable, other than income tax	11,292	623
Grants related to assets	1,435	2,265
Total other non-financial liabilities	12,727	2,888
Total other liabilities	35,524	124,129

As of 31 December 2014 in the payable amounts are included amounts on acquisition of fixed assets in AMD 105,000 thousand.

Grants related to assets

In thousand Armenian drams	2015	2014
At January 1	2,265	3,095
Recognition of income	(830)	(830)
At December 31	1,435	2,265

23 Equity

As of 31 December 2015 the Company’s registered and paid-in charter capital was AMD 1,150,500 thousand. In accordance with the Company’s statutes, the share capital consists of 767 shares, all of which have a nominal value of AMD 1,500,000 each.

As of 31 December 2015 and 2014 the 100% shareholder of the Company was “SME DNC of Armenia” Fund.

As of 31 December 2015 and 2014, the Company did not possess any of its own shares.

During shareholders meeting in 2015 the Company has not declared dividends.

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

24 Contingent liabilities and commitments

Tax and legal matters

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

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

Management believes that the Company has complied with all regulations and has completely settled all its tax liabilities.

As at 31 December 2015 there were no legal actions and complaints taken against the Company. Therefore, the Company has not made any respective provision related to such tax and legal matters. The company acts as a third party in a lawsuit. During 2015 the Company repossessed assets amounting to AMD 272 mln. through the compulsory enforcement service and redeemed the loan of the loaner outstanding in the company by the repossessed asset. The lawsuit is connected

with the recognising invalid of the above mentioned auction and application of consequences of the invalidity. The management of the Company is sure that the grounds for satisfaction of the lawsuit are not thorough and will not have consequences on the financial position and future performance of the Company.

Loan commitment, guarantee and other financial facilities

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	As of December 31 2015	As of December 31, 2014
Undrawn loan commitments	49,000	207,000
Total commitments and contingent liabilities	49,000	207,000

The maximum exposure to credit risk of Loan commitments, guarantee and other financial facilities is best represented by the total amount of these commitments and contingent liabilities.

As of 31 December 2015 the Company did not have any capital commitment.

25 Transactions with related parties

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

The ultimate controlling party of the Company is SME DNC of Armenia.

A number of organizational transactions are entered into with related parties in the normal course of business.

The volumes of related party transactions are as follows:

In thousand Armenian drams	2015		2014	
	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them

Statement of financial position

Loans to customers

Contractual balance of loans at January 1	-	19,900	-	-
Received during the year	-	-	-	19,900
Repaid during the year	-	(2,584)	-	-
Balance sheet amount of loans at December 31	-	17,316	-	19,900
Loans contractual balance at December 31	-	16,711	-	18,992
Less allowance for loan impairment	-	(167)	-	(190)
Loans outstanding at December 31	-	16,544	-	18,802

In thousand Armenian drams	2015		2014	
	Key management personnel and parties related with them	Shareholders and parties related with them	Key management personnel and parties related with them	Shareholders and parties related with them
Amounts due to RA Ministry of Finance				
Contractual balance at January 1	9,144,208	-	10,218,351	-
Received during the year	-	-	44,608	-
Repaid during the year	(1,146,509)	-	(1,118,751)	-
Contractual balance at December 31	7,997,699	-	9,144,208	-
Balance sheet amount at December 31	7,588,399	-	8,692,676	-
Acquisition of financial leasing items	99,575	-	306,580	-
Statement of profit or loss and other comprehensive income				
Interest income on loans	-	2,060	-	949
Impairment charge /(reversal)	-	(23)	-	190
Interest expense on loans received	761,480	-	794,890	-

Loans extended to related parties are subject to repayment till 2019 and their contractual interest rate is 11% (2014: 11%). Extended loans are collateralised by real estate.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2015	2014
Salaries and other short-term benefits	61,709	55,772
Other compensations (insurance, leasing and etc.)	736	736
Total key management compensation	62,445	56,508

26 Fair value measurement

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

26.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	As of 31 December 2015				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	517,590	-	517,590	517,590
Amounts due from other financial institutions	-	2,366,816	-	2,366,816	2,366,816
Loans to customers	-	7,225,405	-	7,225,405	7,225,405
Net investment in finance lease	-	379,672	-	379,672	379,672
Other assets	-	5,671	-	5,671	5,671
FINANCIAL LIABILITIES					
Amounts due to CBA	-	1,689,999	-	1,689,999	1,689,999
Amounts due to the RA Ministry of Finance	-	7,588,399	-	7,588,399	7,588,399
Other liabilities	-	22,797	-	22,797	22,797

In thousand Armenian drams	As of 31 December 2014				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	1,216,851	-	1,216,851	1,216,851
Amounts due from other financial institutions	-	3,084,976	-	3,084,976	3,084,976
Loans to customers	-	5,697,575	-	5,697,575	5,697,575
Net investment in finance lease	-	403,335	-	403,335	403,335
Other assets	-	3,539	-	3,539	3,539
FINANCIAL LIABILITIES					
Amounts due to the RA Ministry of Finance	-	8,692,676	-	8,692,676	8,692,676
Other liabilities	-	121,241	-	-	121,241

Amounts due from other financial institutions

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

Loans and advances to customers

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

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

Amounts due to the CBA and RA Ministry of Finance

The fair value of these liabilities is estimated by using the discounted cash flow techniques, applying the rates that are offered for instruments of similar maturities and terms.

27 Offsetting of financial assets and financial liabilities

In the ordinary course of business, the Company performs different operations with financial instruments which may be presented in net amounts when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

As of December 31, 2015 and 2014 the Company does not have financial assets and financial liabilities in the statement of financial position which are presented in net amount or will be offset due to presence of the master netting arrangements or similar agreements.

28 Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 29.3 for the Company’s contractual undiscounted repayment obligations.

In thousand Armenian drams	As of December 31, 2015							
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Cash and cash equivalents	216,444	301,146	-	517,590	-	-	-	517,590
Amounts due from other financial institutions	590	14,715	2,351,511	2,366,816	-	-	-	2,366,816
Loans to customers	108,875	274,877	1,670,599	2,054,351	5,171,054	-	5,171,054	7,225,405
Net investment in finance lease	1,788	3,756	69,796	75,340	246,924	57,408	304,332	379,672
Other assets	5,671	-	-	5,671	-	-	-	5,671
	<u>333,368</u>	<u>594,494</u>	<u>4,091,906</u>	<u>5,019,768</u>	<u>5,417,978</u>	<u>57,408</u>	<u>5,475,386</u>	<u>10,495,154</u>
LIABILITIES								
Amounts due to CBA	-	-	18,058	18,058	1,671,941	-	1,671,941	1,689,999
Amounts due to the RA Ministry of Finance	2,247	80,778	16,385	99,410	175,735	7,313,254	7,488,989	7,588,399
Other liabilities	22,797	-	-	22,797	-	-	-	22,797
	<u>25,044</u>	<u>80,778</u>	<u>34,443</u>	<u>140,265</u>	<u>1,847,676</u>	<u>7,313,254</u>	<u>9,160,930</u>	<u>9,301,195</u>
Net position	<u>308,324</u>	<u>513,716</u>	<u>4,057,463</u>	<u>4,879,503</u>	<u>3,570,302</u>	<u>(7,255,846)</u>	<u>(3,685,544)</u>	<u>1,193,959</u>
Accumulated gap	<u>308,324</u>	<u>822,040</u>	<u>4,879,503</u>		<u>8,449,805</u>	<u>1,193,959</u>		

In thousand Armenian drams	As of December 31, 2014							
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Cash and cash equivalents	815,685	401,166	-	1,216,851	-	-	-	1,216,851
Amounts due from other financial institutions	-	-	3,084,976	3,084,976	-	-	-	3,084,976
Loans to customers	225,698	286,824	1,522,111	2,034,633	3,662,942	-	3,662,942	5,697,575
Net investment in finance lease	2,847	3,353	62,115	68,315	273,679	61,341	335,020	403,335
Other assets	3,539	-	-	3,539	-	-	-	3,539
	<u>1,047,769</u>	<u>691,343</u>	<u>4,669,202</u>	<u>6,408,314</u>	<u>3,936,621</u>	<u>61,341</u>	<u>3,997,962</u>	<u>10,406,276</u>
LIABILITIES								
Amounts due to the RA Ministry of Finance	2,468	75,923	1,062,609	1,141,000	3,161,666	4,390,010	7,551,676	8,692,676
Other liabilities	53,686	-	67,555	121,241	-	-	-	121,241
	<u>56,154</u>	<u>75,923</u>	<u>1,130,164</u>	<u>1,262,241</u>	<u>3,161,666</u>	<u>4,390,010</u>	<u>7,551,676</u>	<u>8,813,917</u>
Net position	<u>991,615</u>	<u>615,420</u>	<u>3,539,038</u>	<u>5,146,073</u>	<u>774,955</u>	<u>(4,328,669)</u>	<u>(3,553,714)</u>	<u>1,592,359</u>
Accumulated gap	<u>991,615</u>	<u>1,607,035</u>	<u>5,146,073</u>		<u>5,921,028</u>	<u>1,592,359</u>		

29 Risk management

The Company’s activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Company’s aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company’s financial performance.

The aim of the Company’s risk management policy is to identify and analyse risks and manage them efficiently. The Company periodically revises risk management policy and systems to reflect in the market and follow the best practice.

Risk management is performed by the Management of the Company according to the lending policy and internal regulation approved by the Management of the Company. The Management identifies, assesses and undertakes measures for mitigating financial risks.

Risk management structure

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

Board of the Company

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

Executive Director

Executive Director has the responsibility to monitor the overall risk process within the Company, is responsible for the management of the Company’s assets and liabilities. Also is responsible for the Company’s liquidity risk and for the financial risk management.

Credit Committee

The Credit Committee is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Controller

Risk management processes throughout the Company are audited by the controller, that examines both the adequacy of the procedures and the Company’s compliance with the procedures. Controller discusses the results of all assessments with management, and reports its findings and recommendations during the General meeting.

Monitoring and controlling risks is primarily performed based on the Company’s business strategy and market environment, as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries.

Excessive risk concentration

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

In order to avoid excessive concentrations of risks, the Company’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio.

The most important risks are credit risk, liquidity risk, market risk and other operating risk. Market risk includes interest rate risk and other price risks.

29.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company’s business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Company’s asset portfolio. The credit risk management and control are centralised in credit risk management team of Company and reported to the Company’s management regularly.

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

29.1.1 Risk concentrations of the maximum exposure to credit risk

Geographical sectors

As of 31 December 2015 and 2014 the Company’s credit risks are entirely centralised in the RA.

Industry sectors

The following table breaks down the Company’s main credit exposure at their carrying amounts, as categorized by the spheres of activity of the counterparties as of 31 December.

In thousand Armenian drams	Financial sector	Industry	Construction	Trading	Agriculture and food industry	Services	Other	Total
ASSETS								
Cash and cash equivalents	517,590	-	-	-	-	-	-	517,590
Amounts due from other financial institutions	2,366,816	-	-	-	-	-	-	2,366,816
Loans to customers	-	4,358,326	23,045	15,328	1,882,611	911,384	34,711	7,225,405
Net investment in finance lease	-	-	-	-	379,672	-	-	379,672
Other assets	-	-	-	-	5,671	-	-	5,671
As at 31 December 2015	2,884,406	4,358,326	23,045	15,328	2,267,954	911,384	34,711	10,495,154
As at 31 December 2014	4,301,827	3,454,760	29,692	22,840	2,017,355	538,981	40,821	10,406,276

29.1.2 Risk limit control and mitigation policies

With the aim to mitigate its credit risk the Company may define maximum limits on loan extension for the entities cooperating with him. Separate limit may be defined for each entity.

Some other specific control and mitigation measures are outlined below.

Collateral

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans are:

- Cash,
- Real estate pledged,
- Operating assets of the companies
- Cars, agricultural mechanisms, equipment,
- State and corporate securities.

In order to minimise the credit loss the Company requires additional collateral and guarantees from the borrower.

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

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Loans collateralized by immovable property	5,139,633	5,287,074
Loans collateralized by circulating funds	1,254,796	-
Movable properties	194,417	209,345
Guarantees of Companies	777,590	319,050
Cash*	61,734	30,871
Total loans and advances (gross)	7,428,170	5,846,340

Within the scopes of the contract signed between the Company and “SME DNC of Armenia” Fund as of 31 December 2015 the Fund has pledged its monetary funds for the extended loans from the Company in amount of AMD 106,648 thousand (2014: AMD 71,368 thousand).

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

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Company monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

29.1.3 Impairment and provisioning policies

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

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not significant and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

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

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Loans and advances neither past due or impaired

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

In thousand Armenian drams	As of December 31, 2015	As of December 31, 2014
Loans and advances to customers		
Industry	3.5%	3.3%

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

Past due but not impaired loans

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

Analysis of past due loans by age and by class is provided below.

In thousand Armenian drams	As of December 31, 2015				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans to customers	25,909	133,061	4,007	70,576	233,553
Total	25,909	133,061	4,007	70,576	233,553

In thousand Armenian drams	As of December 31, 2014				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans to customers	-	1,939	18,392	15,026	35,357
Total	-	1,939	18,392	15,026	35,357

29.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Company classifies exposures to market risk into either trading or non-trading portfolios. As of 31 December, 2015 and 2014 the Company does not hold trading portfolio. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, as of 31 December, 2015 and 2014 the Company has no significant concentration of market risk.

29.2.1 Market risk – Non-trading

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. At 31 December 2015 and 2014 the Company does not hold floating rate financial assets or liabilities.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. At 31 December 2015 and 2014 the Company does not hold financial assets or liabilities denominated in foreign currencies, therefore it is not exposed to foreign currency risk.

29.3 Liquidity risk

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

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Company.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company’s financial liabilities at 31 December 2015 based on contractual undiscounted repayment obligations. See note 28 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

In thousand Armenian drams	As of December 31, 2015					
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Financial liabilities						
Amounts due to CBA	-	-	134,747	2,043,121	-	2,177,868
Amounts due to the RA Ministry of Finance	2,247	136,126	416,635	2,429,184	10,917,466	13,901,658
Other liabilities	22,797	-	-	-	-	22,797
Total undiscounted financial liabilities	25,044	136,126	551,382	4,472,305	10,917,466	16,102,323

In thousand Armenian drams	As of December 31, 2014					
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Financial liabilities						
Amounts due to the RA Ministry of Finance	2,626	137,858	1,582,199	5,560,476	4,434,809	11,717,968
Other liabilities	53,686	-	67,555	-	-	121,241
Total undiscounted financial liabilities	56,312	137,858	1,649,754	5,560,476	4,434,809	11,839,209

29.4 Operational risk

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

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

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

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

The Company’s compliance with the standards is accompanied by the periodic reviews performed by the internal audit. The observations of the internal audit are discussed with the representative of the Company’s Management to whom those observations refer. The summaries of the reviews are presented to General meeting.

30 Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business. The Company’s capital is controlled by using rules and normative approved by the Central Bank of RA.

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

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

Regulatory capital consists of Tier 1 capital, which comprises share capital, general reserve, retained earnings including current year profit.

The Central Bank of Armenia has set the minimum value of the total normative capital amounting to AMD 150,000 thousand from September, 2011.

As of 31 December 2015 and 2014 the capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

In thousand Armenian drams	Not audited	
	As of December 31, 2015	As of December 31, 2014
Tier 1 capital	1,498,118	1,479,608
Tier 2 capital	-	-
Total regulatory capital	1,498,118	1,479,608

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



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