Financial Statements and Independent Auditor's Report

"KAMURJ" universal credit organization closed joint-stock company

31 December 2016

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Independent auditor's report

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To the Shareholder of "KAMURJ" universal credit organization closed joint stock company:

Opinion

We have audited the financial statements of "KAMURJ" universal credit organization closed joint stock company (the "Company"), which comprise the statement of financial position as of December 31, 2016, 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Gagik Gyulbudaghyan

Managing Partner

15 March 2017

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«ГРАНТ ТОРНТОН»

Vahagn Payan

Auditor

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	**Year ended December 31, 2016**	Year ended December 31, 2015
Interest and similar income	6	**2,738,514**	3,176,148
Interest and similar expense	6	**(680,686)**	(734,254)
Net interest income		**2,057,828**	2,441,894
Net loss from derivative instruments		**(3,278)**	-
Net gains from foreign currency transactions	7	**10,194**	22,643
Other income	8	**360,376**	207,468
Other expenses		**(22,431)**	(29,997)
Operating profit		**2,402,689**	2,642,008
Impairment charge	9	**(953,368)**	(872,214)
Staff cost	10	**(859,296)**	(825,633)
Other administrative expenses	11	**(490,928)**	(482,047)
Profit before income tax		**99,097**	462,114
Income tax expense	12	**(41,034)**	(105,946)
Profit for the year		**58,063**	356,168
Total comprehensive income for the year		**58,063**	356,168

Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2016	As of December 31, 2015
ASSETS			
Cash and cash equivalents	13	**1,727,059**	1,236,336
Amounts due from financial institutions	14	**358,465**	2,003,741
Loans and advances to customers	15	**11,745,169**	11,935,440
Investments available for sale	16	**43,239**	43,239
Prepaid income taxes		**40,481**	28,053
Property, plant and equipment and intangible assets	17	**168,931**	230,324
Deferred income tax assets	12	**59,425**	60,927
Other assets	18	**24,788**	24,101
TOTAL ASSETS		**14,167,557**	15,562,161
LIABILITIES AND EQUITY			
Liabilities			
Loans and borrowings	19	**8,159,706**	9,586,869
Other liabilities	20	**101,298**	88,802
Total liabilities		**8,261,004**	9,675,671
Equity			
Share capital	21	**5,000,000**	5,000,000
Additional capital		**193,044**	193,044
General reserve		**155,674**	137,866
Retained earnings		**557,835**	555,580
Total equity		**5,906,553**	5,886,490
TOTAL LIABILITIES AND EQUITY		**14,167,557**	15,562,161

The financial statements from pages 4 to 40 were signed by the Company's Chief Executive Officer and Chief Accountant on 15 March 2017.

Chief Executive Officer
Aleksandr Teryan

Chief Accountant
Aleksandr Sahakyan

KAMURJ UNIVERSAL CREDIT ORGANIZATION CLOSED JOINT-STOCK COMPANY YEREVAN RA
kamurj CREDIT ORGANIZATION
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Statement of changes in equity

In thousand Armenian drams	Share capital	Additional capital	General reserve	Retained earnings	Total
As of January 1, 2015	5,000,000	193,044	117,371	409,907	5,720,322
Dividends to shareholders	-	-	-	(190,000)	(190,000)
Distribution to reserve	-	-	20,495	(20,495)	-
Transactions with owners	-	-	20,495	(210,495)	(190,000)
Profit for the year	-	-	-	356,168	356,168
Total comprehensive income for the year	-	-	-	356,168	356,168
As of December 31, 2015	**5,000,000**	**193,044**	**137,866**	**555,580**	**5,886,490**
Dividends to shareholders	**-**	**-**	**-**	**(38,000)**	**(38,000)**
Distribution to reserve	**-**	**-**	**17,808**	**(17,808)**	**-**
Transactions with owners	**-**	**-**	**17,808**	**(55,808)**	**(38,000)**
Profit for the year	**-**	**-**	**-**	**58,063**	**58,063**
Total comprehensive income for the year	**-**	**-**	**-**	**58,063**	**58,063**
As of December 31, 2016	**5,000,000**	**193,044**	**155,674**	**557,835**	**5,906,553**

Statement of cash flows

In thousand Armenian drams	**Year ended December 31, 2016**	Year ended December 31, 2015
Cash flows from operating activities		
Interest received	**2,730,757**	3,065,602
Interest paid	**(698,686)**	(737,869)
Net flows from foreign currency transactions	**5,141**	9,152
Net other income received	**331,288**	177,471
Staff and other administrative expenses	**(1,246,739)**	(1,215,251)
Cash flows from operating activities before changes in operating assets and liabilities	**1,121,761**	1,299,105
(Increase)/ decrease in operating assets		
Amounts due from financial institutions	**1,632,510**	(289,921)
Loans and advances to customers	**(746,433)**	887,604
Other assets	**(20,648)**	(14,598)
Increase in operating liabilities		
Other liabilities	**11,113**	1,425
Net cash flow from operating activities before income tax	**1,998,303**	1,883,615
Income tax paid	**(51,960)**	(125,148)
Net cash from operating activities	**1,946,343**	1,758,467
Cash flows from investing activities		
Purchase of investment securities	**-**	(43,184)
Purchase of property, plant and equipment and intangible assets	**(40,268)**	(60,542)
Net cash used in investing activities	**(40,268)**	(103,726)
Cash flow from financing activities		
Loans and borrowings	**(1,386,162)**	(445,747)
Dividends paid	**(38,000)**	(190,000)
Net cash flow used in financing activities	**(1,424,162)**	(635,747)
Net increase in cash and cash equivalents	**481,913**	1,018,994
Cash and cash equivalents as at the beginning of the year	**1,236,336**	222,673
Exchange differences on cash and cash equivalents	**8,810**	(5,331)
Cash and cash equivalents as at the end of the year (Note 13)	**1,727,059**	1,236,336

Accompanying notes to the financial statements

1 Principal activities

"KAMURJ" universal credit organization (the "Company") is a closed joint stock company, which was incorporated by the Microenterprise Development Charitable Fund's Board of Trustees' decision on March 22, 2010 with the legal status of a limited liability company. The Company conducts its business under license N31, granted on April 27, 2010 by the Central Bank of Armenia (the "CBA"). On the January 30, 2012 Board of Trustees' decision the Company was reorganized into a closed joint stock company.

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

The Company's main activity is the provision of micro and medium-sized loans to individuals and sole proprietors in consumer and business objectives.

The head office of the Company is located in Yerevan, and 15 branches are located within different regions within RA. The registered office of the Company is located at: 123 Sebastia street, Yerevan, Republic of Armenia.

2 Armenian business environment

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

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").

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.

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 are stated at amortized cost and non-financial assets and liabilities are stated at historical cost.

3.3 Functional and presentation currency

Functional currency of the Company is the currency of the primary economic environment in which the Company operates. The Company's functional currency and the Company's presentation currency is Armenian Dram ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Company. The financial statements are presented in thousands of AMD, unless otherwise stated, which is not convertible outside Armenia.

3.4 Changes in accounting policies

There were no new standards or interpretations effective for the first time for periods beginning on or after 1 January 2016. None of the amendments to Standards that are effective from that date had a significant effect on the Company's financial statements.

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.

Amendments to *IAS 12 Income Taxes*

The IASB has issued *Recognition of Deferred Tax Assets for Unrealised Losses*, which makes narrow-scope amendments to IAS 12 *Income Taxes*. The focus of these amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

These amendments clarify the following aspects:

- unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;

- the carrying amount of an asset does not limit the estimation of probable future taxable profits;

- estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences;

- an entity should consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of the deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences.

The Amendments are effective for annual periods beginning on or after January 1, 2017 and are required to be applied retrospectively. Management does not anticipate a material impact on the Company's financial statements from these Amendments.

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

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

The Company's management has 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.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 presents new requirements for the recognition of revenue, replacing *IAS 18 Revenue*, *IAS 11 Construction Contracts*, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after 1 January 2018. The Company's management have not yet assessed the impact of IFRS 15 on these financial statements.

IFRS 16 Leases

IFRS 16 presents new requirements and amendments to the accounting of leases. IFRS 16 will require lessees to account for leases 'on-balance sheet' by recognizing a 'right-of-use' asset and a lease liability.

IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements;
- largely retains IAS 17's approach to lessor accounting;
- introduces new disclosure requirements.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted provided IFRS 15 Revenue from Contracts with Customers is also applied. The Company's management have not yet assessed the impact of IFRS 16 on these financial statements.

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.

Fee and commission income

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

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences related to trading assets and liabilities. Net trading income also includes gains less losses from trading in foreign currencies and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currencies

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

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

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

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

	December 31, 2016	December 31, 2015
AMD/1 US Dollar	**483.94**	483.75
AMD/1 EUR	**512.20**	528.69

4.3 Taxation

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

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

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

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

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

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and 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 amortised cost.

4.5 Amounts due from financial institutions

In the normal course of business, the Company maintains advances or deposits for various periods of time with 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.

4.6 Financial instruments

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

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

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

The Company classified its financial assets into the following categories:

- financial assets at fair value through profit or loss
- held-to-maturity investments,
- loans and receivables,
- available for sale financial assets.

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

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss. A financial asset is classified in this category if acquired for the purpose of selling in the short-term or if so designated by management from the initial acquisition of that asset.

In the normal course of business, the Company enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured 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.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the statement of profit or loss and other comprehensive income.

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 statement of profit or loss and other comprehensive income as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

Available-for-sale financial assets

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

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

4.7 Impairment of financial assets

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

Assets carried at amortized cost

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

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

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a Company 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.

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

Renegotiated loans

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

Available-for-sale financial assets

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

4.8 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

4.9 Leases

Operating - Company as lessee

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

4.10 Property, plant and equipment

Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation. 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 (%)
Computers	1-5	100-20
Vehicles	5	20
Other fixed assets	5	20

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis.

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

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

4.11 Intangible assets

Intangible assets comprise computer software and licenses.

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 finite 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.

The Company does not have intangible assets with indefinite useful lives

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

4.12 Borrowings

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

4.13 Provisions

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

4.14 Equity

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 financial statements 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 Company 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 (Refer Note 24).

Classification of investment securities

Securities owned by the Company comprise corporate bonds. Upon initial recognition, the Company designates securities as available-for-sale financials assets recognition of changes in fair value through equity.

Useful Life of PPE

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

Fair value of derivatives

The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Valuation of financial derivatives is applied to single currency interest rate swap transactions, cross currency interest swap transactions and foreign exchange forward contracts. The fair value of these transactions is determined as the difference between the present value of fixed receivable and the present value of floating obligation or vice versa. The present value of floating obligation is determined using discount factors derived from the zero coupon curve. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. Any over or under estimation of these future cash flows could require a material adjustment to the carrying value of these derivatives.

Related party transactions

In the normal course of business the Company enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (Refer to Note 23).

Impairment of loans and receivables

The Company reviews its problem loans and advances at each reporting date to assess whether there are objective criteria of depreciation. 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.

Tax legislation

Armenian tax legislation is subject to varying interpretations (Refer to Note 22)

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6 Interest and similar income and expense

In thousand Armenian drams	**2016**	2015
Cash and cash equivalents	**416**	816
Current accounts and deposits with financial institution	**122,492**	186,438
Loans and advances to customers	**2,615,606**	2,988,894
Total interest and similar income	**2,738,514**	3,176,148
Amounts due to international financial institutions	**497,355**	608,704
Amounts due to other financial institutions	**183,331**	125,550
Total interest and similar expense	**680,686**	734,254

7 Net gains from foreign currency transactions

In thousand Armenian drams	**2016**	2015
Net gains from trading in foreign currencies	**5,141**	9,152
Net gains from currency revaluation of assets and liabilities	**5,053**	13,491
Total gains from foreign currency transactions	**10,194**	22,643

8 Other income

In thousand Armenian drams	**2016**	2015
Fines and penalties received	**351,075**	205,191
Commissions received	**1,750**	-
Other income	**7,551**	2,277
Total other income	**360,376**	207,468

9 Impairment charge

In thousand Armenian drams	**2016**	2015
Loans and advances to customers (Note 15)	**933,802**	865,856
Other assets (Note 18)	**19,566**	6,358
Total impairment charge for asset losses	**953,368**	872,214

10 Staff costs

In thousand Armenian drams	2016	2015
Salary and other related payments	**806,146**	776,126
Trainings	**1,750**	1,268
Other staff costs	**51,400**	48,239
Total staff costs	**859,296**	825,633

11 Other administrative expenses

In thousand Armenian drams	2016	2015
Operating lease	**107,062**	113,944
Depreciation and amortization	**100,009**	95,147
Repairs and maintenance	**48,026**	47,680
Transportation	**33,183**	40,583
Utilities and office maintenance expenses	**36,241**	38,092
Security	**46,307**	39,603
Communication	**18,142**	22,675
Taxes, other than income tax	**31,454**	34,797
Professional services	**20,541**	6,240
Advertising and marketing	**22,480**	19,238
Other expenses	**27,483**	24,048
Total other administrative expenses	**490,928**	482,047

12 Income tax expense

In thousand Armenian drams	2016	2015
Current tax expense	**39,532**	103,896
Adjustments of current income tax of previous years	**-**	(10,591)
Deferred tax	**1,502**	12,641
Total income tax expense	**41,034**	105,946

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2015: 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 income tax expenses and accounting profit is provided below:

In thousand Armenian drams	**2016**	**Effective rate (%)**	2015	Effective rate (%)
Profit before tax	**99,097**		462,114	
Income tax at the rate of 20%	**19,819**	**20**	92,423	20
Foreign exchange (gains)/losses	**1,293**	**1**	(2,698)	(1)
Non-deductible expenses	**18,683**	**19**	26,812	6
Adjustments of current tax of previous years	**-**	**-**	(10,591)	(2)
Adjustments of deferred tax of previous years	**1,239**	**1**	-	-
Income tax expense	**41,034**	**41**	105,946	23

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	**As of December 31, 2015**	**Recognized in profit or loss**	**As of December 31, 2016**
Loans and advances to customers	**76,528**	**(2,960)**	**73,568**
Other liabilities	**8,581**	**176**	**8,757**
Total deferred tax assets	**85,109**	**(2,784)**	**82,325**
Amounts due from financial institutions	**(5,744)**	**1,959**	**(3,785)**
Property, plant and equipment	**(17,521)**	**1,755**	**(15,766)**
Loans and borrowings	**-**	**(2,528)**	**(2,528)**
Other assets	**(917)**	**96**	**(821)**
Total deferred tax liability	**(24,182)**	**1,282**	**(22,900)**
Net deferred tax asset	**60,927**	**(1,502)**	**59,425**

In thousand Armenian drams	As of December 31, 2014	Recognized in profit or loss	As of December 31, 2015
Loans and advances to customers	68,345	8,183	76,528
Other liabilities	9,015	(434)	8,581
Total deferred tax assets	77,360	7,749	85,109
Amounts due from financial institutions	(3,343)	(2,401)	(5,744)
Fixed assets	-	(17,521)	(17,521)
Other assets	(449)	(468)	(917)
Total deferred tax liability	(3,792)	(20,390)	(24,182)
Net deferred tax asset	73,568	(12,641)	60,927

13 Cash and cash equivalents

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Cash on hand	**12,260**	2,635
Accounts with banks	**179,469**	330,533
Deposits for less than 90 days	**1,535,330**	903,168
Total cash and cash equivalents	**1,727,059**	1,236,336

Cash and cash equivalents are not impaired or past due.

14 Amounts due from financial institutions

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Time deposits with banks	**357,089**	1,968,612
Other amounts	**1,376**	35,129
Total amounts due from financial institutions	**358,465**	2,003,741

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

In December 2015, the Company has disposed 211 loans (refer to note 16) to the Loan Portfolio Securitization Fund I. The AMD 35,129 thousand included in other amounts is the amount decreased from the cost of loans at the proportion of the reserves within the Securitization Fund which will be given back to the Company parallel to the loan servicing (refer to note 15). As at 31 December the above mentioned amount was fully repaid.

15 Loans and advances to customers

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Business loans	**1,544,223**	1,881,714
Agricultural loans	**6,316,325**	7,398,004
Apartment renovation and mortgage loans	**2,874,185**	2,684,688
Consumer loans	**2,007,111**	976,369
	12,741,844	12,940,775
Allowance for loan impairment	**(996,675)**	(1,005,335)
Total loans and advances to customers	**11,745,169**	11,935,440

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

In thousand Armenian drams	Total
01 January 2015	467,274
Charge for the year	865,856
Net amounts written-off	(327,795)
31 December 2015	**1,005,335**
Charge for the year	**933,802**
Net amounts written-off	**(942,462)**
31 December 2016	**996,675**

Credit quality of the loans to customers

The following table provides information on the credit quality of the loan portfolio as of 31 December 2016.

In thousand Armenian drams	Gross loans	Impairment reserve	Net loans	Gross loans impairment %
Business loans				
- not past due	**1,392,717**	**12,534**	**1,380,183**	**0.9**
- less than 30 days past due	**29,660**	**10,218**	**19,442**	**34.5**
- 31 to 90 days past due	**14,534**	**8,927**	**5,607**	**61.4**
- 91 to 180 days past due	**28,644**	**20,223**	**8,421**	**70.6**
- more than 181 days past due	**78,668**	**75,348**	**3,320**	**95.8**
Total business loans	**1,544,223**	**127,250**	**1,416,973**	**8.2**
Agricultural loans				
- not past due	**5,431,840**	**48,887**	**5,382,953**	**0.9**
- less than 30 days past due	**81,843**	**25,494**	**56,349**	**31.1**
- 31 to 90 days past due	**173,028**	**96,804**	**76,224**	**55.9**
- 91 to 180 days past due	**271,787**	**163,072**	**108,715**	**60**
- more than 181 days past due	**357,827**	**339,120**	**18,707**	**94.8**
Total agricultural loans	**6,316,325**	**673,377**	**5,642,948**	**10.7**
Apartment renovation loans				
- not past due	**1,747,727**	**15,729**	**1,731,998**	**0.9**
- less than 30 days past due	**14,315**	**3,257**	**11,058**	**22.8**
- 31 to 90 days past due	**25,339**	**13,667**	**11,672**	**53.9**
- 91 to 180 days past due	**46,071**	**30,407**	**15,664**	**66.0**
- more than 181 days past due	**77,703**	**74,277**	**3,426**	**95.6**
Total apartment renovation loans	**1,911,155**	**137,337**	**1,773,818**	**7.2**
Consumer loans				
- not past due	**1,966,912**	**17,702**	**1,949,210**	**0.9**
- less than 30 days past due	**6,119**	**1,468**	**4,651**	**24.0**
- 31 to 90 days past due	**5,759**	**4,401**	**1,358**	**76.4**
- 91 to 180 days past due	**6,899**	**6,306**	**593**	**91.4**
- more than 181 days past due	**21,422**	**19,893**	**1,529**	**92.9**
Total consumer loans	**2,007,111**	**49,770**	**1,957,341**	**2.5**
Mortgage loans				
- not past due	**937,312**	**4,218**	**933,094**	**0.5**
- less than 30 days past due	**-**	**-**	**-**	**0.0**
- 31 to 90 days past due	**-**	**-**	**-**	**0.0**
- 91 to 180 days past due	**17,302**	**3,166**	**14,136**	**18.3**
- more than 181 days past due	**8,416**	**1,557**	**6,859**	**18.5**
Total mortgage loans	**963,030**	**8,941**	**954,089**	**0.9**
Total loans and advances to customers	**12,741,844**	**996,675**	**11,745,169**	**7.8**

The following table provides information on the credit quality of the loan portfolio as of 31 December 2015.

In thousand Armenian drams	Gross loans	Impairment reserve	Net loans	Gross loans impairment %
Business loans				
- not past due	1,719,878	16,432	1,703,446	1.0
- less than 30 days past due	12,191	3,292	8,899	27.0
- 31 to 90 days past due	43,225	27,679	15,546	64.0
- 91 to 180 days past due	48,142	31,327	16,815	65.1
- more than 181 days past due	58,278	56,799	1,479	97.5
Total business loans	1,881,714	135,529	1,746,185	7.2
Agricultural loans				
- not past due	6,627,175	91,635	6,535,540	1.4
- less than 30 days past due	95,832	22,886	72,946	23.9
- 31 to 90 days past due	206,283	135,556	70,727	65.7
- 91 to 180 days past due	322,675	256,345	66,330	79.4
- more than 181 days past due	146,039	142,131	3,908	97.3
Total agricultural loans	7,398,004	648,553	6,749,451	8.8
Apartment renovation loans				
- not past due	2,014,423	32,122	1,982,301	1.6
- less than 30 days past due	31,058	9,418	21,640	30.3
- 31 to 90 days past due	49,649	31,930	17,719	64.3
- 91 to 180 days past due	50,893	40,455	10,438	79.5
- more than 181 days past due	76,233	74,222	2,011	97.4
Total apartment renovation loans	2,222,256	188,147	2,034,109	7.2
Consumer loans				
- not past due	946,767	8,142	938,625	0.9
- less than 30 days past due	4,887	851	4,036	17.4
- 31 to 90 days past due	6,791	4,349	2,442	64.0
- 91 to 180 days past due	5,034	3,239	1,795	64.3
- more than 181 days past due	12,890	12,548	342	97.3
Total consumer loans	976,369	29,129	947,240	3.0
Mortgage loans				
- not past due	462,432	3,977	458,455	0.9
- less than 30 days past due	-	-	-	0.0
- 31 to 90 days past due	-	-	-	0.0
- 91 to 180 days past due	-	-	-	0.0
- more than 181 days past due	-	-	-	0.0
Total mortgage loans	462,432	3,977	458,455	0.9
Total loans and advances to customers	12,940,775	1,005,335	11,935,440	7.8

Key assumptions and judgments for estimating the loan impairment

The Company does not have significant loans on individual basis, and therefore, management determines the impairment of the loans provided to customers based on collective estimation.

In determining the impairment allowance on loans provided to customers, the Company considers the basic assumption that the loss migration rates are constant and can be estimated based on the migration model damages during the last 24 months.

The changes within these valuations will effect on the loan impairment.

Analysis of collateral and other credit enhancements

Loans and advances to customers are mainly secured by personal guarantees provided by the sole proprietors or the members of a Company of borrowers formed for the purpose of obtaining loans from the Company. The personal guarantees have not been specifically considered in assessing loan impairments.

Analysis of loan portfolio by economic sector

Loans and advances by customer profile may be specified as follows:

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Agriculture	**6,316,325**	7,398,004
Apartment renovation and other consumer	**4,887,686**	3,661,057
Trading	**1,062,964**	1,291,355
Manufacturing	**244,027**	291,045
Service	**53,819**	76,229
Other	**177,023**	223,085
	12,741,844	12,940,775
Allowance for loan impairment	**(996,675)**	(1,005,335)
Total loans and advances to customers	**11,745,169**	11,935,440

As at 31 December 2016 loans in the amount of AMD 87,526 thousand (2015: AMD 87,544 thousand) were pledged as collateral for loans and borrowings received (Refer to Note 19).

As at 31 December 2016 and 31 December 2015 the estimated fair value of loans to customers approximates it carrying value (Refer to Note 24).

Other risk analyses of loans portfolio are disclosed in Note 27. The information on related party balances is disclosed in Note 23.

Maturity analysis of loans portfolio is disclosed in Note 26.

In December 2015, the Company has disposed 211 loans to Loan Portfolio Securitization Fund I, with the carrying value of AMD 352,453 thousand. The Company still continues to act as credit servicing company for the disposed loans. As part of the securitization process of loan portfolio, the Company also has acquired certificates of participation issued by Loan Portfolio Securitization Fund I (refer to note 16). According to the loans disposal contract the Company has an obligation to buy the loans back if they become problematic till their maturity (refer to Note 22). As at 31 December 2016 the number of disposed loans to Loan Portfolio Securitization Fund I is 153, in amount of AMD 186,785 thousand.

16 Investments available for sale

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Unquoted investments		
Member shares	**43,239**	43,239
Total investments	**43,239**	43,239

For raising the enhancement of the credit portfolio the Loan Portfolio Securitization Fund I has issued and the Company as an initiative member has acquired subordinated, non-paper, nominal, non-equity, no voting right giving certificates of participation (member shares), that include:

As at 31 December 2015 nominal and acquisition values of member shares are presented below:

In thousand Armenian drams	**Nominal value**	**Purchase price**
D class certificates of participation	19,832	22,053
B class certificates of participation	19,060	21,186
Total	38,892	43,239

- 19,832 items of D class participation certificates with nominal value of 1 AMD,
- 39,401 items of B class participation certificates with nominal value of 1 USD.

During 2016 no member shares were acquired by the Company.

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

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

17 Property, equipment and intangible assets

In thousand Armenian drams	Computers and communication equipment	Vehicles	Other fixed assets	Intangible assets	Leasehold improvements	Total
COST						
Cost at January 1, 2015	140,973	84,389	152,213	20,843	4,956	403,374
Additions	37,432	9,701	7,964	5,445	-	60,542
At December 31, 2015	**178,405**	**94,090**	**160,177**	**26,288**	**4,956**	**463,916**
Additions	**32,382**	**-**	**7,797**	**89**	**-**	**40,268**
Write-off	**-**	**-**	**(376)**	**(5,500)**	**-**	**(5,876)**
At December 31, 2016	**210,787**	**94,090**	**167,598**	**20,877**	**4,956**	**498,308**
ACCUMULATED DEPRECIATION						
At January 1, 2015	56,888	31,477	37,747	12,068	265	138,445
Expenses for the year	41,505	16,888	30,882	5,363	509	95,147
At December 31, 2015	**98,393**	**48,365**	**68,629**	**17,431**	**774**	**233,592**
Expenses for the year	**50,429**	**18,819**	**29,207**	**1,045**	**509**	**100,009**
Write-off	**-**	**-**	**(376)**	**(3,848)**	**-**	**(4,224)**
At December 31, 2016	**148,822**	**67,184**	**97,460**	**14,628**	**1,283**	**329,377**
CARRYING VALUE						
At December 31, 2015	80,012	45,725	91,548	8,857	4,182	230,324
At December 31, 2016	**61,965**	**26,906**	**70,138**	**6,249**	**3,673**	**168,931**

Fully depreciated items

As at 31 December 2016 fixed and intangible assets included fully depreciated assets in cost amount of AMD 121,898 thousand (2015: AMD 40,353 thousand).

Restrictions on title of fixed assets

As at 31 December 2016, the Company does not possess any fixed or intangible assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments

As of 31 December 2016 the Company had no contractual commitments.

18 Other assets

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Debtors and other receivables	**5,656**	-
Total other financial assets	**5,656**	**-**
Prepayments	**13,925**	17,616
Other prepaid taxes	**-**	4
Inventory	**5,207**	6,481
Total other non-financial assets	**19,132**	24,101
Total other assets	**24,788**	24,101

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

In thousand Armenian drams	**Total**
As of 1 January 2015	**-**
Charge for the year	6,358
Net write offs	(6,358)
As of 31 December 2015	**-**
Charge for the year	**19,566**
Net write offs	**(19,566)**
As of 31 December 2016	**-**

19 Loans and borrowings

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Loans from CBA	**848,244**	320,530
Loans and borrowings from international financial institutions	**5,451,674**	7,447,172
Loans and borrowings from other financial institutions	**1,859,788**	1,805,774
Other liabilities	**-**	13,393
Total loans and borrowings	**8,159,706**	9,586,869

Loans from Central Bank of Republic of Armenia include amounts received from German-Armenian fund in the scope of "Loans to women's micro, small and medium enterprises program" and from KFW "Support for agricultural sector" programs.

As of 31 December, 2016 the Company has seven landers and related parties with them whose balances increase 10% of the net assets of the Company (2015: eight landers and related parties with them). As of 31 December, 2016 these balances amounted to AMD 5,739,415 thousand (2015: AMD 7,275,775 thousand).

As of 31 December, 2016 loans and borrowings from other financial institutions comprises loans for which are pledged loans and advances to customers amounting to AMD 87,526 thousand (2015: AMD 87,544 thousand) (Refer to Note 15).

The Company did not have any defaults of principal, interest or other breaches with respect to its liabilities during the period (2015: nil).

20 Other liabilities

In thousand Armenian drams	As of December 31, 2016	As of December 31, 2015
Accounts payables	**7,577**	3,120
Due to personnel	**47,283**	45,457
Other financial liabilities	**16,330**	15,426
Total other financial liabilities	**71,190**	64,003
Tax payable, other than income tax	**30,108**	24,799
Total other non-financial liabilities	**30,108**	24,799
Total other liabilities	**101,298**	88,802

21 Equity

As at 31 December 2016 the Company's registered and paid-in share capital was AMD 5,000,000 thousand. In accordance with the Company's statues, the share capital consists of 20,000 ordinary shares, all of which have a par value of AMD 250 thousand each.

The Microenterprise Development Charitable Fund is the only shareholder of the Company.

As at 31 December 2016, the Company did not possess any of its own shares.

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

During 2016 dividends for 2015 were announced and paid to shareholders at the total amount of AMD 38,000 thousand: AMD 1.9 thousand for each share (in 2015: dividends at the total amount of AMD 190,000 thousand: AMD 9.5 thousand for each share).

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.

22 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.

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Company, will not have a material adverse impact on the financial condition or results of future operations of the Company.

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

Loans and borrowings to customers

In December 2015, the Company has disposed 211 loans to Loan Portfolio Securitization Fund I, with the carrying value of AMD 352,453 thousand. The Company still continues to act as credit servicing company for the disposed loans. According to the loans disposal contract the Company still has an obligation to buy the loans back if they become problematic till their maturity (refer to note 15). There are no loans at the reporting date, that can generate repurchase commitment.

Operating lease commitments – Company as a lessor

In the normal course of business the Company enters into commercial lease agreements for its real estate. All investment properties are leased out under operating leases.

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

In thousand Armenian drams	**As of December 31, 2016**	As of December 31, 2015
Not later than 1 year	**9,029**	8,906
Total operating lease receivable	**9,029**	8,906

Information on the Company's capital commitments is disclosed in Note 17.

23 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 Company's ultimate controlling party is the Microenterprise Development Charitable Fund.

A number of transactions are entered into with related parties in the normal course of business. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	**2016**		2015	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	**Shareholders and parties related with them**	Key management personnel and parties related with them
Statement of financial position				
Loans and advances to customers				
Loans outstanding as of December 31, gross	**-**	**45,079**	38,000	18,627
Less allowance for loan impairment	**-**	**(218)**	(327)	(160)
Loans outstanding as of December 31	**-**	**44,861**	37,673	18,467
Statement of profit or loss and other comprehensive income				
Interest income on loans	**-**	**3,928**	-	965
Impairment charge/(reversal)	**(327)**	**58**	(1,271)	160
Other operating expenses	**3,292**	**-**	12,113	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	**2016**	2015
Compensations to employees	**87,658**	98,773
Total key management compensation	**87,658**	98,773

The loans issued to directors and other key management personnel during the year are repayable monthly over 1-9 years and have interest rates up to 13% (2015: up to 14%).

24 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 Company's 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).

24.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	As of 31 December 2016				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	**-**	**1,727,059**	**-**	**1,727,059**	**1,727,059**
Amounts due from financial institutions	**-**	**358,465**	**-**	**358,465**	**358,465**
Loans and advances to customers	**-**	**11,742,461**	**-**	**11,742,461**	**11,745,169**
Other assets	**-**	**5,656**	**-**	**5,656**	**5,656**
FINANCIAL LIABILITIES					
Loans and borrowings	**-**	**8,149,163**	**-**	**8,149,163**	**8,159,706**
Other liabilities	**-**	**71,190**	**-**	**71,190**	**71,190**

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	-	1,236,336	-	1,236,336	1,236,336
Amounts due from financial institutions	-	2,003,741	-	2,003,741	2,003,741
Loans and advances to customers	-	11,933,046	-	11,933,046	11,935,440
FINANCIAL LIABILITIES					
Loans and borrowings	-	9,586,869	-	9,586,869	9,586,869
Other liabilities	-	64,003	-	64,003	64,003

Amounts due from and to financial institutions

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

Loans and advances to customers

The 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.

Loans and borrowings

The fair value of loans and borrowings from financial institutions is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of amounts payable on demand is the amount payable at the reporting date.

24.2 Financial instruments that are measured at fair value

In thousand Armenian drams				**As of 31 December 2016**
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Investments available for sale	**-**	**43,239**	**-**	**43,239**
Total	**-**	**43,239**	**-**	**43,239**

In thousand Armenian drams				As of 31 December 2015
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Investments available for sale	-	43,239	-	43,239
Total	-	43,239	-	43,239

25 Offsetting of financial assets and financial liabilities

As of December 31, 2016 and 2015 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.

26 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 27.3 for the Company's contractual undiscounted repayment obligations.

In thousand Armenian drams							**As of December 31, 2016**
	Less than 1 months	**From 1 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	**844,133**	**882,926**	***1,727,059***	**-**	**-**	**-**	***1,727,059***
Amounts due from financial institutions	**-**	**358,465**	***358,465***	**-**	**-**	**-**	**358,465**
Loans and advances to customers	**2,022,159**	**5,577,887**	***7,600,046***	**3,705,818**	**439,305**	***4,145,123***	**11,745,169**
Investments available for sale	**-**	**-**	***-***	**43,239**	**-**	***43,239***	**43,239**
Other assets	**5,656**	**-**	***5,656***	**-**	**-**	**-**	**5,656**
	2,871,948	**6,819,278**	***9,691,226***	**3,749,057**	**439,305**	***4,188,362***	**13,879,588**
LIABILITIES							
Loans and borrowings	**89,926**	**3,810,704**	***3,900,630***	**3,672,366**	**586,710**	***4,259,076***	**8,159,706**
Other liabilities	**54,860**	**16,330**	***71,190***	**-**	**-**	**-**	**71,190**
	144,786	**3,827,034**	***3,971,820***	**3,672,366**	**586,710**	***4,259,076***	**8,230,896**
Net position	**2,727,162**	**2,992,244**	***5,719,406***	**76,691**	**(147,405)**	***(70,714)***	**5,648,692**
Accumulated gap	**2,727,162**	**5,719,406**		**5,796,097**	**5,648,692**		

In thousand Armenian drams	Less than 1 months	From 1 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
							As of December 31, 2015
ASSETS							
Cash and cash equivalents	1,236,336	-	*1,236,336*	-	-	-	1,236,336
Amounts due from financial institutions	-	2,003,741	*2,003,741*	-	-	-	2,003,741
Loans and advances to customers	549,635	7,359,021	*7,908,656*	3,793,876	232,908	*4,026,784*	11,935,440
Investments available for sale	-	-	-	43,239	-	*43,239*	43,239
	1,785,971	9,362,762	*11,148,733*	3,837,115	232,908	*4,070,023*	15,218,756
LIABILITIES							
Loans and borrowings	95,685	3,878,207	*3,973,892*	5,430,535	182,442	*5,612,977*	9,586,869
Other liabilities	49,574	14,429	*64,003*	-	-	-	64,003
	145,259	3,892,636	*4,037,895*	5,430,535	182,442	*5,612,977*	9,650,872
Net position	1,640,712	5,470,126	*7,110,838*	(1,593,420)	50,466	*(1,542,954)*	5,567,884
Accumulated gap	1,640,712	7,110,838		5,517,418	5,567,884		

27 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 Company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk and operating risks.

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

27.1 Credit risk

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

The 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.

27.1.1 Risk concentrations of the maximum exposure to credit risk

Geographical sectors

As of December 31, 2016 and December 31, 2015 the credit risks of the Company are completely centralized in the Republic of Armenia.

27.1.2 Risk limit control and mitigation policies

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers.

Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. According to the products, branches of industry and countries, the credit risk limits are approved quarterly by the Board.

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

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

27.2 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.

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2016 and 2015. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2016 Average effective interest rate, %			2015 Average effective interest rate, %		
	AMD	**USD**	**Euro**	**AMD**	**US dollar**	**Euro**
Interest bearing assets						
Cash and cash equivalents	**7.0**	**1.0**	**1.0**	1.0	1.0	1.0
Amounts due from financial institutions	**8**	**-**	**-**	14.4	5.9	-
Loans and advances to customers	**19.8**	**15.3**	**-**	21.1	15.6	-
Available for sale investments	**15.0**	**8.5**	**-**	15.0	8.5	-
Interest bearing liabilities						
Loans and borrowings	**8.0**	**7.8**	**-**	11.2	6.9	-

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. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Company's income statement.

In thousand Armenian drams

Change in basis points	As of December 31, 2016	As of December 31, 2015
+1%	**(1,669)**	(8,175)
-1%	**1,669**	8,175

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2016.

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 of Directors has set limits on positions by currency. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2016 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement and equity (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges, and equity instruments). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	**2016**		2015	
Currency	**Change in currency rate in %**	**Effect on profit before tax**	Change in currency rate in %	Effect on profit before tax
USD	**+10**	**(35,283)**	+10	(154,046)
Euro	**+10**	**296**	+10	290

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
ASSETS				
Cash and cash equivalents	**1,631,557**	**94,896**	**606**	**1,727,059**
Amounts due from financial institutions	**358,465**	**-**	**-**	**358,465**
Loans and advances to customers	**6,714,519**	**5,030,650**	**-**	**11,745,169**
Available for sale investments	**22,053**	**21,186**	**-**	**43,239**
Other assets	**5,644**	**12**	**-**	**5,656**
Total	**8,732,238**	**5,146,744**	**606**	**13,879,588**
LIABILITIES				
Loans and borrowings	**2,664,085**	**5,495,621**	**-**	**8,159,706**
Other liabilities	**70,199**	**991**	**-**	**71,190**
Total	**2,734,284**	**5,496,612**	**-**	**8,230,896**
Net position as at 31 December 2016	**5,997,954**	**(349,868)**	**606**	**5,648,692**
Total financial assets	9,002,484	6,214,303	1,969	15,218,756
Total financial liabilities	1,899,006	7,751,866	-	9,650,872
Net position as at 31 December 2015	7,103,478	(1,537,563)	1,969	5,567,884

Freely convertible currencies represent US dollar and Euro amounts. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

27.3 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, the Company 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 flows. The Company also has committed lines of credit that it can access to meet liquidity needs. 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.

The liquidity management of the Company requires considering the level of liquid assets necessary to settle obligations as they fall due. The Company calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia.

Analysis of financial liabilities by remaining terms to maturity

The table below summarises the maturity profile of the Company's financial assets and liabilities at 31 December 2016 and December 31, 2015 based on contractual undiscounted repayment obligations. Refer to Note 26 for the expected maturity deadline of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Management believes that many customers will not demand immediate payment.

In thousand Armenian drams				**As of December 31, 2016**
	On demand and until 1 month	**From 1 to 12 months**	**More than 1 year**	**Total**
FINANCIAL LIABILITIES				
Loans and borrowings	**104,793**	**4,236,348**	**4,911,431**	**9,252,572**
Other liabilities	**47,283**	**16,330**	**-**	**63,613**
Total financial liabilities	**152,076**	**4,252,678**	**4,911,431**	**9,316,185**

In thousand Armenian drams				As of December 31, 2015
	On demand and until 1 month	From 1 to 12 months	More than 1 year	Total
FINANCIAL LIABILITIES				
Loans and borrowings	107,345	4,357,193	6,283,597	10,748,135
Other liabilities	49,574	14,429	-	64,003
Total financial liabilities	156,919	4,371,622	6,283,597	10,812,138

27.4 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.

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

28 Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company's capital is monitored using, among other measures, the rules and ratios established in 1988 by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Armenia in supervising the Company.

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 maximise shareholders' value.

The Company's manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, polices and processes from the previous years.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 10%.

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

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

As of 31 December 2016 and 2015 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below:

In thousand Armenian drams	**Not audited**	
	2016	2015
Tier 1 capital	**5,928,169**	6,003,538
Risk-weighted assets	**11,638,448**	14,756,978
Capital adequacy ratio	**50.9%**	40.7%

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