

Accompanying notes to the financial statements

1 Principal activities

“INGO ARMENIA” ICJSC (the “Company”) is a closed joint-stock Insurance company, which was incorporated in the Republic of Armenia in 1997. The Company is regulated by the legislation of RA and conducts its business under license number N0014, granted on 02.09.1997 by the Central Bank of Armenia (the “CBA”). The Company was relicensed by the RA CB in 28.03.2008, licence number is N0005.

The Company primarily is involved in general insurance business in the territory of the Republic of Armenia. The main types of insurance contracts issued by the Company are accident, health, motor, cargo, fire and natural disasters, motor liability, financial losses, general liability and travel insurance. Moreover, the Company realizes air and water transportation insurance, as well as related liability insurance. Starting from 2010 Company is member of compulsory motor third party liability insurance bureau and from October 2010 it issues compulsory motor third party liability insurance (CMTPLI) contracts.

Its main office and the six branches are in Yerevan and in different regions of Armenia. The registered office is located at: 51, 53 Hanrapetutyan Str., Areas 47, 48, 50, RA, 0010, Yerevan.

2 Armenian business environment

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

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

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

3 Basis of preparation

3.1 Statement of compliance

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

3.2 Basis of measurement

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

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 Drams (“AMD”), since this currency best reflects the economic substance of the underlying events and transactions of the Company. The Company prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia and The International Accounting Standards (IAS).

3.4 Reclassification of financial statements

Reclassifications have been made to ensure comparability with previous years in the statement of profit or loss and other comprehensive income for 2014. In particular, the impairment charge of assets is allocated to the following items: impairment charge on insurance premiums, impairment charge on subrogation, impairment charge of other assets and receivables. The customers’ maintenance expenses in medical institutions were reclassified from acquisition expenses to insurance payments. However, the performed reclassifications did not have effect on the financial result of 2014.

In thousand Armenian drams	Year ended December 31, 2014	Reclassification	Year ended December 31, 2014(reclassif ied)
Gross premiums written	7,247,048	-	7,247,048
Change in the gross provision for unearned premiums	(135,079)	-	(135,079)
Gross insurance premium revenue	7,111,969		7,111,969
Insurance premiums impairment charge	-	(350,762)	(350,762)
Gross insurance premium revenue, after impairment	7,111,969		6,761,207
Written premiums ceded to reinsurers	(1,096,035)	-	(1,096,035)
Reinsurers’ share of change in the gross provision for unearned premiums	(17,796)	-	(17,796)
Ceded earned premiums	(1,113,831)		(1,113,831)
Net insurance premium revenue	5,998,138		5,647,376
Subrogation income	256,871	-	256,871
Subrogation impairment charge	-	(41,466)	(41,466)
Subrogation income after impairment	256,871		215,405
Net reinsurance commission income	170,666	-	170,666
Net income/(loss) from investments available-for-sale	337,191	-	337,191
Investment income	781,609	-	781,609
Other income	78,307	-	78,307
Total income	7,622,782		7,230,554

In thousand Armenian drams	Year ended December 31, 2014	Reclassification	Year ended December 31, 2014(reclassif ied)
Gross claims incurred	(3,531,480)	(122,281)	(3,653,761)
Reinsurer's share of gross claims incurred	310,764	-	310,764
Net insurance claims incurred	(3,220,716)		(3,342,997)
Acquisition costs	(1,252,596)	122,281	(1,130,315)
Other commission expenses	(2,607)	-	(2,607)
Financial expenses	(434,676)	-	(434,676)
Impairment charge	(406,189)	392,228	(13,961)
Depreciation and amortization	(146,267)	-	(146,267)
Staff costs	(830,670)	-	(830,670)
Other operating and administrative expenses	(738,604)	-	(738,604)
Foreign currency translation net gains/(losses) of non-trading assets and liabilities	(1,747)	-	(1,747)
Net losses from trading in foreign currency	(2,802)	-	(2,802)
Total expenses	(7,036,874)		(6,644,646)
Profit before income tax	585,908		585,908
Income tax expense	(135,064)	-	(135,064)
Profit for the year	450,844		450,844
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Net losses from changes in fair value of available-for-sale financial assets	(539,521)	-	(539,521)
Net (gains)/losses realized to profit or loss on disposal of available-for-sale instruments	(337,191)	-	(337,191)
Income tax relating to reclassified items	175,342	-	175,342
	(701,370)		(701,370)
Net gains/(losses) from items that will be reclassified subsequently to profit or loss	(701,370)		(701,370)
Other comprehensive income for the year, net of tax	(701,370)		(701,370)
Total comprehensive income for the year	(250,526)		(250,526)

3.5 Changes in accounting policies

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

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

3.6 Standards, amendments and interpretations not yet applied by the Company

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

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

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

IFRS 9 Financial Instruments (2014)

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

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 presents new requirements for the recognition of revenue, replacing *LAS 18 Revenue*, *LAS 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 Bank’s management have not yet assessed the impact of IFRS 15 on these financial statements.

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

- *IFRS 14 Regulatory Deferral Accounts.*
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to LAS 16 and LAS 38).*
- *Equity Method in Separate Financial Statements (Amendments to LAS 27).*
- *Sale of Contribution of Assets between an Investor and its Associate or its Joint Venture (Amendments to IFRS 10 and LAS 28).*
- *Annual Improvements to IFRSs 2012–2014 Cycle – various standards.*
- *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and LAS 28).*
- *Disclosure Initiative (Amendments to LAS 1).*

4 Summary of significant accounting policies

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

4.1 Insurance contracts

Insurance contracts are those contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. Insurance risk is

significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. The additional benefits stated above refer to amounts that exceed those that would be payable if no insured event occurred.

Insurance contracts can also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Once the contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

4.2 Recognition and measurement

Gross premiums written

Gross premiums written comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences.

Written premiums are stated gross of commissions payable to intermediaries and net of taxes and duties levied on premiums.

Provision for unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the balance sheet date. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Written premiums ceded to reinsurers

Written premiums ceded to reinsurers comprise the total premiums payable for the whole cover provided by contracts entered into the period and are recognised on the date on which the policy is effective.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the balance sheet date. The proportion attributable to subsequent periods is deferred as a reinsurers' share of change in the gross provision for unearned premiums.

Claims incurred

Claims incurred consist of claims paid to policyholders, changes in the valuation of the liabilities arising on policyholder contracts and internal and external claims handling expenses. Claims are recognized upon notification.

Reinsurer's share of claims incurred

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Reinsurance commission income

Reinsurance commissions received or receivable which do not require the Company to render further service are recognised as revenue by the Company on the effective commencement or renewal dates of the related policies. However, when it is probable that the Company will be required to render further services during the life of the policy, the commission, or part thereof, is deferred and recognised as revenue over the period during which the services are provided.

Acquisition costs

Costs incurred in acquiring general insurance contracts are recognised in the period in which they are incurred. Acquisition costs include direct costs such as commission fees. A proportion of acquisition costs are deferred to a subsequent accounting period to match the deferral to a subsequent accounting period of the proportion of the written premiums to which the acquisition costs relate. The deferral of acquisition costs is calculated by applying the ratio of unearned premiums to written premiums.

Insurance contract liabilities

Insurance contract liabilities are recognised when contracts are entered into. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and reduction for the expected value of subrogation and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the balance sheet date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contractual obligations are fulfilled or when the contract is cancelled.

The provision for unearned premiums represents that parts of written premiums, that is estimated to be earned in subsequent periods.

Generally the reserve is released over the term of the contract and is recognised as premium income.

The Company assesses at the end of each reporting period whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognised in profit or loss.

Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in statement of comprehensive income.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or when the contract is transferred to another party.

Insurance receivables and payables

The accounting for insurance receivables and payables is the same as the one for the financial instruments, described in the notes 4.8, 4.9 and 4.10.

4.3 Recognition of income and expenses

The recognition criteria for income and expenses other than those related to insurance contracts are presented below:

Investment income

Investment income consists of dividends, interest income, movements in amortised cost on debt securities and other loans and receivables.

Interest income is recognised in the statement of comprehensive income as it accrues and is calculated by using the effective interest rate method.

Gains less losses on investments

Net gains and losses on investments recorded in the statement of comprehensive income include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

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.

Finance cost

Interest paid is recognised in the statement of comprehensive income as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing financial liability.

4.4 Foreign currency translation

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

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held

at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

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

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

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

4.5 Taxation

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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 income.

4.6 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and amounts due from financial institutions, which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

4.7 Amounts due from other financial institutions

In the normal course of business, the Company maintains deposits for various periods of time with banks. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.8 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:

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

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 after each financial year-end.

Held-to-maturity investments

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

Loans and receivables

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

Loans granted by the Bank 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 are carried net of any allowance for impairment losses.

Available-for-sale financial instruments

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

4.9 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.

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

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of income.

If, in subsequent period, the amount of the impairment loss decreases and that decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Impairment allowances of financial assets have been established in the financial statements on the basis of existing economic conditions. Bank 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.

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 amortization) 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.

4.10 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.

4.11 Repurchase and reverse repurchase agreements

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The corresponding liability is presented within amounts due to financial institutions or customers.

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized in the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return the securities is recorded as a trading liability and measured at fair value.

4.12 Property, plant and equipment

Property, plant and equipment (“PPE”) are recorded at historical cost less accumulated depreciation. The Company’s land and buildings are stated at fair value less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

	Useful life (years)	Rate (%)
Buildings	50	2
Computers	5	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. Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property plant and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property plant and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

Repairs and maintenance are charged to the statement of 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 probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company. 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.

Land and buildings are revalued on a regular basis approximately after 3-5 years. The frequency of revaluation depends on changes in fair value of assets. In case of significant divergences between fair value of revalued assets and their carrying amounts further revaluation is conducted. Revaluation is conducted for the whole class of property, plant and equipment.

Land and buildings are devalued on a regular basis. The frequency of revaluation depends on changes in fair value of devalued assets. In case of significant divergences between fair value of devalued assets and their carrying amounts further revaluation is conducted. Revaluation is conducted for the whole class of property, plant and equipment.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

When revalued assets are sold, the amounts attributed to disposed item of assets and included in the revaluation reserve are transferred to retained earnings.

4.13 Intangible assets

Intangible assets include computer software, licences and letters of attorney as well as intangible assets from insurance portfolio acquisition

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 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.

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

According to IFRS 4 “Insurance contracts” the Company has elected to apply expanded presentation that splits the fair value of acquired insurance contracts into two components:

- (a) a liability measured in accordance with the insurer’s accounting policies for insurance contracts that it issues; and
- (b) an intangible asset, representing the difference between (i) the fair value of the contractual insurance rights acquired and insurance obligations assumed and (ii) the amount described in (a). The subsequent measurement of this asset shall be consistent with the measurement of the related insurance liability.

4.14 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 in the profit or loss and comprehensive income on a straight-line basis over the lease term and included into other operating expenses.

4.15 Borrowings

Borrowings, which include amounts due to banks 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.

Borrowings that are directly related to the acquisition, construction or production of a qualifying asset are included in the value of these assets, according to the requirements IAS 23 Borrowing Costs.

4.16 Grants

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

4.17 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.

4.18 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.

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

Property revaluation surplus

The property revaluation surplus is used to record increases in the fair value of land and buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Revaluation reserve for available-for-sale securities

This reserve records fair value changes in available-for-sale-investments.

4.19 Offsetting

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

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

5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other key actors 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:

Insurance contract liabilities

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not yet

reported at the balance sheet date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the balance sheet liability.

The main assumption underlying these estimates is that a Company’s past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. The principal difficulty is that the insurance market in Armenia is relatively new and instable, and it is almost impossible to make any future estimates based on historical data.

The Company assesses its notified claims on the case-by-case basis.

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 to note 34).

Classification of investment securities

Securities owned by the Company comprise Armenian state and 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.

Related party transactions

In the normal course of business the Company enters into transactions with its related parties. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis (refer to note 33).

Allowance for impairment of receivables

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

In addition to specific allowances against individually significant receivables, 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 32.

The Management of the Company has not reviewed its previous estimations, i.e. has not derecognized previously estimated deferred tax liability related to the fixed assets and continues its tax accounting as before.

6 Property, plant and equipment

In thousand Armenian drams	Land	Buildings	Machinery and equipment	Vehicles	Office equipment	Other PPE	Total
REVALUED COST							
At January 1, 2014	8,030	1,083,700	308,002	107,396	192,847	12,786	1,712,761
Additions	2,000	21,953	12,680	1,530	19,939	-	58,102
Disposals	-	-	-	-	-	(1,046)	(1,046)
At December 31, 2014	10,030	1,105,653	320,682	108,926	212,786	11,740	1,769,817
Revaluation	(830)	17,236	-	-	-	-	16,406
Depreciation adjustment as a result of revaluation	-	(44,189)	-	-	-	-	(44,189)
Additions	-	-	9,053	648	6,264	-	15,965
Disposals	-	-	(33,598)	-	(54,713)	(674)	(88,985)
At December 31, 2015	9,200	1,078,700	296,137	109,574	164,337	11,066	1,669,014
ACCUMULATED DEPRECIATION							
At January 1, 2014	-	-	116,433	36,373	87,174	1,563	241,543
Depreciation charge	-	22,076	48,776	19,049	33,492	996	124,389
Disposals	-	-	-	-	-	(104)	(104)
At December 31, 2014	-	22,076	165,209	55,422	120,666	2,455	365,828
Distributions	-	22,113	49,296	19,247	32,775	712	124,143
Depreciation adjustment in the result of revaluation	-	(44,189)	-	-	-	-	(44,189)
Disposals	-	-	(29,096)	-	(42,079)	(240)	(71,415)
At December 31, 2015	-	-	185,409	74,669	111,362	2,927	374,367
CARRYING VALUE							
At December 31, 2015	9,200	1,078,700	110,728	34,905	52,975	8,139	1,294,647
At December 31, 2014	10,030	1,083,577	155,473	53,504	92,120	9,285	1,403,989
At January 1, 2014	8,030	1,083,700	191,569	71,023	105,673	11,223	1,471,218

Revaluation of assets

The land and buildings owned by the Company were evaluated by an independent appraiser on 29 December, 2015 using a combination of the comparative, income and cost methods. As a result, the

amount of the land was decreased by AMD 830 thousand, as well as the amount of the real estate was increased by the total amount of AMD 17,236 thousand net.

Management has based their estimate of the fair value of the land and building on the results of the independent appraisal.

The management believes that at 31 December 2015 the fair value of the land and buildings does not differ significantly from their market value.

The net book value of buildings that would have been recognized by the difference of the historic cost and accumulated depreciation, the carrying value would be AMD 1,005,462 thousand, as at 31 December 2015 (2014: AMD 1,018,025 thousand).

Fully depreciated items

As at 31 December 2015 fixed assets included fully depreciated assets in amount of AMD 65,356 thousand (2014: AMD 91,820 thousand).

Restrictions on title of fixed assets

As at 31 December 2015, the Company does not have property pledged (2014: AMD 1,003,510 thousand) (see note 18).

7 Intangible assets

In thousand Armenian drams	Licenses and certificates	Software	Other intangible assets	Total
COST				
At January 1, 2014	23,018	84,025	650,164	757,207
Additions	28,918	8,240	3,455	40,613
At December 31, 2014	51,936	92,265	653,619	797,820
Additions	2,400	1,765	-	4,165
Disposals	(6,523)	(9,182)	(650,845)	(666,550)
At December 31, 2015	47,813	84,848	2,774	135,435
AMORTISATION				
At January 1, 2014	17,860	16,159	648,263	682,282
Amortization charge	9,927	10,444	1,507	21,878
At December 31, 2014	27,787	26,603	649,770	704,160
Amortization charge	7,793	10,384	2,323	20,500
Disposals	(6,523)	(9,182)	(650,845)	(666,550)
At December 31, 2015	29,057	27,805	1,248	58,110
CARRYING VALUE				
At December 31, 2015	18,756	57,043	1,526	77,325
At December 31, 2014	24,149	65,662	3,849	93,660
At January 1, 2014	5,158	67,866	1,901	74,925

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

In 2012 the Company has acquired the insurance portfolio of “Cascade Insurance” ICJSC. Since in 2015 the intangible asset has fully amortized, the Company removed it from register.

As of December 31, 2014 in additions to licenses and certificates are included licenses in fair value of AMD 17,509 thousand received from shareholder as a grant. Amortization expenses on those licenses amounted AMD 4,377 thousand and the Company recognized income from grant in the same amount by decreasing the grants relating to assets, reflected in liabilities (refer to note 21).

8 Other assets

In thousand Armenian drams	2015	2014
Prepayments and other debtors	174,774	285,859
Allowance in respect of doubtful receivables	(639)	(1,620)
	174,135	284,239
Other prepaid taxes		
Settlements with employees	1,131	248
Blanks	1,766	4,285
Other	1,860	2,204
Total other assets	178,892	290,976

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

In thousand Armenian drams	Total
At January 1, 2014	2,067
Charge for the year	13,232
Amounts written off	(17,126)
Recoveries	3,447
At December 31, 2014	1,620
Charge for the year	795
Amounts written off	(2,789)
Recoveries	1,013
At December 31, 2015	639

9 Deferred acquisition costs

The following table demonstrates the reconciliation of acquisition costs deferred during the period:

In thousand Armenian drams	Total
At January 1, 2014	530,289
Acquisition costs deferred	1,282,546
Recognition of expense (Note 26)	(1,252,596)
At December 31, 2014	560,239
Acquisition costs deferred	1,262,660
Recognition of expense (Note 26)	(1,243,175)
At December 31, 2015	579,724

10 Insurance receivables

In thousand Armenian drams	2015	2014
Amounts due from policyholders	745,972	897,704
Amounts due from reinsurers	41,469	63,297
Amounts due from intermediaries	294,134	397,880
Subrogation	174,273	157,957
Less allowance for impairment	(209,416)	(274,282)
Total insurance receivables	1,046,432	1,242,556

Reconciliation allowance for impairment in respect of insurance receivables during the year is as follows:

In thousand Armenian drams	Total
At January 1, 2014	38,171
Charge for the year	392,228
Amounts written off	(177,044)
Recoveries	20,927
At December 31, 2014	274,282
Charge for the year	225,672
Amounts written off	(307,426)
Recoveries	16,888
At December 31, 2015	209,416

11 Borrowings to other parties

In thousand Armenian drams	2015	2014
Borrowings to individuals	500	1,175
Borrowings to legal entities	109,809	5,400
Impairment allowance	-	(60)
Total borrowings to other parties	110,309	6,515

The movement in allowance for impairment losses on borrowings to other parties was as follows:

In thousand Armenian drams	Total
At January 1, 2014	1,781
Charge for the year	729
Amounts written off	(2,450)
At December 31, 2014	60
Reversal for the year	(260)
Recovery	200
At December 31, 2015	-

12 Amounts due from other financial institutions

In thousand Armenian drams	2015	2014
Deposits	466,278	1,562,762
Borrowings to financial institutions	-	100,411
Total amounts due from other financial institutions	466,278	1,663,173

Deposits are not impaired or overdue.

All deposits in banks have more than 90 days of maturity (or they are shorter-term, but the maturities are regularly reconsidered and prolonged)

As at 31 December 2015 deposits in other financial institutions in amount of AMD 420,296 thousand (90%) were due from 3 banks (2014: AMD 1,124,256 thousand (72%) were due from 5 banks).

As at 31 December 2015 there is not a deposit pledged as security for the Company’s borrowings and for the received guarantees (2014: AMD 6,000 thousand).

13 Investments available for sale

In thousand Armenian drams	2015	2014
Unquoted investments		
RA state bonds	3,166,168	1,351,044
Corporate bonds	164,160	164,160
Total investments	3,330,328	1,515,204

All debt securities have fixed coupons.

The fair value of unquoted available-for-sale debt securities is measured using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

Available for sale securities by effective interest rates and maturity dates comprise:

In thousand Armenian drams	2015		2014	
	%	Maturity	%	Maturity
RA state bonds	11.19-15.74	2016-2032	9.19-14.36	2016-2032
Corporate bonds	13.5	2016	13.1	2016

Debt securities available for sale at fair value of AMD 1,133,690 thousand (2014: AMD 4,016,980 thousand) were pledged under repurchase agreements with other banks, with no right to sell or re-pledge by the counterparty. These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet (Note 19).

As at 31 December 2015 Company does not have corporate bonds pledged for loans received by the Company (2014: AMD 160,000 thousand) (Note 18).

14 Cash and cash equivalents

In thousand Armenian drams	2015	2014
Cash on hand	812	4,334
Bank accounts	74,964	165,858
Total cash and cash equivalents	75,776	170,192

As at 31 December 2015 the bank accounts in amount of AMD 57,584 thousand (76%) is due from 5 banks (2014: AMD 135,525 thousand (82%) due from 5 banks).

15 Share capital

As at 31 December 2015 the Company’s registered and paid-in share capital was AMD 2,536,260 thousand. In accordance with the Company’s statutes, the share capital consists of 4,124 shares, all of which have a nominal value of AMD 615,000 each.

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

In thousand Armenian drams	2015		2014	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Levon Altunyan	634,065	25	634,065	25
“Invest Polis” CJSC	1,902,195	75	1,902,195	75
	2,536,260	100	2,536,260	100

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

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

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 insurance 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.

16 Insurance contract liabilities

In thousand Armenian drams	2015			2014		
	Insurance contract liabilities	Reinsurance assets	Net liabilities	Insurance contract liabilities	Reinsurance assets	Net liabilities
Unearned premiums	3,437,492	(1,065,660)	2,371,832	3,124,369	(810,162)	2,314,207
Claims incurred but not reported	262,002	(57,602)	204,400	254,747	(46,343)	208,404
Notified claims	488,954	(195,232)	293,722	453,426	(114,914)	338,512
At December 31	4,188,448	(1,318,494)	2,869,954	3,832,542	(971,419)	2,861,123

The following tables show the changes in the insurance liabilities and related reinsurance assets during the period:

Unearned premium

In thousand Armenian drams	Insurance contract liabilities	Reinsurance assets	Net liabilities
At January 1, 2014	2,989,290	(827,958)	2,161,332
Premiums written during the period	7,247,048	(1,096,035)	6,151,013
Premiums earned during the period	(7,111,969)	1,113,831	(5,998,138)
At December 31, 2014	3,124,369	(810,162)	2,314,207
Premiums written during the period	8,141,484	(1,682,185)	6,459,299
Premiums earned during the period	(7,828,361)	1,426,687	(6,401,674)
At December 31, 2015	3,437,492	(1,065,660)	2,371,832

Claims provision

In thousand Armenian drams	Insurance contract liabilities	Reinsurance assets	Net liabilities
Claims incurred but not reported	239,630	(19,997)	219,633
Notified claims	437,326	(56,116)	381,210
At January 1, 2014	676,956	(76,113)	600,843
Total change in provision for claims notified and IBNR	3,531,480	(310,764)	3,220,716
Claims paid	(3,500,263)	225,620	(3,274,643)
At December 31, 2014	708,173	(161,257)	546,916
Claims incurred but not reported	254,747	(46,343)	208,404
Notified claims	453,426	(114,914)	338,512
At December 31, 2014	708,173	(161,257)	546,916
Total change in provision for claims notified and IBNR	3,623,366	(269,952)	3,353,414
Claims paid	(3,580,583)	178,375	(3,402,208)
At December 31, 2015	750,956	(252,834)	498,122
Claims incurred but not reported	262,002	(57,602)	204,400
Notified claims	488,954	(195,232)	293,722
At December 31, 2015	750,956	(252,834)	498,122

17 Insurance payables

In thousand Armenian drams	2015	2014
Amounts payable to policyholders	12,125	18,867
Amounts payable to reinsurers	421,150	521,398
Amounts payable to agents, brokers and intermediaries	109,345	119,419
Total insurance payables	542,620	659,684

18 Loans from banks

In thousand Armenian drams	2015	2014
Loans from banks	-	526,296
Total loans from banks	-	526,296

Loans from banks have variable interest rates, which are calculated at the partner bank’s base rate plus 2.2% annually.

As at 31 December 2014 received loans are secured by the Company’s head office building and corporate bonds(Notes 6, 13).

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

19 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	2015	2014	2015	2014
Investments available for sale (note 13)	1,133,690	4,016,980	1,071,891	3,711,145
	<u>1,133,690</u>	<u>4,016,980</u>	<u>1,071,891</u>	<u>3,711,145</u>

20 Revenues of future periods

Revenues of future periods relate to deferred reinsurance commissions, the reconciliation of which is presented below:

In thousand Armenian drams	Total
At January 1, 2014	95,341
Deferred reinsurance commissions	174,936
Recognition of income (Note 23)	(170,666)
At December 31, 2014	99,611
Deferred reinsurance commissions	217,323
Recognition of income (Note 23)	(199,300)
At December 31, 2015	<u>117,634</u>

21 Other liabilities

In thousand Armenian drams	2015	2014
Other liabilities (financial)		
Accounts payables	24,361	20,855
Accounts payables to Armenian Motor Insurers' Bureau	35,686	14,207
Staff related liabilities	123,678	71,029
Other accounts payables	8,857	13,949
	<u>192,582</u>	<u>120,040</u>
Other liabilities (non-financial)		
Tax payable, other than income tax	50,678	28,930
Total other liabilities	<u>243,260</u>	<u>148,970</u>

Grants related to assets

In thousand Armenian drams	2015	2014
At January 1	-	4,377
Increase	-	-
Recognition of income	-	(4,377)
Balance at December 31	<u>-</u>	<u>-</u>

22 Premiums written

	2015								
In thousand Armenian drams	Gross premiums written	Change in the gross provision for unearned premiums	Gross insurance premium revenue	Insurance premium impairment charge	Gross insurance premium revenue after impairment	Written premiums ceded to reinsurers	Reinsurers' share of change in the gross provision for unearned premiums	Ceded earned premiums	Net insurance premium revenue
Accident	200,287	(1,650)	198,637	2,384	201,021	(6,798)	(2,380)	(9,178)	191,843
Health	1,430,235	28,148	1,458,383	(25,529)	1,432,854	-	-	-	1,432,854
Motor	553,964	6,303	560,267	(789)	559,478	(105,702)	(1,582)	(107,284)	452,194
Aircrafts	39,971	(11,141)	28,830	-	28,830	(22,691)	4,019	(18,672)	10,158
Cargo	90,095	(696)	89,399	(169)	89,230	(47,292)	568	(46,724)	42,506
Fire and natural diseases	1,556,109	(248,839)	1,307,270	(8,227)	1,299,043	(1,258,502)	257,080	(1,001,422)	297,621
Voluntary motor liability	36,536	(3,225)	33,311	-	33,311	(9,336)	(124)	(9,460)	23,851
Aircraft liability	15,165	(4,635)	10,530	-	10,530	(7,749)	1,691	(6,058)	4,472
General liability	236,149	(30,837)	205,312	(98)	205,214	(147,354)	17,621	(129,733)	75,481
Provision of guarantees	-	-	-	-	-	-	-	-	-
Financial losses	23,653	25,564	49,217	-	49,217	(22,449)	(24,219)	(46,668)	2,549
Travel	226,754	(5,761)	220,993	(9)	220,984	(54,312)	2,822	(51,490)	169,494
CMTPL	3,732,566	(66,354)	3,666,212	(85,296)	3,580,916	-	-	-	3,580,916
As of December 31	8,141,484	(313,123)	7,828,361	(117,733)	7,710,628	(1,682,185)	255,496	(1,426,689)	6,283,939

	2014								
In thousand Armenian drams	Gross premiums written	Change in the gross provision for unearned premiums	Gross <i>insurance premium revenue</i>	Insurance premium impairment charge	Gross insurance premium revenue after impairment	Written premiums ceded to reinsurers	Reinsurers' share of change in the gross provision for unearned premiums	<i>Ceded earned premiums</i>	Net insurance premium revenue
Accident	194,794	3,607	198,401	(6,640)	191,761	(11,526)	(4,118)	(15,644)	176,117
Health	1,325,822	223,600	1,549,422	(178,144)	1,371,278	-	-	-	1,371,278
Motor	528,999	(56,413)	472,586	(28,437)	444,149	(106,712)	1,709	(105,003)	339,146
Aircrafts	29,911	(3,590)	26,321	-	26,321	(19,289)	1,826	(17,463)	8,858
Cargo	105,701	41,957	147,658	247	147,905	(72,505)	(23,267)	(95,772)	52,133
Fire and natural diseases	943,618	23,947	967,565	(8,355)	959,210	(639,270)	(14,474)	(653,744)	305,466
Voluntary motor liability	23,871	(2,691)	21,180	-	21,180	(6,807)	(1,585)	(8,392)	12,788
Aircraft liability	18,557	(913)	17,644	-	17,644	(14,098)	430	(13,668)	3,976
General liability	174,324	(19,246)	155,078	134	155,212	(116,133)	13,584	(102,549)	52,663
Provision of guarantees	-	94	94	-	94	-	-	-	94
Financial losses	67,736	(8,010)	59,726	-	59,726	(63,520)	8,327	(55,193)	4,533
Travel	215,890	(5,203)	210,687	369	211,056	(46,175)	(228)	(46,403)	164,653
CMTPL	3,617,825	(332,218)	3,285,607	(129,936)	3,155,671	-	-	-	3,155,671
As of December 31	<u>7,247,048</u>	<u>(135,079)</u>	<u>7,111,969</u>	<u>(350,762)</u>	<u>6,761,207</u>	<u>(1,096,035)</u>	<u>(17,796)</u>	<u>(1,113,831)</u>	<u>5,647,376</u>

23 Net insurance commission income

In thousand Armenian drams	2015			2014		
	Reinsurance commission	Reinsurance commission refund as per cancellations	Net reinsurance commission	Reinsurance commission	Reinsurance commission refund as per cancellations	Net reinsurance commission
Accident	1,837	(358)	1,479	2,502	(20)	2,482
Motor	34,582	(1,167)	33,415	34,190	(1,546)	32,644
Cargo	8,522	(21)	8,501	16,379	-	16,379
Fire and natural diseases	136,014	(7,755)	128,259	98,423	(2,215)	96,208
Voluntary motor liability	3,520	(446)	3,074	2,720	(160)	2,560
Aircraft liability	-	-	-	843	(577)	266
General liability	18,945	(8)	18,937	12,300	(33)	12,267
Financial losses	5,116	-	5,116	7,254	-	7,254
Travel	519	-	519	606	-	606
Total	209,055	(9,755)	199,300	175,217	(4,551)	170,666

24 Investment income

In thousand Armenian drams	2015	2014
Interest income from amounts due from financial institutions	92,541	209,484
Interest income from available-for-sale securities	600,662	572,030
Other investment income	27,439	95
Total investment income	720,642	781,609

25 Insurance claims

In thousand Armenian drams	Accident	Health	Motor	Cargo	Fire and natural diseases	Motor liability	General liability	Financial losses	Travel	CMTPL	2015 Total
Current year claims	77,224	1,152,586	280,668	6,782	24,306	3,199	13,653	47,713	39,071	1,935,381	3,580,583
Change in provisions for incurred but not reported claims	2,705	(1,963)	6,947	137	(1,028)	(74)	1,740	893	(300)	(1,801)	7,256
Change in provisions for reported but not settled claims	(1,121)	(23,456)	(144)	1,620	(27,602)	1,167	(6,247)	107,780	(5,024)	(11,446)	35,527
Claims incurred	78,808	1,127,167	287,471	8,539	(4,324)	4,292	9,146	156,386	33,747	1,922,134	3,623,366
Reinsurers' share in current year claims	(990)	-	(94,835)	(5,960)	(13,608)	(880)	(13,525)	(48,577)	-	-	(178,375)
Change in reinsurers' share in incurred but not reported provisions	(58)	-	(8,065)	(66)	3,218	186	(2,326)	(1,458)	(2,688)	-	(11,257)
Change in reinsurers' share in reported but not settled claims	(167)	-	6,390	(466)	22,092	(38)	6,257	(111,771)	(2,617)	-	(80,320)
Reinsurance share in claims incurred	(1,215)	-	(96,510)	(6,492)	11,702	(732)	(9,594)	(161,806)	(5,305)	-	(269,952)
Net insurance claims incurred	77,593	1,127,167	190,961	2,047	7,378	3,560	(448)	(5,420)	28,442	1,922,134	3,353,414

In thousand Armenian drams	Accident	Health	Motor	Cargo	Fire and natural diseases	Motor liability	General liability	Financial losses	Travel	CMTPL	2014 Total
Current year claims	57,930	1,183,715	211,821	5,669	22,289	5,843	7,637	137,636	30,050	1,959,954	3,622,544
Change in provisions for incurred but not reported claims	4,673	(16,804)	(991)	134	1,815	210	22,300	6,405	5,914	(8,539)	15,117
Change in provisions for reported but not settled claims	(2,378)	(55,961)	(2,968)	(323)	37,157	(1,389)	5,568	9,477	21,654	5,263	16,100
Claims incurred	60,225	1,110,950	207,862	5,480	61,261	4,664	35,505	153,518	57,618	1,956,678	3,653,761
Reinsurers' share in current year claims	-	-	(44,466)	(5,105)	(33,087)	(4,646)	(7,136)	(131,180)	-	-	(225,620)
Change in reinsurers' share in incurred but not reported provisions	-	-	281	(120)	(3,446)	(222)	(18,872)	(6,171)	2,205	-	(26,345)
Change in reinsurers' share in reported but not settled claims	-	-	(7,962)	292	(34,150)	(1)	(5,730)	(11,248)	-	-	(58,799)
Reinsurance share in claims incurred	-	-	(52,147)	(4,933)	(70,683)	(4,869)	(31,738)	(148,599)	2,205	-	(310,764)
Net insurance claims incurred	60,225	1,110,950	155,715	547	(9,422)	(205)	3,767	4,919	59,823	1,956,678	3,342,997

26 Acquisition costs

In thousand Armenian drams	2015	2014
Commission to agents		
Accident	53,212	49,727
Health	212,694	270,552
Motor	101,472	79,888
Fire and natural diseases	144,157	112,319
Travel	65,076	61,831
CMTPL	539,664	485,592
Other	69,028	45,031
	1,185,303	1,104,940
Commission to brokers		
Motor	563	1,186
Cargo	7,673	4,063
Fire and natural diseases	13,427	8,426
Voluntary motor liability	2	128
General liability	6,393	5,536
Other	1,652	2,780
	29,710	22,119
Medical check-up and other acquisition costs	28,162	3,256
Total acquisition costs	1,243,175	1,130,315

27 Financial expenses

In thousand Armenian drams	2015	2014
Interest expenses from loans under repurchase agreements	352,657	329,296
Interest expenses from loans received from banks		105,380
	27,216	
Total financial expenses	379,873	434,676

28 Impairment charge/(reversal)

In thousand Armenian drams	2015	2014
Insurance receivables impairment charge (Note 10), including		
- Insurance premium impairment charge (Note 22)	117,733	350,762
- Subrogation impairment charge	107,939	41,466
	225,672	392,228
Other assets and other receivables impairment charge including		
Borrowings to other parties (Note 11)	(260)	729
Other assets (Note 8)	795	13,232
	535	13,961
Total impairment charge	226,207	406,189

29 Staff costs

In thousand Armenian drams	2015	2014
Compensations of employees, related taxes included	979,461	830,670
Total staff costs	979,461	830,670

30 Other operating and administrative expenses

In thousand Armenian drams	2015	2014
Fixed and intangible assets maintenance	29,620	41,651
Advertising costs	34,286	195,388
Business trip expenses	7,848	10,412
Communications	29,502	29,689
Operating lease	109,151	102,574
Taxes, other than income tax, duties	18,958	21,761
Consulting and other services	84,149	81,802
Security	5,376	5,385
Representative expenses	6,310	6,497
Bank services	4,606	2,683
Office supplies	55,962	62,128
Penalties paid	3,291	5,183
Losses from sale of PPE	11,738	943
Net loss from revaluation of PPE	532	-
Membership fee	1,017	2,200
Payments to Armenian Motor Insurers' Bureau	78,306	98,406
Assets given on gratis basis	7,041	7,335
Other expenses	36,509	64,567
Total other operating and administrative expenses	524,202	738,604

31 Income tax expense

In thousand Armenian drams	2015	2014
Current tax expense	141,039	160,655
Deferred tax	(9,346)	(25,591)
Total income tax expense	131,693	135,064

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

As at date of auditor's report Company has not presented the corporate income tax report to tax service yet, therefore current tax amount may vary.

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

In thousand Armenian drams	2015	Effective rate (%)	2014	Effective rate (%)
Profit before tax	616,755		585,908	
Income tax at the rate of 20%	123,351	20	117,182	20
Other taxable income	-	-	2,311	-
Non-deductible expenses	8,505	1	15,222	3
Foreign exchange (gains)/losses	(163)	-	349	-
Total income tax expense	131,693	21	135,064	23

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2014	Recognized in profit or loss	Recognized in other comprehensive income	2015
Other liabilities	14,160	11,470	-	25,630
Insurance receivables	32,917	-	-	32,917
Insurance payables	740	1,110	-	1,850
Revenues of future periods	19,922	3,604	-	23,526
Leasehold improvements	1,613	(94)	-	1,519
Investments available-for-sale	83,740	-	(17,545)	66,195
Total deferred tax assets	153,092	16,090	(17,545)	151,637
Property, plant and equipment	(18,359)	400	(3,388)	(21,347)
Other assets	(459)	233	-	(226)
Insurance receivables	(2,161)	(1,102)	-	(3,263)
Amounts due to financial institutions	(3,339)	2,406	-	(933)
Cash and cash equivalents	(332)	182	-	(150)
Other insurance reserves	(6,873)	(4,985)	-	(11,858)
Deferred acquisition costs	(111,976)	(3,878)	-	(115,854)
Total deferred tax liability	(143,499)	(6,744)	(3,388)	(153,631)
Net deferred tax asset/(liability)	9,593	9,346	(20,933)	(1,994)

In thousand Armenian drams	2013	Recognized in profit or loss	Recognized in other comprehensive income	2014
Other liabilities	15,652	(1,492)	-	14,160
Insurance receivables	-	32,917	-	32,917
Insurance payables	6,515	(5,775)	-	740
Revenues of future periods	19,068	854	-	19,922
Leasehold improvements	1,842	(229)	-	1,613
Investments available-for-sale	-	-	83,740	83,740
Total deferred tax assets	43,077	26,275	83,740	153,092
Property, plant and equipment	(16,324)	(2,035)	-	(18,359)
Investments available-for-sale	(91,602)	-	91,602	-
Other assets	(439)	(20)	-	(459)
Insurance receivables	(1,615)	(546)	-	(2,161)
Amounts due to financial institutions	(3,104)	(235)	-	(3,339)
Cash and cash equivalents	(258)	(74)	-	(332)
Other insurance reserves	(15,216)	8,343	-	(6,873)
Other reserves	-	-	-	-
Deferred acquisition costs	(105,859)	(6,117)	-	(111,976)
Total deferred tax liability	(234,417)	(684)	91,602	(143,499)
Net deferred tax asset/(liability)	(191,340)	25,591	175,342	9,593

32 Contingent liabilities and commitments

Tax and legal matters

The taxation system in Armenia is characterized by frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among various taxation authorities and jurisdictions.

Often tax authorities present claims for transactions and accounting methods, for which no observations have been presented previously. As a result additional 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 earlier periods.

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

The Company has formed provisions in the notified claims reserves for legal actions regarding the claims.

Management also believes that the ultimate liability, if any, arising from other 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.

Therefore, the Company has not made any respective provision related to such tax and legal matters.

Operating lease commitments – Company as a lessee

In the normal course of business the Company enters into commercial lease agreements for office premises.

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

In thousand Armenian drams	2015	2014
Not later than 1 year	77,554	81,127
1 - 5 years	206,939	140,802
Later than 5 years	613,177	741,098
Total operating lease commitments	897,670	963,027

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. However, as at 31 December 2015 the Company's transportation is insured. 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.

Starting from 2010 the Company is member of Armenian compulsory motor insurance bureau (hereinafter «the Bureau»). The purpose of the Bureau is to protect injured parties and contribute to the development and stability of the Compulsory motor insurance. The Bureau's member insurance companies perform single, periodic or supplementary payments. The Bureau compensates injured parties through the guarantee fund, if:

- The damaged vehicle or the party having signed a Compulsory motor insurance contract on the mentioned vehicle is unknown (in this case only the damage to injured parties is compensated),
- A damage has been caused as a result of use of a vehicle, on which a Compulsory motor insurance contract has not been signed,
- The damage has been caused through a stolen vehicle or illegally owned vehicle without no stealing purposes,
- The insurance company having written an insurance contract on the damaged vehicle has been recognized insolvable, if the latter was obliged to compensate the damage, as well as in other cases set by the law.

33 Transactions with related parties

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

The ultimate controlling party of the Company is “INGOSTRAKH” IOJSC, registered in Russian Federation, who possesses 100% of voting shares of “Invest-Polis” CJSC who is a 75% shareholder of the Company.

The Company enters into transactions with related parties in the normal course of business. Details of significant transactions carried out during the year with related parties are as follows.

In thousand Armenian drams

	2015		2014	
	Shareholders and associates	Key management personnel	Shareholders and associates	Key management personnel
Statement of financial position				
Amounts due from policyholders				
Balance outstanding at January 1	115	653	118	374
Increase during the year	859	1,404	883	1,858
Decrease during the year	(880)	(1,763)	(886)	(1,579)
Balance outstanding at December 31	94	294	115	653
Amounts due from reinsurers				
Balance outstanding at January 1	-	-	-	-
Increase during the year	305	-	16,882	-
Decrease during the year	(305)	-	(16,882)	-
Balance outstanding at December 31	-	-	-	-
Borrowings issued				
Balance outstanding at January 1	-	-	-	-
Increase during the year	188,108	-	-	-
Decrease during the year	(82,350)	-	-	-
Balance outstanding at December 31	105,758	-	-	-
Prepayments and other receivables				
Balance outstanding at January 1	160,670	141	160,670	-
Increase during the year	7,000	-	7	141
Decrease during the year	(167,670)	(141)	(7)	-
Balance outstanding at December 31	-	-	160,670	141
Amounts due to policyholders				
Balance outstanding at January 1	-	-	-	-
Increase during the year	-	961	-	89
Decrease during the year	-	(961)	-	(89)
Balance outstanding at December 31	-	-	-	-
Amounts due to reinsurers				
Balance outstanding at January 1	46,856	-	61,179	-
Increase during the year	152,594	-	168,619	-
Decrease during the year	(188,611)	-	(182,942)	-
Balance outstanding at December 31	10,839	-	46,856	-
Grants relating to assets				
Balance outstanding at January 1	-	-	4,377	-
Increase during the year	-	-	-	-
Decrease during the year	-	-	(4,377)	-
Balance outstanding at December 31	-	-	-	-
Statement of profit or loss and other comprehensive income				
Gross written premiums	859	1,172	883	1,858
Gross claims	-	961	-	89
Premiums written to reinsurers	120,264	-	166,489	-
Compensation received from reinsurers	175	-	16,882	-
Other amounts				
Purchase/(sale) of property and equipment	7,000	(505)	-	(1,574)

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2015	2014
Salaries and other benefits	258,126	168,707
Total key management compensation	258,126	168,708

34 Fair value measurement

The Company’s Management determines the policies and procedures for unquoted available-for-sale securities and buildings.

External valuers are involved for valuation of significant assets, such as properties, involvement of external valuers is decided upon annually by the Company’s Management.

At each reporting date, the Company’s Management analyses the movements in the values of assets and liabilities which are required to be re-assessed as per the Company’s accounting policies. For this analysis are verified the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Company in conjunction with the external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

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

34.1 Financial instruments that are not measured at fair value

The table below presents the fair value of financial assets and liabilities not measured at their fair value in the statement of financial position and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised. Unearned insurance premiums and reinsurers’ share in unearned premiums have been removed from analysis as those are not considered contractual obligations.

In thousand Armenian drams	As of 31 December 2015				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Insurance receivables	-	1,046,432	-	1,046,432	1,046,432
Loans to other parties	-	110,309	-	110,309	110,309
Reinsurance assets	-	252,834	-	252,834	252,834
Amounts due from other financial institutions	-	466,278	-	466,278	466,278
Cash and cash equivalents	-	75,776	-	75,776	75,776
FINANCIAL LIABILITIES					
Insurance contract liabilities	-	750,956	-	750,956	750,956
Loans from banks	-	-	-	-	-
Loans under repurchase agreements	-	1,071,891	-	1,071,891	1,071,891
Insurance payables	-	542,620	-	542,620	542,620
Other liabilities	-	192,582	-	192,582	192,582

In thousand Armenian drams	As of 31 December 2014				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Insurance receivables	-	1,242,556	-	1,242,556	1,242,556
Loans to other parties	-	6,515	-	6,515	6,515
Reinsurance assets	-	161,257	-	161,257	161,257
Amounts due from other financial institutions	-	1,663,173	-	1,663,173	1,663,173
Cash and cash equivalents	-	170,192	-	170,192	170,192
FINANCIAL LIABILITIES					
Insurance contract liabilities	-	708,173	-	708,173	708,173
Loans from banks	-	526,296	-	526,296	526,296
Loans under repurchase agreements	-	3,711,145	-	3,711,145	3,711,145
Insurance payables	-	659,684	-	659,684	659,684
Other liabilities	-	120,040	-	120,040	120,040

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk

and maturity. The fair value of those instruments does not differ from their carrying amounts at reporting date.

34.2 Financial instruments that are measured at fair value

In thousand Armenian drams				2015
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Unlisted equity investments (Note 13, 19)	-	4,464,018	-	4,464,018
Total	-	4,464,018	-	4,464,018

In thousand Armenian drams				2014
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Unlisted equity investments (Note 13, 19)	-	5,532,184	-	5,532,184
Total	-	5,532,184	-	5,532,184

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

34.3 Fair value measurements of non-financial assets and liabilities

In thousand Armenian drams				2015
	Level 1	Level 2	Level 3	Total
NON-FINANCIAL ASSETS				
Property, plant and equipment				
<i>Land</i>	-	-	9,200	9,200
<i>Buildings</i>	-	-	1,078,700	1,078,900
Total	-	-	1,087,900	1,087,900
NON-FINANCIAL LIABILITIES				
	-	-	-	-
Total	-	-	-	-
Net fair value	-	-	1,087,900	1,087,900

In thousand Armenian drams				2014
	Level 1	Level 2	Level 3	Total
NON-FINANCIAL ASSETS				
Property, plant and equipment				
<i>Land</i>	-	-	10,030	10,030
<i>Buildings</i>	-	-	1,105,653	1,105,653
Total	-	-	1,115,683	1,115,683
NON-FINANCIAL LIABILITIES				
	-	-	-	-
Total	-	-	-	-
Net fair value	-	-	1,115,683	1,115,683

Fair value measurements in Level 3

The Company’s financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The non-financial assets and non-financial obligations within this level can be reconciled from beginning to ending balance as follows:

In thousand Armenian drams	2015	
	PPE	Total
NON FINANCIAL ASSETS		
Balance as at 1 January 2015	1,115,683	1,115,683
Losses recognised in profit or loss	(532)	(532)
Depreciation adjustment as a result of revaluation	(44,189)	(44,189)
Gains recognised in other comprehensive income	16,938	16,938
Balance as at 31 December, 2015	1,087,900	1,087,900

Fair value of the Company’s main property assets is estimated based on appraisals performed by independent, professionally-qualified property valuers. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the board of directors at each reporting date.

The appraisal of the land and buildings owned by the Company was carried out by independent appraisers on 29 December, 2015 using a combination of the comparative, income and cost methods. Management has based their estimate of the fair value of the land and building on the results of the independent appraisal.

35 Offsetting of financial assets and financial liabilities

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

The table below presents financial assets and financial liabilities that are offset in the statement of financial position or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

In thousand Armenian drams	As of December 31, 2015				
	Amounts offset			Related amounts that are not offset in the statement of financial position	
	Gross financial liabilities	Gross financial assets/liabilities offset	Net amounts presented	Financial instruments not recognised in the statement of financial position	Net
FINANCIAL ASSETS					
Loans under repurchase agreements (Note 19)	(1,071,891)	-	(1,071,891)	1,133,690	61,799
	(1,071,891)	-	(1,071,891)	1,133,690	61,799

In thousand Armenian drams

As of December 31, 2014

	Amounts offset			Related amounts that are not offset in the statement of financial position	
	Gross financial assets /liabilities	Gross financial assets/liabilities offset	Net amounts presented	Financial instruments not recognised in the statement of financial position	Net
FINANCIAL ASSETS					
Loans under repurchase agreements (Note 19)	(3,711,145)	-	(3,711,145)	4,016,980	305,835
	<u>(3,711,145)</u>	<u>-</u>	<u>(3,711,145)</u>	<u>4,016,980</u>	<u>305,835</u>

36 Maturity analysis of assets and liabilities

The table below summarises the maturity profile of assets and liabilities of the Company based to when they are expected to be recovered or settled. See Note 37.4 for the Company’s contractual undiscounted repayment obligations. For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premiums and the reinsurers’ share of unearned premiums have been excluded from the analysis as they are not contractual obligations.

In thousand Armenian drams								2015
	Less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Insurance receivables	372,687	233,290	357,425	963,402	83,030	-	83,030	1,046,432
Loans to other parties	10,258	52,449	47,602	110,309	-	-	-	110,309
Amounts due from financial institutions	-	45,981	420,297	466,278	-	-	-	466,278
Reinsurance assets	-	195,232	57,602	252,834	-	-	-	252,834
Securities pledged under repurchase agreements	-	15,086	13,586	28,672	841,179	263,839	1,105,018	1,133,690
Investments available-for-sale	-	282,963	206,625	489,588	2,200,063	640,677	2,840,740	3,330,328
Cash and cash equivalents	75,776	-	-	75,776	-	-	-	75,776
	<u>458,721</u>	<u>825,001</u>	<u>1,103,137</u>	<u>2,386,859</u>	<u>3,124,272</u>	<u>904,516</u>	<u>4,028,788</u>	<u>6,415,647</u>
LIABILITIES								
Insurance contract liabilities	-	488,954	262,002	750,956	-	-	-	750,956
Insurance payables	192,277	346,094	898	539,269	3,351	-	3,351	542,620
Loans under repurchase agreements	1,071,891	-	-	1,071,891	-	-	-	1,071,891
Other liabilities	192,582	-	-	192,582	-	-	-	192,582
	<u>1,456,750</u>	<u>835,048</u>	<u>262,900</u>	<u>2,554,698</u>	<u>3,351</u>	<u>-</u>	<u>3,351</u>	<u>2,558,049</u>
Net position	<u>(998,029)</u>	<u>(10,047)</u>	<u>840,237</u>	<u>(167,839)</u>	<u>3,120,921</u>	<u>904,516</u>	<u>4,025,437</u>	<u>3,857,598</u>
Accumulated gap	<u>(998,029)</u>	<u>(1,008,076)</u>	<u>(167,839)</u>		<u>2,953,082</u>	<u>3,857,598</u>		

In thousand Armenian drams

	Less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Insurance receivables	2,228	43,412	1,071,776	1,117,416	124,689	451	125,140	1,242,556
Loans to other parties	-	125	550	675	5,840	-	5,840	6,515
Amounts due from financial institutions	621,201	272,015	769,957	1,663,173	-	-	-	1,663,173
Reinsurance assets	-	161,257	-	161,257	-	-	-	161,257
Securities pledged under repurchase agreements	-	68,372	44,773	113,145	2,309,261	1,594,574	3,903,835	4,016,980
Investments available-for-sale	4,160	13,517	18,795	36,472	642,159	836,573	1,478,732	1,515,204
Cash and cash equivalents	170,192	-	-	170,192	-	-	-	170,192
	<u>797,781</u>	<u>558,698</u>	<u>1,905,851</u>	<u>3,262,330</u>	<u>3,081,949</u>	<u>2,431,598</u>	<u>5,513,547</u>	<u>8,775,877</u>
LIABILITIES								
Insurance contract liabilities	-	708,173	-	708,173	-	-	-	708,173
Insurance payables	256,872	315,190	83,947	656,009	1,205	2,470	3,675	659,684
Loans from banks	59,629	291,667	175,000	526,296	-	-	-	526,296
Loans under repurchase agreements	3,711,145	-	-	3,711,145	-	-	-	3,711,145
Other liabilities	120,040	-	-	120,040	-	-	-	120,040
	<u>4,147,686</u>	<u>1,315,030</u>	<u>258,947</u>	<u>5,721,663</u>	<u>1,205</u>	<u>2,470</u>	<u>3,675</u>	<u>5,725,338</u>
Net position	<u>(3,349,905)</u>	<u>(756,332)</u>	<u>1,646,904</u>	<u>(2,459,333)</u>	<u>3,080,744</u>	<u>2,429,128</u>	<u>5,509,872</u>	<u>3,050,539</u>
Accumulated gap	<u>(3,349,905)</u>	<u>(4,106,237)</u>	<u>(2,459,333)</u>		<u>621,411</u>	<u>3,050,539</u>		

37 Insurance and financial risk management

The Company's activities expose it to a variety of 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 most important types of risk are insurance risk and financial risk, which includes liquidity risk, market risk and credit risk.

37.1 Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities. The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Company purchases both facultative and obligatory reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on a proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure of the Company to certain classes of business

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company’s placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

37.1.1 Insurance contracts

The Company principally issues the following types of general insurance contracts: motor (including passengers and third party liabilities), health, property, general liabilities, cargo, accident insurance and Compulsory Motor Third-Party Liability Insurance. Risks under general insurance policies usually cover twelve month duration.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company’s risk appetite as decided by management. The overall aim is currently to restrict the impact of a single catastrophic event to approximately 10% of shareholders’ equity. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

The table below sets out the concentration of insurance contract liabilities by type of contract.

In thousand Armenian drams	2015			2014		
	Insurance contract liabilities	Reinsurance assets	Net liabilities	Insurance contract liabilities	Reinsurance assets	Net liabilities
Accident	73,432	(3,091)	70,341	70,198	(5,246)	64,952
Health	635,807	-	635,807	689,374	-	689,374
Motor	326,192	(59,680)	266,512	325,692	(59,587)	266,105
Aircraft	18,618	(8,536)	10,082	7,478	(4,516)	2,962
Cargo	8,785	(4,690)	4,095	6,332	(3,590)	2,742
Fire and natural diseases	1,075,121	(896,834)	178,287	854,912	(665,065)	189,847
Voluntary motor liability	15,194	(3,243)	11,951	10,876	(3,515)	7,361
Aircraft liability	6,862	(2,897)	3,965	2,227	(1,206)	1,021
General liability	168,890	(118,404)	50,486	142,560	(104,714)	37,846
Financial losses	180,570	(183,165)	(2,595)	97,461	(94,154)	3,307
Travel	96,938	(37,954)	58,984	96,500	(29,826)	66,674
CMTPL	1,582,039	-	1,582,039	1,528,932	-	1,528,932
At December 31	4,188,448	(1,318,494)	2,869,954	3,832,542	(971,419)	2,861,123

The Company sets out the total aggregate exposure that it is prepared to accept in relation to general insurance risk concentrations. It monitors these exposures at the time of underwriting a risk.

The maximum loss, net of reinsurance that the Company accepts on each contract is 10% of total capital, in accordance with the regulations of the Central Bank of Armenia.

Key assumptions

The principal assumption underlying the liability estimates is that the Company’s future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, expected loss ratios and claim numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example once-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

However, due to relatively new insurance market in Armenia, it difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. For these reasons the Company’s management regularly reviews the statistical data, market changes and other factors for a more prudential provisioning.

Sensitivities

The insurance claim liabilities are sensitive to the key assumptions shown below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

It should be noted that movements in these assumptions are non-linear.

In thousand Armenian drams	Change in assumptions in %	Effect on profit before tax	
		Gross of reinsurance	Net of reinsurance
			2015
Average claim cost	+10	(358,058)	(340,221)
	-10	358,058	340,221
Expected loss ratio	+10	(362,337)	(335,341)
	-10	362,337	335,341
In thousand Armenian drams			2014
			Effect on profit before tax
	Change in assumptions in %	Gross of reinsurance	Net of reinsurance
Average claim cost	+10	(350,026)	(327,464)
	-10	350,026	327,464
Expected loss ratio	+10	(353,148)	(322,072)
	-10	353,148	322,072

Claims development table

The following tables show the estimate cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each balance sheet date, together with cumulative payments to date.

Gross insurance contract liabilities for 2015 are developed as follows:

In thousand Armenian drams	2011	2012	2013	2014	2015	Total
Current estimate of cumulative claims incurred						
At end of accident year	1,942,166	3,633,261	3,800,883	3,613,282	3,579,913	16,569,505
One year later	1,950,805	3,870,080	3,684,982	3,505,611		13,011,478
Two years later	1,922,691	3,887,415	3,690,036			9,500,142
Three years later	1,925,640	3,893,376				5,819,016
Four years later	1,929,822					1,929,822
Current estimate of cumulative claims incurred	1,929,822	3,893,376	3,690,036	3,505,611	3,579,913	16,598,758
Cumulative payments to date						
At end of accident year	(1,566,395)	(3,216,890)	(3,149,624)	(2,953,271)	(2,919,756)	(13,805,936)
One year later	(1,903,302)	(3,844,383)	(3,656,358)	(3,437,344)		(12,841,387)
Two years later	(1,922,691)	(3,868,052)	(3,680,554)			(9,471,297)
Three years later	(1,925,464)	(3,880,451)				(5,805,915)
Four years later	(1,929,697)					(1,929,697)
Cumulative payments to date	(1,929,697)	(3,880,451)	(3,680,554)	(3,437,344)	(2,919,756)	(15,847,802)
Total gross insurance contract liabilities per the balance sheet	125	12,925	9,482	68,267	660,157	750,956

Insurance contract liabilities for 2015 net of reinsurance:

In thousand Armenian drams	2011	2012	2013	2014	2015	Total
Current estimate of cumulative claims incurred						
At end of accident year	1,684,613	3,509,751	3,664,909	3,270,827	3,243,156	15,373,256
One year later	1,766,793	3,746,816	3,601,447	3,229,134		12,344,190
Two years later	1,748,964	3,760,285	3,607,327			9,116,576
Three years later	1,735,030	3,766,247				5,501,277
Four years later	1,739,213					1,739,213
Current estimate of cumulative claims incurred	1,739,213	3,766,247	3,607,327	3,229,134	3,243,156	15,585,077
Cumulative payments to date						
At end of accident year	(1,463,832)	(3,130,965)	(3,085,970)	(2,760,945)	(2,781,237)	(13,222,949)
One year later	(1,730,057)	(3,724,912)	(3,580,202)	(3,211,714)		(12,246,885)
Two years later	(1,748,964)	(3,744,672)	(3,597,846)			(9,091,482)
Three years later	(1,734,854)	(3,757,071)				(5,491,925)
Four years later	(1,739,087)					(1,739,087)
Cumulative payments to date	(1,739,087)	(3,757,071)	(3,597,846)	(3,211,714)	(2,781,237)	(15,086,955)
Total net insurance contract liabilities per the balance sheet	126	9,176	9,481	17,420	461,919	498,122

37.2 Credit risk

The Company takes on exposure to credit risk. Key areas where the Company is exposed to credit risk are:

- Debt securities and bank accounts;
- Amounts to from financial institutions;
- Reinsurers’ share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance contract holders;
- Amounts due from insurance intermediaries.

In the further credit risk disclosures the reinsurer’s part in provision for unearned premiums is excluded from reinsurance assets, as it is not a financial asset.

37.2.1 Maximum exposure to credit risk

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.

37.2.2 Risk concentrations of the maximum exposure to credit risk

Ratings

The table below provides information regarding the credit risk exposure of the Company at 31 December 2015 by classifying assets according to credit ratings of the counterparties.

In thousand Armenian drams	A+	AA	AA-	BBB	BBB+	A1	BBB-	A-	A	Not rated	Total
Insurance receivables	-	-	19,471	-	-	-	-	-	14,740	1,012,221	1,046,432
Loans to other parties	-	-	-	-	-	-	-	-	-	110,309	110,309
Reinsurance assets	119,430	23,783	10,737	-	-	-	-	32,162	9,119	57,603	252,834
Amounts due from financial institutions	-	-	-	-	-	-	-	-	-	466,278	466,278
Securities pledged under repurchase agreements	-	-	-	-	-	-	-	-	-	1,133,690	1,133,690
Investments available-for-sale	-	-	-	-	-	-	-	-	-	3,330,328	3,330,328
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	75,776	75,776
As at 31 December 2015	119,430	23,783	30,208	-	-	-	-	32,162	23,859	6,186,205	6,415,647
As at 31 December 2014	71,346	14,709	7,254	294	53,065	1,413	707	29,424	-	8,597,665	8,775,877

37.2.3 Risk limit control and mitigation policies

The Company has a credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company. The policy is regularly reviewed for pertinence and for changes in the risk environment.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company’s liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties’ limits that are set each year by the Board and are subject to regular reviews. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

37.2.4 Impairment and provisioning policies

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

Past due but not impaired financial assets

Past due financial assets include those that are only past due by a few days.

As at 31 December 2015 the Company doesn’t have any past due but not impaired financial assets (2014: nil)

Impaired financial assets

At 31 December 2015 there are impaired financial assets of AMD 202,642 thousand (2014: AMD 394,911 thousand).

No collateral is held as security for any past due or impaired assets.

37.3 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. Market risk comprises three types of risk: interest rate risk and currency risk.

Except for the concentrations within foreign currency, the Company has no significant concentration of market risk.

37.3.1 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.

Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk.

The sensitivity of the statement of comprehensive income 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 2015 including the effect of hedging instruments.

The sensitivity of equity is analysed by maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes

In thousand Armenian drams			Sensitivity of equity					2015
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total	
AMD	+1	-	(783)	(3)	(59,004)	(44,388)	(104,178)	
AMD	-1	-	790	3	60,709	48,485	109,987	

In thousand Armenian drams			Sensitivity of equity					2014
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total	
AMD	+1	(5,250)	-	-	(76,456)	(137,162)	(218,868)	
AMD	-1	5,250	-	-	73,849	125,016	204,115	

37.3.2 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.

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2015 on its non-trading monetary assets and liabilities and its forecast cash flows. The

analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity. A negative amount in the table reflects a potential net reduction in the statement of comprehensive income while a positive amount reflects a net potential increase.

In thousand Armenian drams	2015		2014	
	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
Currency				
USD	+5	387	+5	(463)
USD	-5	(387)	-5	463

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				
Insurance receivables	1,045,755	677	-	1,046,432
Loans to other parties	110,309	-	-	110,309
Amounts due from other financial institutions	372,254	94,024	-	466,278
Reinsurance assets	252,834	-	-	252,834
Securities pledged under repurchase agreements	1,133,690	-	-	1,133,690
Investments available-for-sale	3,330,328	-	-	3,330,328
Cash and cash equivalents	75,771	5	-	75,776
Total assets	6,320,941	94,706	-	6,415,647
Liabilities				
Insurance contract liabilities	750,956	-	-	750,956
Insurance payables	459,462	83,158	-	542,620
Loans under repurchase agreements	1,071,891	-	-	1,071,891
Other liabilities	188,781	3,801	-	192,582
Total liabilities	2,471,090	86,959	-	2,558,049
Net position as at 31 December 2015	3,849,851	7,747	-	3,857,598
Total financial assets	8,716,343	59,534	-	8,775,877
Total financial liabilities	5,656,552	68,786	-	5,725,338
Net position as at 31 December 2014	3,059,791	(9,252)	-	3,050,539

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia. The reinsurer’s part in provision for unearned premiums is excluded from reinsurance assets, as it is not a financial asset.

37.4 Liquidity risk

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

of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The 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; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Company calculates the liquidity ratio in accordance with the requirement of the Central Bank of Armenia.

The Company has taken advantage of point d (i) of the paragraph 39 of IFRS 4, by disclosing the information on estimated timing of net undiscounted cash flows from insurance liabilities as of 31 December 2015, instead of the disclosure of maturities required by point a) of 39 paragraph of IFRS 7. See note 36 for the expected maturities of these liabilities.

In thousand Armenian drams	Carrying amount	Estimated net undiscounted cash flow		
		Up to 1 year	More than 1 year	Total
As at 31 December 2015				
Insurance liabilities	750,956	750,956	-	750,956
Total	750,956	750,956	-	750,956
As at 31 December 2014				
Insurance liabilities	708,173	708,173	-	708,173
Total	708,173	708,173	-	708,173

37.5 Operational risk

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

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

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank of Armenia on internal control system;
- documentation of controls and procedures;

- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

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

38 Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business. The Company’s capital is monitored using, among other measures, the rules and ratios established 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 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, policies and processes from the previous years.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, and general reserve. Regulatory capital is calculated in accordance with the requirements of the Central Bank of Armenia. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves.

The minimum ratio between total capital, required solvency and risk weighted assets required by the Central Bank of Armenia is 100%.

Through the period the Company has breached for several times some of the capital adequacy requirements. However as at the year end the Company has complied with all externally imposed capital requirements.

The Company’s total capital, risk weighted assets and required solvency amounts as of December 31 2015 and 2014, calculated in accordance with the CBA requirements, are presented below:

In thousand Armenian drams	2015 (non audited)	2014 (non audited)
Tier 1 capital	3,422,215	2,904,886
Tier 2 capital	(239,894)	(227,075)
Total regulatory capital	3,182,321	2,677,811
Risk-weighted assets	812,435	779,474
Required solvency	1,580,451	1,373,525
Capital equivalent norm (regulatory norm N1.2)	133%	124%

The Central Bank of Armenia has set the minimal required total capital at AMD 1,500,000 thousand from January 1, 2015.