

ARMSWISSBANK
Private & Investment Banking



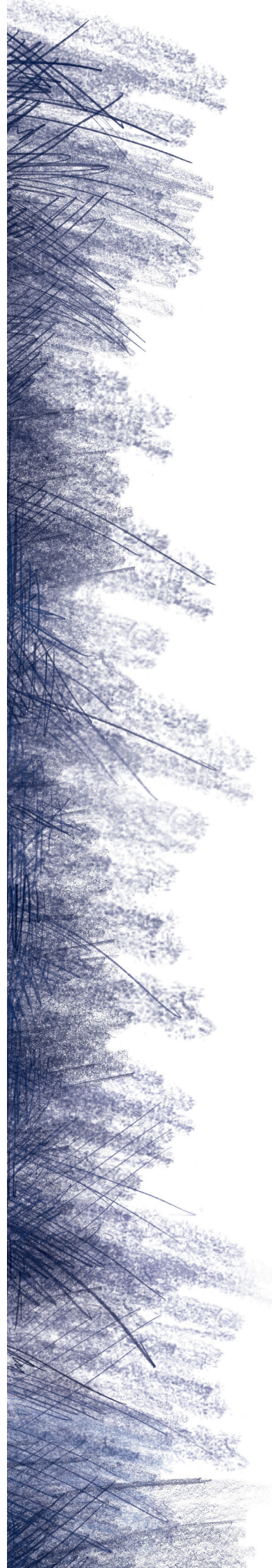
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2011

Annual Report

TABLE OF CONTENTS

MESSAGE OF THE EXECUTIVE DIRECTOR	2
MAIN ACTIVITIES OF THE BANK	4
LENDING TO THE ECONOMY	5
FACTORING AND TRADE FINANCE	9
INVESTMENT BANKING SERVICES	11
INFORMATION TECHNOLOGIES AND SECURITY	15
RISK MANAGEMENT	16
INTERNAL AUDIT	17
HUMAN RESOURCE MANAGEMENT	18
MARKETING	20
FINANCIAL RESULTS	21
INDEPENDENT AUDITOR'S REPORT	24



MESSAGE OF THE EXECUTIVE DIRECTOR



In 2011 the Bank continued to grow steadily making new achievements and strengthening its competitive position in the RA banking sector. Despite the continuation of the trends of increasing competition in the banking sector, which is most evident in the credit market with more funds being offered including those available under programs of international organizations, the Bank managed to improve its year-end key performance indicators and reported a net income of AMD 1.2 billion.

The Bank continued to develop increasing the quality and quantity of the provided services, as well as developing and offering its clients new products and services.

Based on the customers' demand, the Bank introduced the new "Receivable financing" and "Factoring-Guarantee" products in 2011, which became widely used among suppliers.

In 2011 the Bank developed and introduced a new lending facility, "Purchase order financing". This product is not new to the international market but is not used extensively in the local market as it's provided by only a few banks. This service soundly fits into the framework of other corporate services provided by the Bank and based on the level of demand, the amounts of such financing

operations are planned to increase further.

In 2011 the Bank introduced the Internet Banking system, which allows customers to quickly and conveniently manage their accounts without time and geographical constraints.

In 2011 the Bank also had significant achievements in the sphere of investment activity.

Within the scope of "Best Competitor 2011" survey conducted by "ARMINFO" rating agency among RA banks, ARMSWISS-BANK was recognized as the winner of "Activity in RA government securities market" and "Activity in corporate debt market" nominations.

In 2011 the Bank acted as underwriter and market maker for "Artsakh HEK" OJSC organizing the third issue and placement of its shares. Overall, 130 investors participated in the placement of the shares. As a result, the Company raised an amount of AMD 3,649,597,860, which is an unprecedented indicator for the RA corporate securities market.

In 2011 the Bank expanded the range of operations with gold offering its clients the opportunity to invest in unallocated metal accounts.

The Bank maintained its status of agent in the market of treasury bonds and acted as a market maker of the securities issued by its clients. The Bank plans to continue being proactive in the sphere of investments through expanding operation volumes in brokerage services, including marginal transactions in the international markets, repurchase agreement transactions with foreign securities, operations with gold, including unallocated metal accounts, etc., as well as developing new products. The Bank also plans to develop and introduce new products, particularly operations with foreign shares and future agreements on the indices thereof.

The Bank plans to expand cooperation with both existing and new partners emphasizing cooperation with international organizations through involvement in lending and

other programs of the current partners as well as establishing and developing further cooperation with three more international organizations within the coming 2-3 years.

The Bank continued cooperation with the European Bank for Reconstruction and Development (EBRD) receiving and entirely disbursing the second tranche of the SME loan (USD 3 million) in 2011. The Bank intensively funded its customers' trade finance needs under the TFP line within the overall limit of USD 3 million. As a result, the above-mentioned limit was mostly used up and an initial agreement was negotiated with EBRD for extending it by another USD 2 million in 2012.

The Bank also continued cooperation with Factors Chain International (FCI) as well as German Armenian fund within the scope of SME lending and "Renewable Energy Development" programs.

In 2011 the Bank actively worked towards increasing its mortgage loans portfolio both under the National Mortgage Company's program and from its own resources.

In 2011 the Bank signed two new agreements for USD 750 thousand and USD 1.3 million.

ARMSWISSBANK has entered a new stage of development where accumulated expertise, acquired market position, reputation and qualified professional staff will ensure a sustainable basis for further development.

On behalf of ARMSWISSBANK Staff I would like to extend our grateful acknowledgement to our Clients, Partners, Board as well as the Shareholder for the faith in our Bank, support and mutually beneficial cooperation.

I would also like to express my trust and profound gratitude to the Bank's personnel for their devoted work.



Gevorg Machanyan
Chairman of the Management Board
Executive Director

MAIN ACTIVITIES OF THE BANK



Grigor Movsisyan
Member of the Management Board
Financial Director

Remaining loyal to its policy, ARMSWISSBANK continues to evolve activities in three main directions, namely, corporate, investment and private banking, with the vision to become the leading bank in Armenia in those areas.

ARMSWISSBANK is distinguished by the wide range of services provided to its corporate clients including both traditional (payment and settlement services, lending services, flexible deposit schemes, trade finance, etc.) and non-traditional services (alternative financing, factoring, forward, swap, option, financial consulting, etc.)

Trade finance, factoring as well as commodity and financial futures are mainly designed for clients engaged in importing and exporting activities to maintain their competitiveness in local and international markets and facilitate new markets penetration.

Investment banking attuned to interna-

tional standards is one of the Bank's main strategic directions. Hence, from the moment of its conception, the Bank has been actively promoting new investment services and making notable efforts to achieve leading position in this field. The Bank offers its customers a wide range of investment instruments, such as shares of American, European and Russian companies and investment funds, depositary receipts, government and corporate bonds, commodity futures as well as repo and marginal operations with foreign securities, transactions with gold including unallocated metal accounts, etc.

Our clients can improve risk diversification and manage their cash flows more efficiently through a variety of financial instruments including derivatives.

In order to cope with new market challenges and successfully devise investment projects, ARMSWISSBANK offers underwriting services to its corporate clients.

As one of the leaders in the Armenian government securities market and a government securities agent of RA, ARMSWISSBANK acts as a market maker to enhance liquidity of the Armenian securities market.

ARMSWISSBANK offers its clients tailor-made services, including development of individual, corporate and other types of securities portfolios, brokerage, custodial and consulting services. The flexibility while working with the clients is one of the key factors for the progressive development of the Bank and promotion of ARMSWISSBANK brand.

ARMSWISSBANK develops long-term partner relations with its clients based on close and mutually beneficial cooperation. The Bank's professional, skilled and experienced personnel identifies each client's needs and offers quality financial solutions.

LENDING TO THE ECONOMY



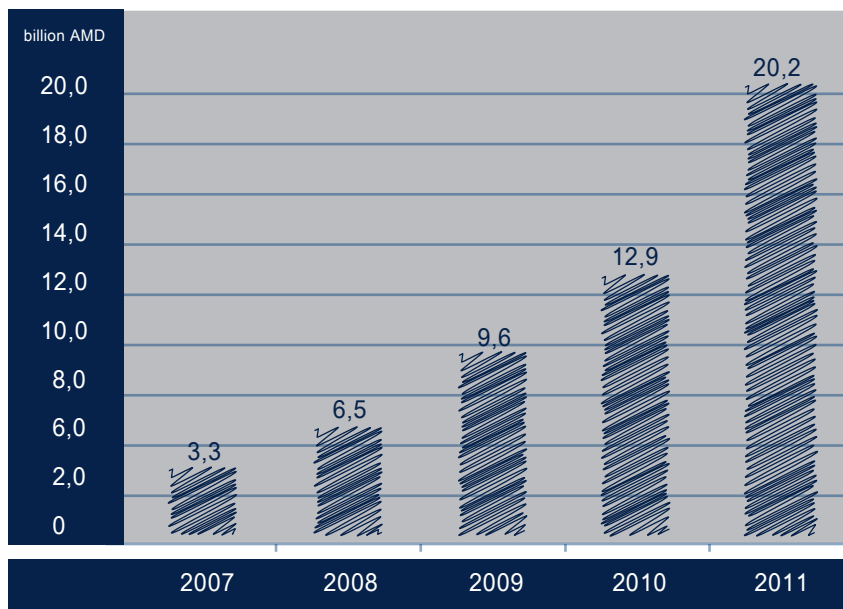
Grigor Hovhannisyán
Member of the Management Board
Director of the Lending Department

SUMMARY STATISTICS

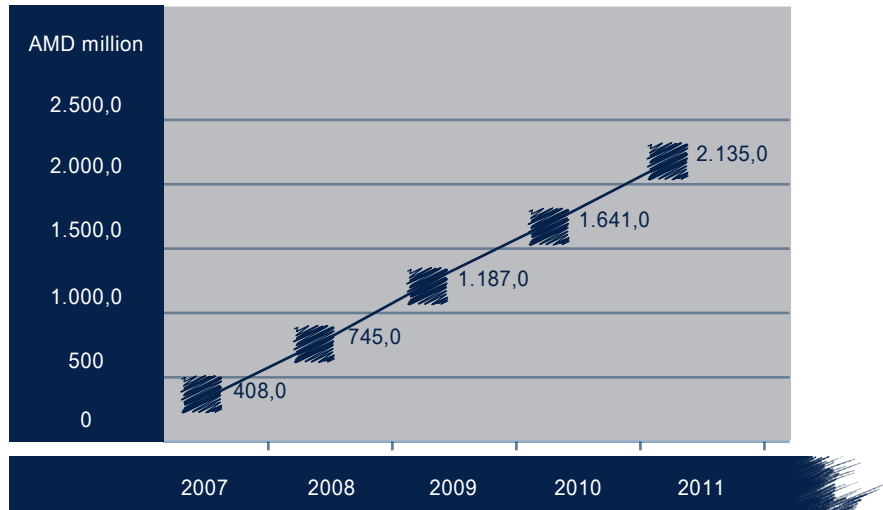
The Bank was rather active in the sphere of lending in 2011 continuing to develop further the achievements of the previous years.

In 2011 the loan portfolio of the Bank grew by about 56.6% and interest income earned thereon increased by 30.1% (the growth of the same indicators over the previous year were 34.4% and 38.2% respectively).

Growth dynamics of the loan portfolio over the previous five years



Growth dynamics of interest income from lending activities over the previous five years



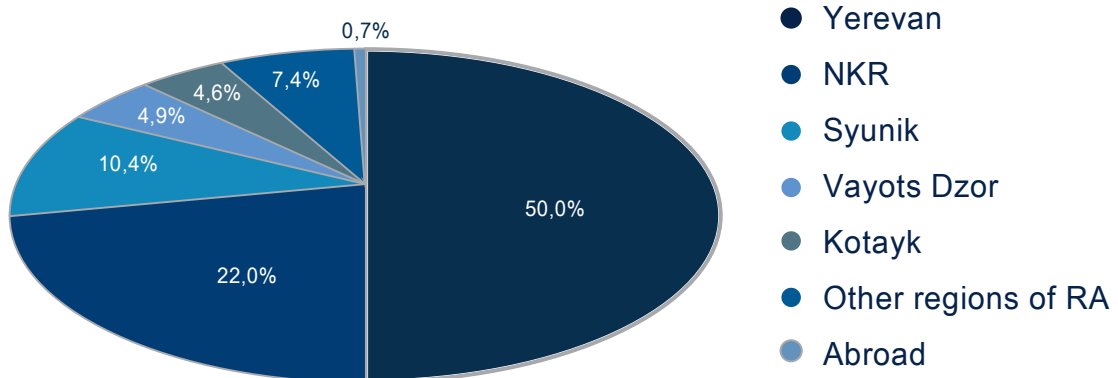
CREDIT RISK MANAGEMENT

To manage credit risk the Bank always performs activities towards the diversification of the loan portfolio by geographical location and sectors of the economy. This allowed to ensure the stable growth rate of the loan

portfolio and its return.

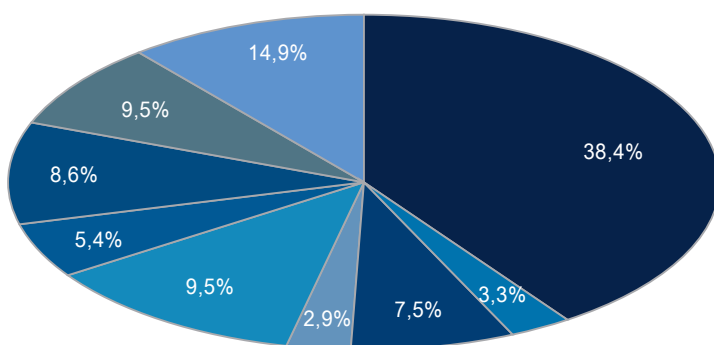
Below presented is the loan portfolio diversified by geographical location and sectors of the economy:

Location of the borrowers' activity	Share in the lending portfolio		
	31.12.09	31.12.10	31.12.11
Yerevan	46,0%	47,6%	50,0%
Syunik	7,6%	9,4%	10,4%
Vayots Dzor	4,4%	4,5%	4,9%
Kotayk	17,0%	8,5%	4,6%
Other regions of RA	6,0%	6,5%	7,4%
NKR	19,0%	23,5%	22,0%
Abroad	0,0%	0,0%	0,7%



Sectors of the economy (including loans of the individuals)	Share in the lending portfolio		
	31.12.09	31.12.10	31.12.11
Industry	54,2%	37,9%	38,4%
Trade	16,9%	14,9%	14,9%
Catering and other services	6,1%	6,5%	5,4%
Agriculture	4,5%	2,7%	2,9%
Transport and communications	2,2%	3,8%	3,3%
Construction	1,3%	7,0%	7,5%
Loans to individuals	8,8%	8,2%	9,5%
Financial services	0,4%	8,6%	9,5%
Other sectors of the economy	5,6%	10,4%	8,6%

Structure of the loan portfolio by sectors of the economy as of 31.12.11



- Industry
- Trade
- Catering and other services
- Agriculture
- Transport and communications
- Construction
- Loans to individuals
- Financial sector
- Other sectors of the economy

It is worth mentioning, that 20% of the loan portfolio (and over 50% of the loans to the industry sector) comprises loans to the energy sector.

The significant share of investments in the energy sector, particularly in the renewable energy sector, is due to the intensive activities of many years implemented by the Bank in this sphere and its strategic importance for the Republic of Armenia.

The Bank actively participates in all available lending programs in this sphere, international and local business events and seminars and periodically implements activities towards training professionals and mitigating

risks through cooperation with independent specialists/consultants.

To increase the efficiency of the lending procedure and mitigate the related risks the Bank realized a number of important activities during the year. Particularly, the Monitoring and internal control division was created in the Lending department, internal acts regulating the lending procedure were reviewed, control over the activities of the department was strengthened. The abovementioned activities succeeded in significantly improving the qualitative indicators of the loan portfolio, particularly the share of classified loans in the total loan portfolio significantly decreased

amounting to 1.3% as of 31.12.2011 (as of 31.12.2010 this indicator was 6.9%).

PARTICIPATION IN LOCAL AND INTERNATIONAL LENDING PROGRAMS

The Bank highly prioritizes cooperation with international lending organizations since besides being a source of stable, long term and less expensive funds such cooperation also enhances the professionalism of the Bank's staff and increases the Bank's reputation among investors and partners. The Bank's strategic partners from this perspective are the following:

▶ PMU of the German Armenian Fund with which the Bank cooperates under 2 lending programs. The first is the "Renewable energy development" program which the Bank started in 2006 and is one of the leaders in the RA banking system. The second is the "SME development" program in which the Bank started participation in 2009 and is an active and reliable partner as well. The Bank anticipates significant growth for both of the abovementioned programs throughout the next couple of years.

▶ EBRD, with which the Bank started cooperation since 2010 signing agreements of Small and Medium Enterprises (SME) financing for USD 5 million and Trade Facilitation Programme (TFP) for USD 3 million. In 2011 the Bank almost entirely disbursed the received funds and anticipates further expansion of cooperation in 2012 both through attracting more funds and implementation of new joint projects.

▶ "Atlantic Forfaitierungs AG", a Swiss company with which the Bank started cooperation in 2011. An agreement of financing for the amount of USD 750,000 was approved for the Bank which allowed to offer its clients medium term loans for trade financing with attractive terms.

▶ Small and Medium Entrepreneurship Development National Center of Armenia (SME DNC) with which the Bank cooperates since 2009 and grants loans to those small and medium Armenian enterprises which lack the security funds/collaterals necessary to support the requested loan amounts. If this is the case, SME DNC conducts necessary studies and extends funding to the Bank to cover for the Bank's credit risk. The organization constantly improves the terms of its services which promotes further expansion of bilateral cooperation.

▶ In 2011 the Bank reviewed its approaches regarding some retail services, such as mortgage lending. This was mainly aimed at thoroughly meeting existing and potential clients' needs. However, in the highly competitive environment in the financial sector, this task was impossible to accomplish by relying merely on the Bank's own resources. As a result a decision was made to gain membership to the mortgage loans refinancing program of the "National Mortgage Company" RCO CJSC which enabled the Bank to lend long term mortgage loans in AMD. As a result, the Bank's mortgage loans portfolio grew by 161.9% over the year amounting to AMD 1,723.4 million at year end.

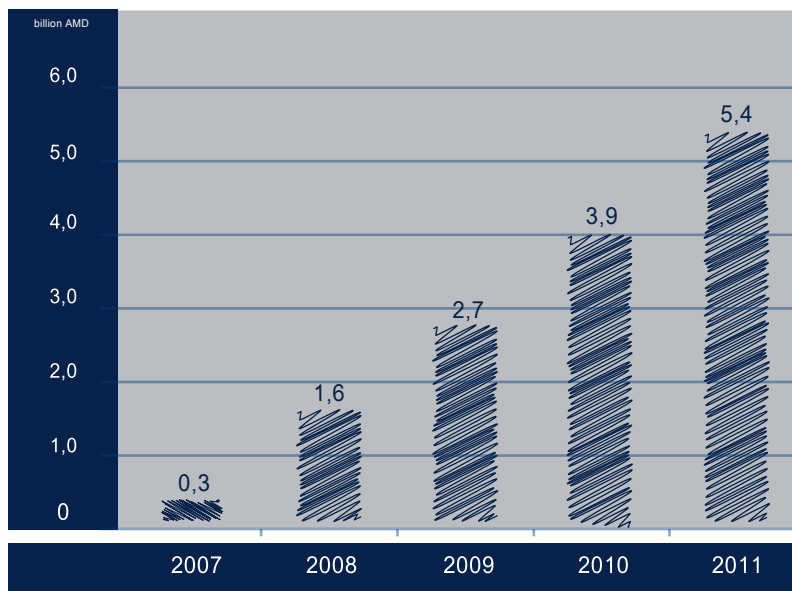


Gevorg Khachatryan
Member of the Management Board
Director of Customer Service Department

FACTORING

In 2011 the Bank successfully maintained the steady growth rate of the factoring portfolio. During the reporting year, domestic factoring operations amounted to AMD 5.4 billion exceeding the previous year's amount by 36%. In the meantime income received on factoring operations increased by 44%.

Domestic Factoring turnover

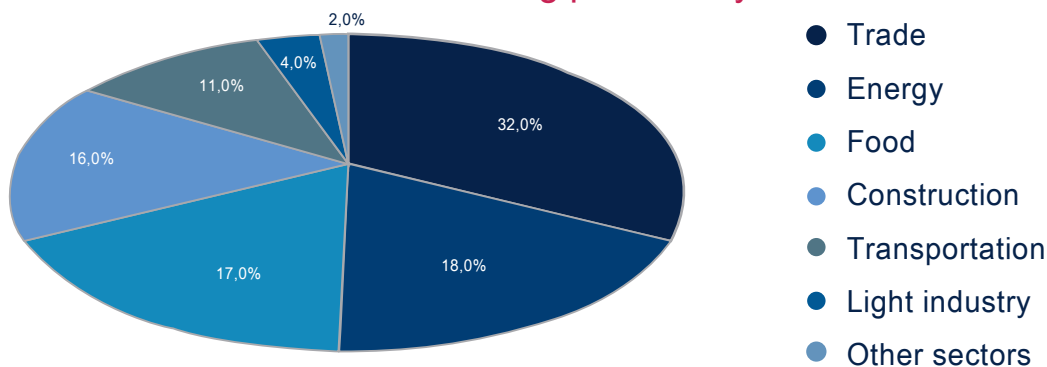


The Receivable Financing (closed-end factoring) service which the Bank introduced by the end of 2010 significantly contributed to the increase in the amount of factoring operations during the reporting year. In 2011 a new factoring service was designed and introduced to the client, namely, the Factoring-Guarantee, operations with which are ex-

pected to intensify in 2012.

In 2011 the Bank significantly diversified its factoring portfolio attracting new borrowers from new sectors of the economy. The year-end structure of the factoring portfolio by sectors of the economy (by borrowers) is presented below.

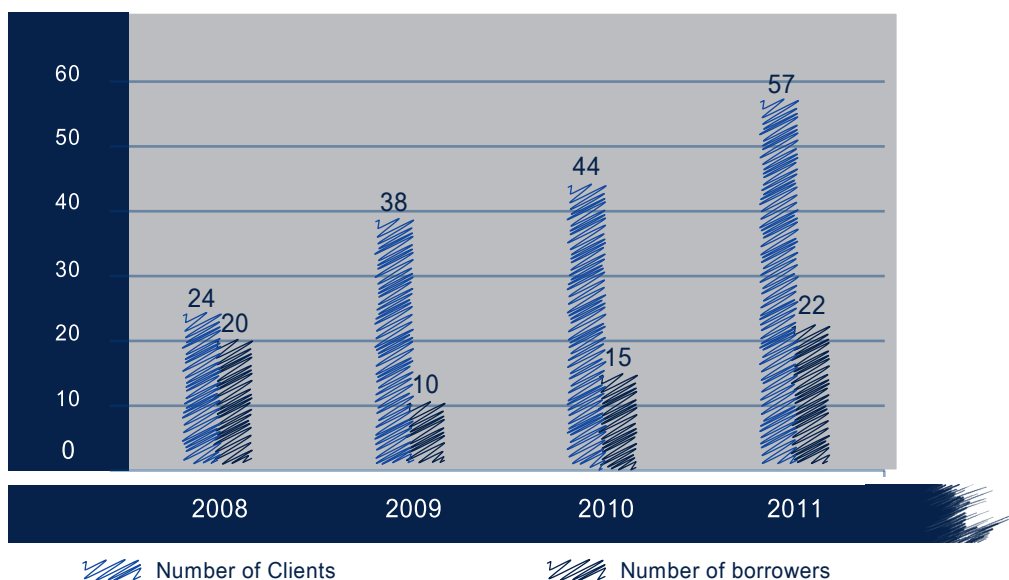
Structure of domestic factoring portfolio by sectors of the economy



The number of clients using the Bank's factoring services at year end amounted to 57 and the number of borrowers was 22. The

dynamics of the factoring clients and borrowers is presented below.

The dynamics of the factoring clients and borrowers



OTHER INSTRUMENTS OF TRADE FINANCE

In 2011 the Bank further expanded co-operation with EBRD under the Trade facilitation program financing international trade operations, issuing letters of credit and guarantees. The Bank also started cooperation with Atlantic Forfaitierungs AG within the scope of financing international trade operations which is expected to expand further in 2012.

Cooperation with international organizations allowed the Bank to offer trade finance facilities under competitive terms and attract

new clients. Particularly, the Bank was more active in the sphere of financing importing operations within the scope of the Revolving credit agreement signed with EBRD. Since the limit allowed by EBRD under the Trade facilitation program has been almost entirely used up, it is expected to be increased in 2012. The amount of international trade financing operations for 2011 was about USD 4.1 million in contrast to the USD 2.5 million for the previous year.



Karen Turyan
Member of the Management Board
Director of the Investment Department

CORPORATE SECURITIES UNDERWRITING

In 2011 the Bank's major achievement in the primary market of corporate securities was the placement of the third additional issuance of "ARTSAKH HEK" shares for an amount of AMD 3,649,597,860. ARMSWISSBANK acted as an underwriter and settlement bank. The Bank succeeded in allocating 3,287,926 ordinary nominal shares. This was the largest IPO ever in the history of the Armenian corporate securities market.

In fact, 69% of the placement (around AMD 2.5 billion) were purchased by foreign investors. The placement was implemented in two stages: via exercising preemptive rights by the existing shareholders to purchase shares and open subscription. The Bank assisted the Company in the processes of registering the shareholders' ownership rights of the shares with the RA Central Depository and ARMSWISSBANK and transferring the shares to the owners' personal accounts. Starting from December 27th of 2011 the Bank also organized the listing of

the entire placement on the secondary /B/ platform of "NASDAQ OMX ARMENIA" stock exchange.

Besides the range of core underwriting services the Bank also ensures the liquidity of "ARTSAKH HEK" OJSC's shares in the secondary market making two-sided quotations in the "NASDAQ OMX ARMENIA" stock exchange and acting as a market maker for the Company. In 2011 the Bank intermediated 28 transactions with the Company's shares for an amount of AMD 36 million which account for 18% of the total exchange operations with stocks.

Regarding the corporate bonds market it is worth mentioning that the high returns of the government bonds were a major detraction to the issuance of corporate bonds. Given the vast availability of cheaper credit resources, the attractiveness of corporate bonds as a financing instrument was diminished.

As a result, the Bank did not organize any placements of corporate bonds in 2011. However, the Bank continued servicing the retirements and coupon payments of the already issued bonds. Particularly, payments of the principal amounts and coupon payments of "ARMRUSGASPROM" CJSC's and "Valletta" Ltd's CJSC's third issuances were made assisting the issuers and providing settlement banking services.

During the reporting year the Bank continued quoting its placements of corporate bonds in ARMSWISSBANK's official ASWI web-page at Bloomberg international information system.

In 2011 the Bank continued providing consulting services to its corporate clients regarding capital structure, corporate strategy, restructuring and other issues.

DEALING ACTIVITIES

In 2011 the Bank continued to actively implement operations with RA government and corporate securities in the domestic

financial market.

During the reporting year the Bank's operations in the primary market amounted to over AMD 18 billion in nominal value, and over AMD 19 billion in the secondary market. It was not a coincidence that the Bank was recognized the best in commercial banks' activity in RA government securities market as well as in corporate debt market nominations by "ARMINFO" independent rating agency.

Operations with corporate bonds decreased since due to post-crisis issues, particularly the fact that bond yields are now higher than loan interest rates available to the companies in the real sector of the economy, there were no new issuances of corporate bonds. The above mentioned situation has adversely effected the attractiveness of issuing corporate bonds.

To promote the development of the RA stock market, and increase liquidity of "Artsakh HEK" OJSC's shares, in 2011 the Bank provided two-sided quotations for those stocks implementing buy/sell transactions with about 31,727 stocks (for the amount of AMD 35,357,070).

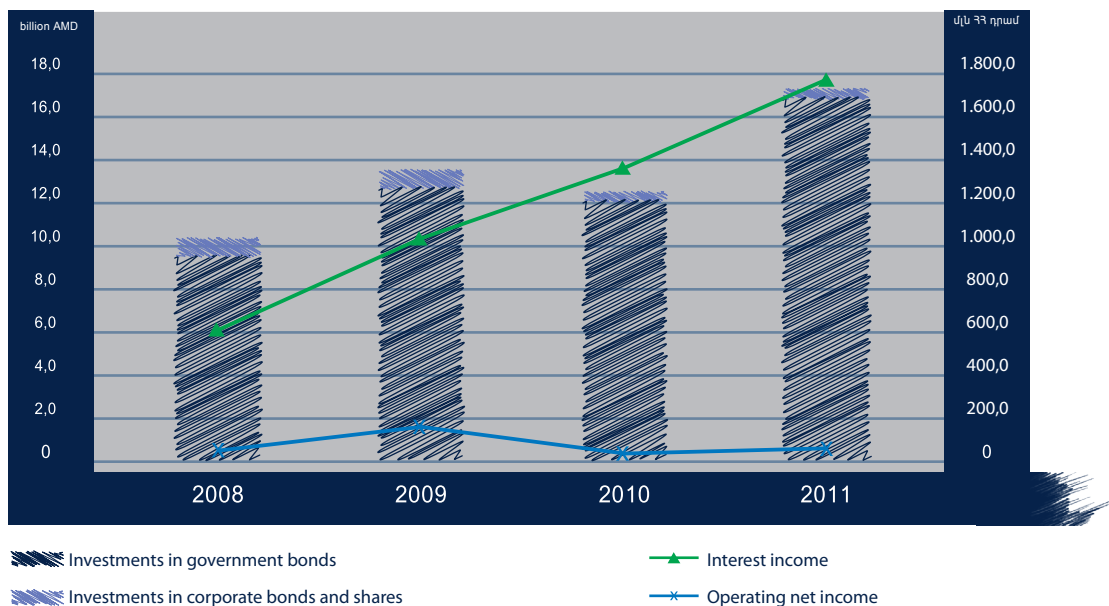
In 2011 the Bank continued allocating funds with its clients and attracting from other financial institutions through repo agreements. Operations with the said instrument

amounted to AMD 165 billion. This indicator is 30% more than that of the previous year and was mainly directed to increasing the Bank's investment portfolio.

To increase its investment portfolio the Bank purchased government securities for a nominal value of about AMD 14.2 billion from government securities initial allocation auctions in 2011. This indicator is about twice more than that of the previous year due to both the Bank's active participation to the repurchases organized by the RA ministry of finance selling bonds for an amount of AMD 4 billion and in the secondary market, selling bonds for AMD 5 billion more than the purchased amount. As a result, taking also into consideration the retirements of the bonds, the Bank's portfolio of government securities increased by about AMD 4.6 billion in nominal value. Interest income on the bond portfolio increased by 30 percent as compared to 2010 results, amounting to AMD 1,757 million and income from trade of bonds increased by more than 55% during the year amounting to AMD 61 million. In 2011 the Bank maintained its status of treasury bonds market agent.

The structure and income dynamics of the Bank's investment portfolio is presented below:

The Structure and Income Dynamics of the Bank's Investment Portfolio



In 2011 the Bank continued participating in foreign currency auctions at “NASDAQ OMX ARMENIA” stock exchange, implemented buy and sell operations totaling to about AMD 128 billion with the main convertible currencies in the interbank forex market.

During the year the Bank continued the extensive use of foreign currency swaps, implementing transactions in the interbank market for around AMD 51 billion.

It is also worth mentioning that during the reporting year, the Bank implemented swap and forward transactions also with its clients (excluding interbank transactions) amounting to AMD 1 billion and AMD 53 million respectively.

In 2011 the Bank continued active operations in the domestic market of precious metals maintaining a leading position in the RA financial system with the largest share of the total operations with precious metals. During the year the Bank implemented buy and sell transactions with precious metals for around AMD 25.5 billion. From the second semester of 2011 the Bank also started providing its clients services with unallocated metal accounts, operations with which amounted to AMD 233.5 by year end.

ARMSWISSBANK is one of the few banks in Armenia that provide quotations for AMD, RA government bonds, currency forwards and deposits in Reuters system as well as quotations for AMD, major currencies, RA government and corporate bonds, foreign currency forwards, interbank deposit and repurchase agreement rates at the official web page of the Bank at Bloomberg information system.

The Bank is active both in RA (attracting and allocating short and medium term deposits and loans) and international money markets, making deposits with leading foreign banks. Overall deposits and loans amounted to AMD 12 billion and AMD 25 billion respectively.

BROKERAGE ACTIVITY

Investment banking including brokerage services is considered one of the Bank’s main strategic activities and is carried out in accordance with the international standards. Within the scope of its brokerage activities the Bank offers its clients a wide variety of investment instruments, such as shares and depository receipts of American, European and Russian companies, government and corporate securities, commodity futures, repo operations with foreign securities and marginal operations.

In 2011 the Bank had a number of significant achievements in the sphere of investment services. The number of the Bank’s brokerage clients increased by 13% compared to the previous year. Operations were implemented with shares and depository receipts of leading companies trading on foreign stock exchanges.

The total number of brokerage transactions with foreign securities implemented upon the orders of the Bank’s clients during 2011 was 1,137 for an amount of AMD 10.9 billion which exceeded the previous year’s indicator by around 75%. Major part of this amount, namely AMD 10.8 billion is attributed to the brokerage transactions with foreign securities.

In 2011 the Bank also had active participation in the auctions at corporate securities platforms of the “NASDAQ OMX ARMENIA” stock exchange. Transactions with corporate bonds implemented at NASDAQ OMX ARMENIA upon customers’ orders amounted to AMD 32 million. As a result, the Bank received commissions for an amount of AMD 10.8 from brokerage transactions in 2011 which exceeds the previous year’s amount by 27%.

In 2011 the Bank also offered its clients repo transactions with foreign securities which amounted to AMD 2.2 billion in contrast to the amount of AMD 2.1 billion for the

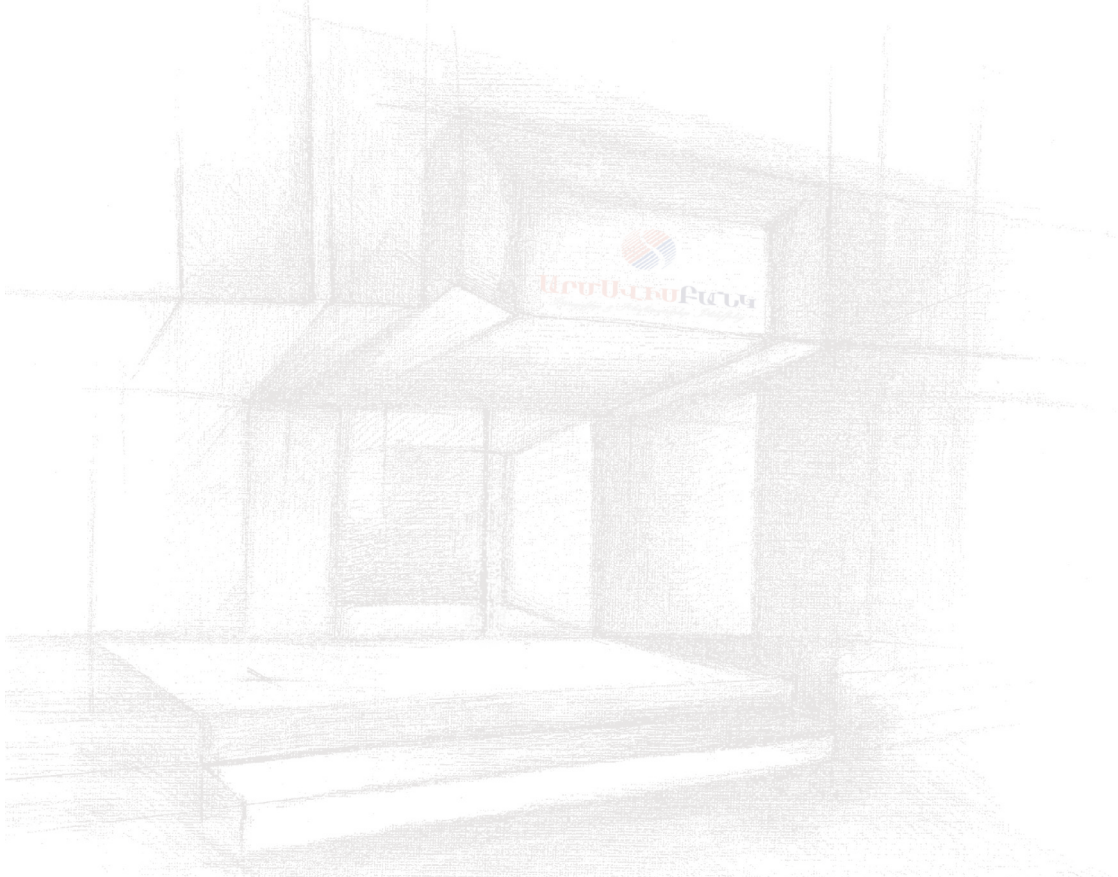
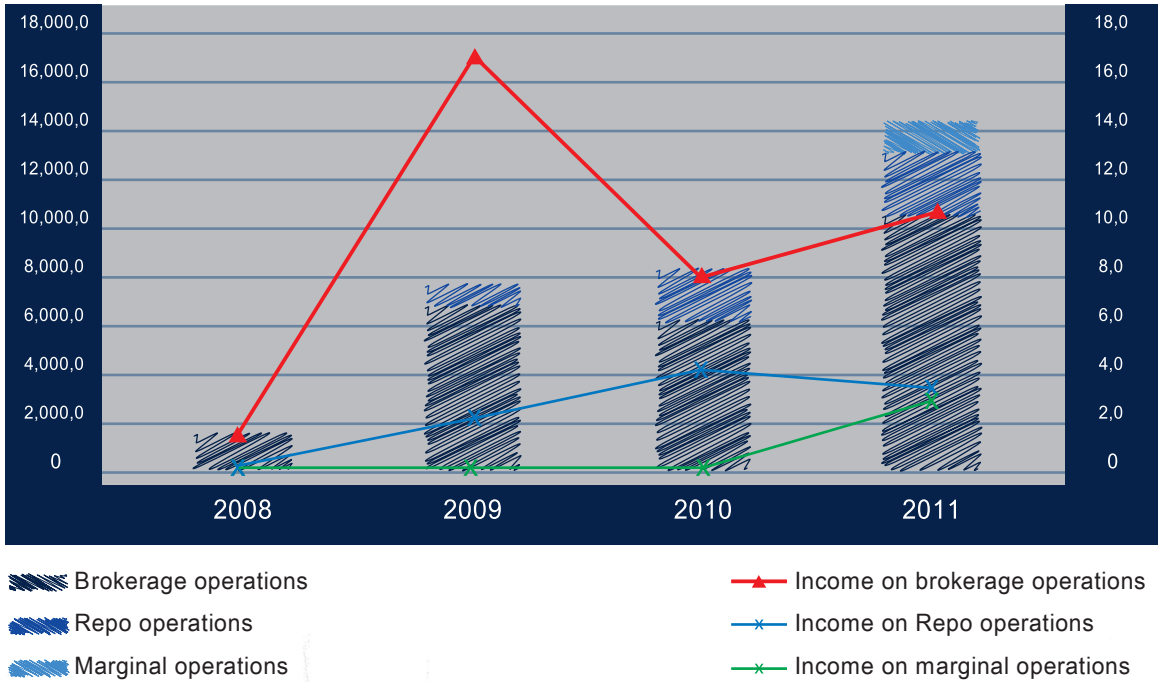
previous year. Return on the said operations was AMD 3.4 million for the reporting year.

In 2011 the Bank started implementing marginal transactions with foreign securities which allows additional financing to the clients to purchase securities. As a result, the Bank's clients implemented marginal trans-

actions for an amount of AMD 1.4 billion during the year, from which the Bank received AMD 2.8 million income.

The dynamics of the amounts and income received on investment services provided by the Bank are presented below:

Dynamics of the Amounts and Income of Investment Operations (million AMD)





Manvel Khachiyan
Director of the Information
Technologies Department

ARMSWISSBANK always improves IT infrastructure and will continue ensuring the consistency of information and infrastructure constantly introducing new technologies.

In 2011 the Bank implemented a number of activities to increase security guided by the international COBIT, ISO 27001, ISO 17799 standards. Particularly, several security related regulations were regrouped, user access levels were revised, information technologies were monitored and research studies were conducted.

The new Intrusion Prevention systems was installed. To make local networks more secure and manageable certain monitoring systems were installed. All of the abovementioned activities were aimed to increase the consistency of the systems operating in the Bank.

Swift Alliance software of the SWIFT international payment and settlement system was updated from Release 6 to Release 7, which has a number of advantages compared to the previous version.

A number of operations in the Bank were automated to reduce the human risk factor.

AS-Internet Bank system was installed in the Bank in 2011 which allows the Bank's customers to remotely use the Bank's services, that is, from any place, at any time without visiting the Bank and without significant expenses, via the internet. To ensure the security of the Bank's web site the certificates of the globally recognized VeriSign company were applied.

In 2011 the Bank installed relevant network devices which allowed to physically separate one network from the other in the Bank increasing the productivity and security of the network. In 2011 risk mitigation remained one of the Bank's primary objectives the main directions of which are interchangeability (of persons and systems) and correspondence of information technologies to international standards (COBIT, ISO 27001) and application thereof.



Siranush Torgomyan
Head of the Risk Management Division

The Bank's management has always prioritized the efficiency and consistency of risk management mechanisms. The Bank's Board, the Management Board, the Executive Director as well as each employee of the Bank are involved in the risk management process. Risk analysis is a vital component of the Bank's strategic planning process as well as the assessment and implementation of short and medium term projects.

Collective decision-making and consultative bodies operate in the Bank, namely, the Management Board, Credit, Investment, Assets and Liabilities Management, Compliance and Client Relations Management committees. The risk management process is regulated by the Board, which establishes limits, benchmarks, investment guidelines, criteria of selecting borrowers and partners, collateral requirements, etc., which reduce

the Bank's exposure to credit, market and other risks.

The Bank has a separate Risk Management Division, which is independent from operational units and exercises daily and periodic control over the Bank's operations through examining risk bearing transactions and monitoring the compliance with the set benchmarks and internal normatives of the Bank.

An effective system of credit, market, liquidity and operational risk management is applied in the Bank based on modern methods and technologies of risk assessment and mitigation. The Bank periodically reviews the existing guidelines and limits of investment benchmarks adjusting them to the situation of local and international financial markets. Stress test models are periodically exercised for observing the risks typical of the Bank. The Bank uses methodological guidelines for credit risk assessment. The tools that are made available by foreign partners are used to hedge the foreign currency risk and limits are defined for derivatives according to the regulation enforced in the Bank. One of the key elements of interest rate risk management, namely the maturity GAP model, is used for market risk assessment.

For the purpose of managing operational risk and reducing possible losses, the Bank has insurance packages, namely, the Bankers Blanket Bond Policy and Building and Property insurance.

The Bank implements detailed examination of its clients, partners and beneficiaries within the framework of its Anti-Money Laundering and Counter-Terrorism Financing policy which complies with international standards.



Arkadi Pinachyan
Head of Internal Audit

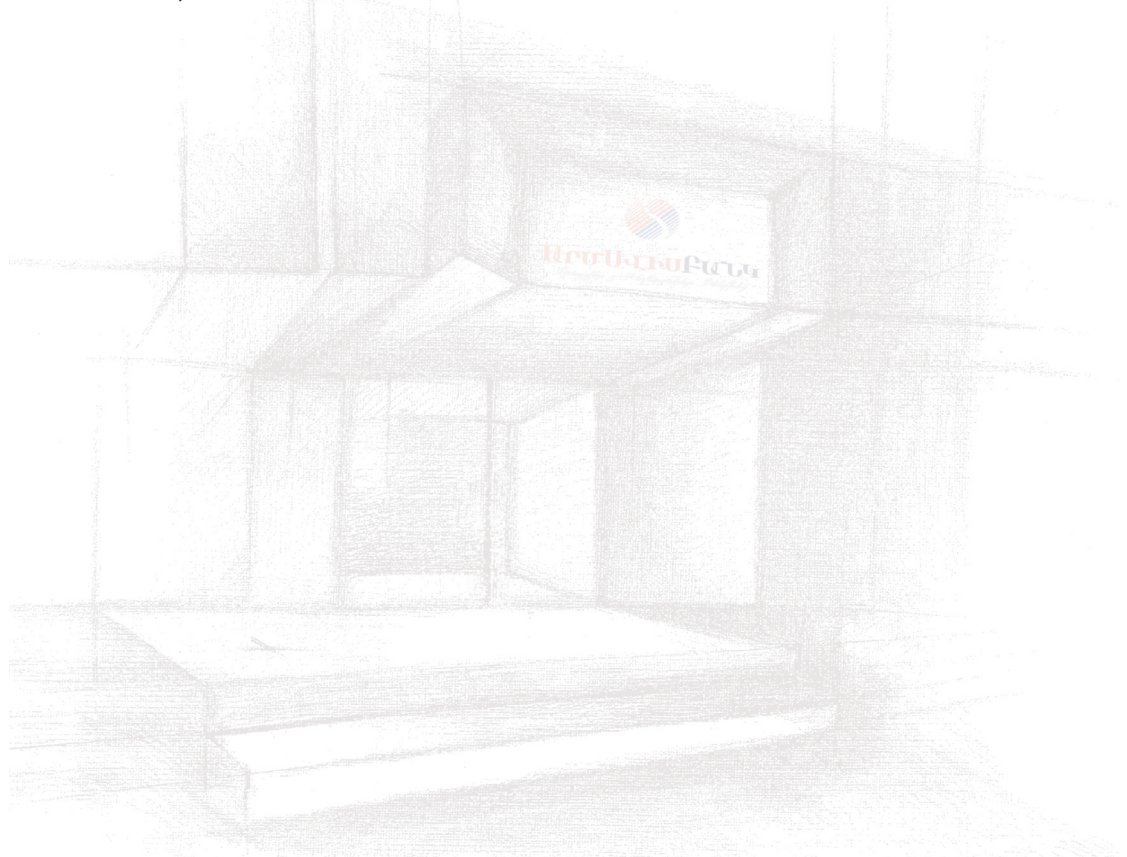
The Internal Audit also studies the risks related to the Bank's activity, evaluates whether the internal control mechanisms for the reduction and prevention of such risks are sufficient and effective, and monitors the

compliance of the Bank's activity to the RA legislation, legal requirements of the CBA and internal regulations of the Bank.

The Internal Audit acts according to its annual work plan approved by the Bank's Board carrying out both planned examinations and initiating examinations at its own discretion. To improve the Bank's internal control system the Internal Audit closely cooperates with the Bank's governing bodies and structural units. It is worth mentioning, that in 2011 the Internal Audit has completely fulfilled the the planned activities approved by the Bank's Board.

In 2011 the Internal Audit cooperated with EBRD's consultants to study the international practice in the field of internal audit and improve internal control mechanisms in the Bank. Methods of risk identification and assessment as well as their application in the Bank were discussed.

Based on the Bank's experience in the field of internal audit and experts' conclusions, internal legal acts regulating internal audit activities were reviewed and ammended.





Kristina Dadayan
Head of Administration

Human resources management policy aims to ensure the conformity of human resource management quality with international standards and creating favorable environment for the employees' responsible and creative work. Particularly, the Bank prioritizes employees' career advancement creating all necessary conditions for their professional growth, acquisition of new skills and knowledge, as well as for social welfare. Together with the expansion of the Bank's operations the staff and its structure has also changed. In 2011 the Bank recruited both experienced and young professionals (15 new

employees). As of December 31, 2011, the number of the Bank's employees was 91, and the average age was 31.

The Bank prioritizes the continuous training of its personnel to ensure awareness of the changing legislation, new technologies, cooperation mechanisms with institutional partners, etc.

During the reporting year 42 employees of the Bank participated in 57 seminars, presentations and conferences in the Republic of Armenia and 5 employees participated in conferences and trainings abroad. Furthermore, 32 internal seminars were organized in the Bank.

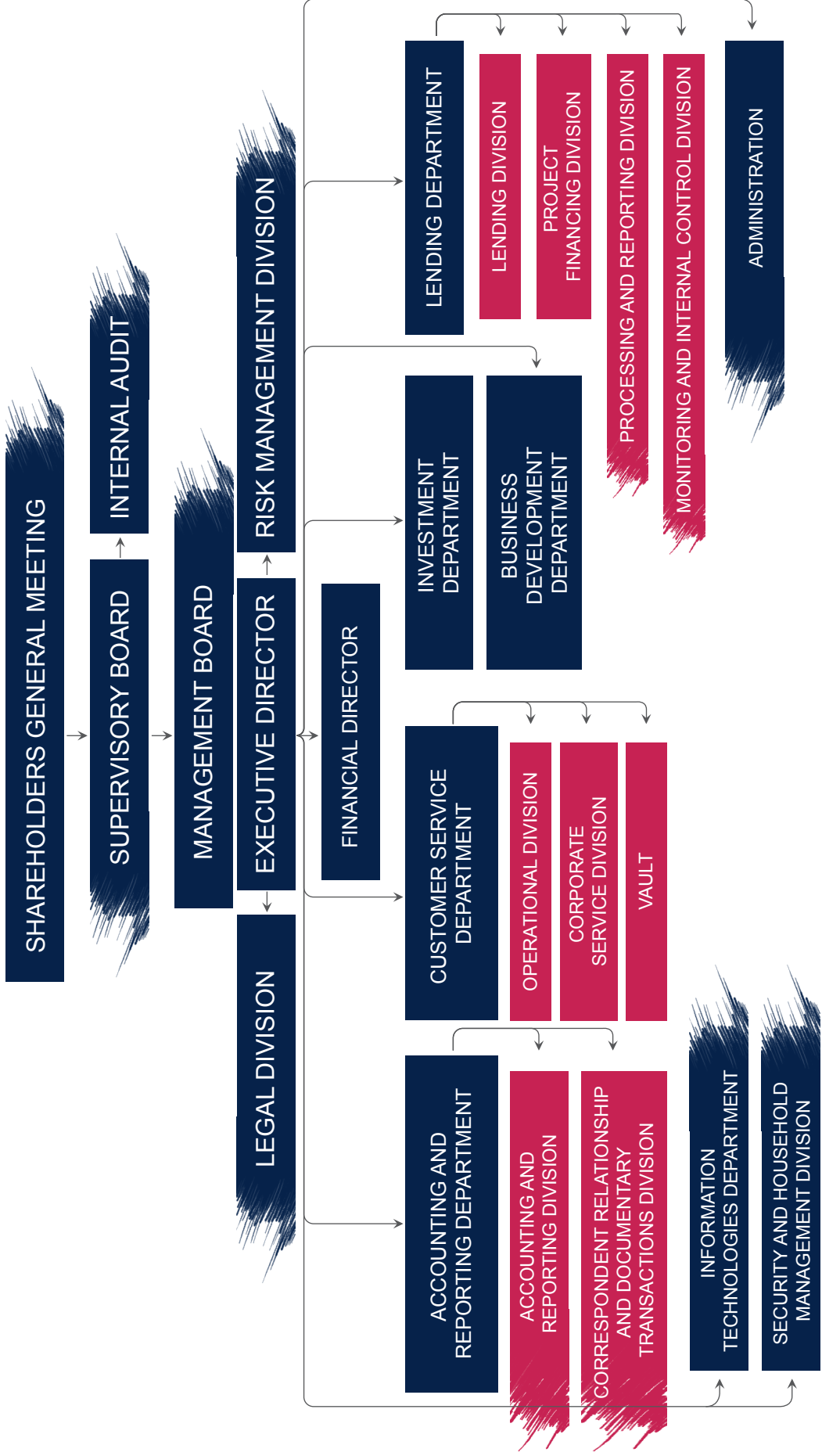
In 2011 two employees of the Bank successfully took the exams of the training program in trade finance organised jointly by the European Bank for Reconstruction and Development (EBRD) and the International Chamber of Commerce (ICC).

A number of analytical papers were presented by the Bank's employees on issues related to the Bank.

Around 80% of the employees participated in the health insurance package offered within the scope of the Bank's social policies during the reporting year.

Corporate events, parties and hikings were organized for the Bank's employees. All these events contributed to strengthening interpersonal relationships among the employees creating a strong team spirit and an atmosphere of cooperation and mutual respect.

“ARMSWISSBANK” CJSC
ORGANIZATIONAL CHART
AS OF 31.12.2011





Hayk Mkrtchyan
Director of the Business
Development Department

In 2011 the Bank intensified activities towards the promotion of both existing and new products.

In 2011 the Bank thoroughly changed the design and structure of its web site making it more informative and attractive. The web site provides information on the Bank's business philosophy, principal values, provided services, the Bank's administration as well as other necessary information on the Bank's activity and on the main instruments of local and international markets. During 2011 e-marketing activities were intensified, banner-advertisements about the Bank's servic-

es were placed on a number of specialized web sites with links to the Bank's web page.

In 2011 the Bank implemented marketing activities in RA and abroad, particularly in Marseille, France to promote the allocation of the 3rd issue of "Artsakh HEK" OJSC's shares by attracting investors. Also banner stands with information about the Bank's services were designed and printed for using at Expos and advertising at large business centers.

In 2011 the Bank updated the design and content of the booklets presenting its products and services. Also, new booklets were designed and printed to present the new services offered by the Bank. The Bank also implemented marketing researches, studies on RA banking market, services offered by the competitors, fees and interest rates and developed its own tariff policy.

In 2011 the Bank also created a movie about the seven years of its activity and the main achievements throughout these years.

The Bank carried out activities among the target groups of clients directed to reveal the unrecognized needs of the clients, establish effective contact with them, gradually introduce private banking services, apply new technologies of providing services, diversify the services provided to each of the Bank's clients. The Bank continued to effectively use "direct marketing" to attract new clients.

A significant number of meetings and seminars were organized to increase public recognition and attract new clients.

FINANCIAL RESULTS

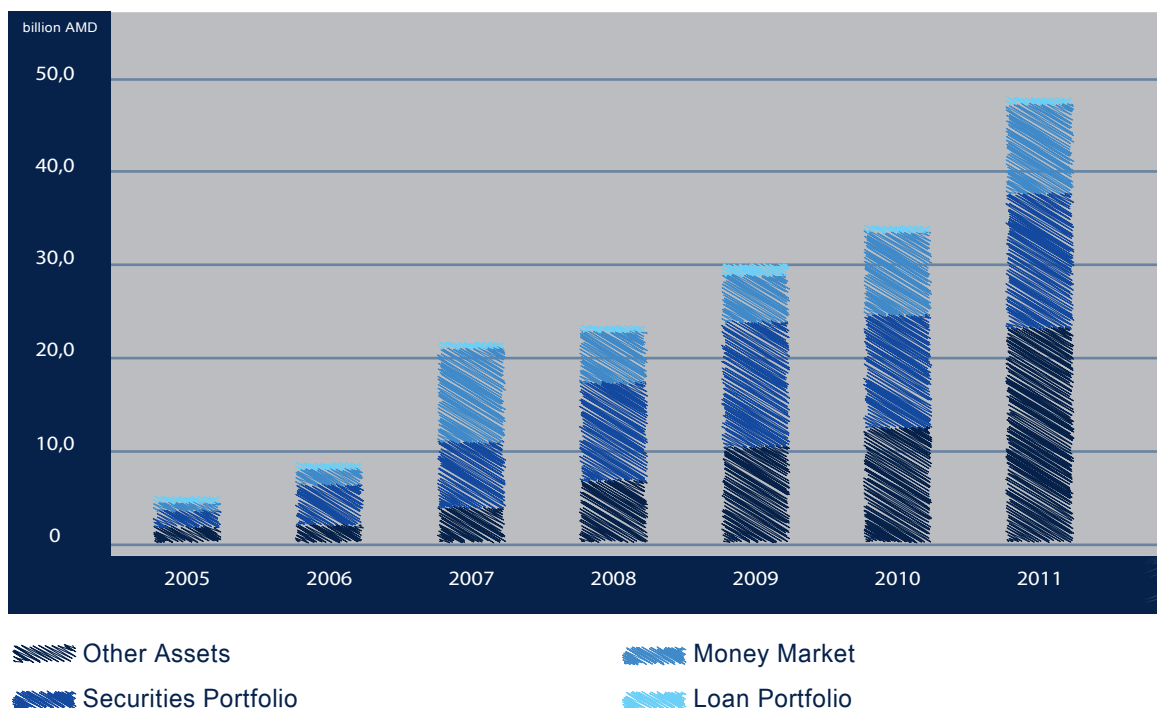


Sedrak Baghdasaryan
Member of the Management Board
Director of the Accounting and
Reporting Department
Chief Accountant

ARMSWISSBANK completed the seventh year of its activity with a substantial growth in all key performance indicators.

During the reporting year the Bank's assets increased by AMD 12.8 billion or by 36% compared with the previous period amounting to AMD 47.9 billion. Also there were some changes within the structure of the assets. Loans to customers increased by AMD 8.8 billion, securities pledged under repurchase agreements (sold under the condition of buying back) have increased by AMD 6.1 billion. Loans comprise a large portion of the assets, namely, 46%, securities account for 33%, the share of interbank deposits is 9% and the outstanding balance of the correspondent accounts with the CBA is 11% of the total assets which is explained by the large amounts of market instruments (international loans, repurchase agreements, etc.) which require high liquidity.

The Structure and Dynamics of the Assets



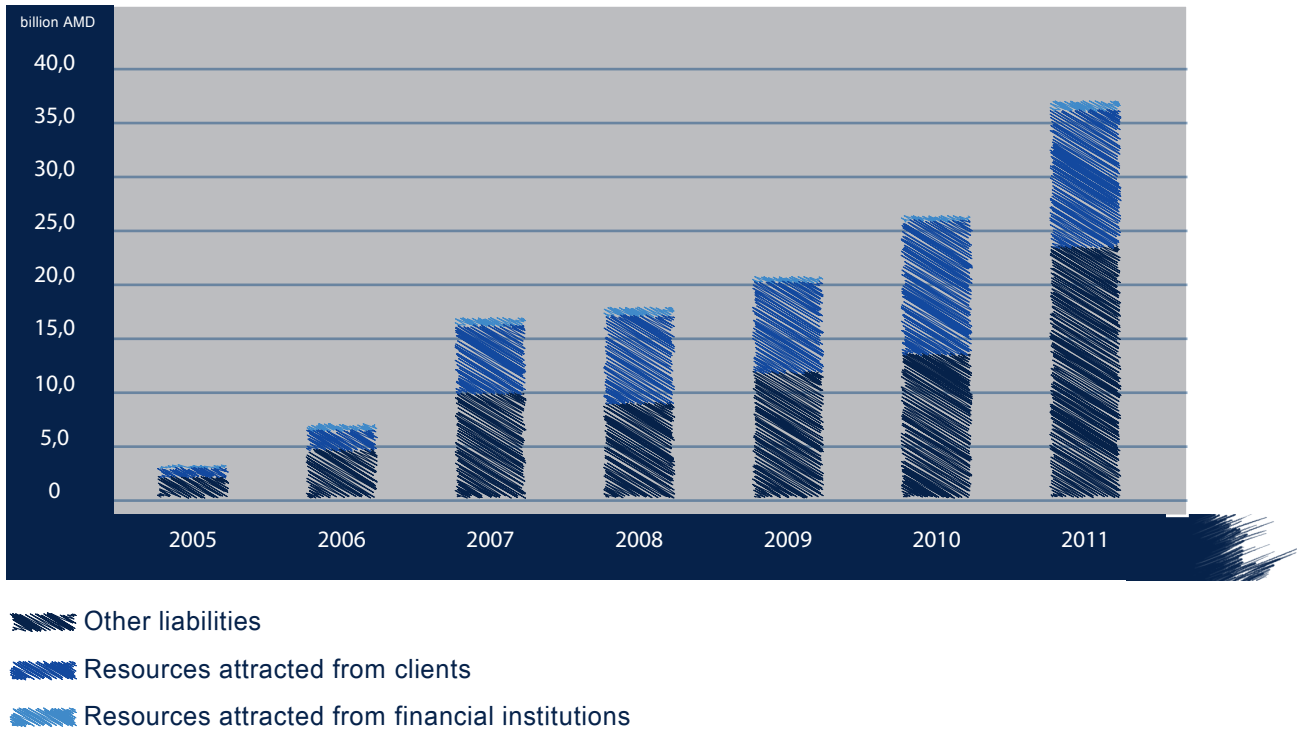
Total liabilities of the Bank have increased by AMD 11.4 billion or by 43% during the reporting year amounting to AMD 37.5 billion.

The structure of the liabilities has also

changed. Amounts due to financial institutions increased by AMD 800.0 million.

Liabilities to legal entities and individuals increased by AMD 3.7 billion.

The Structure and Dynamics of the Liabilities

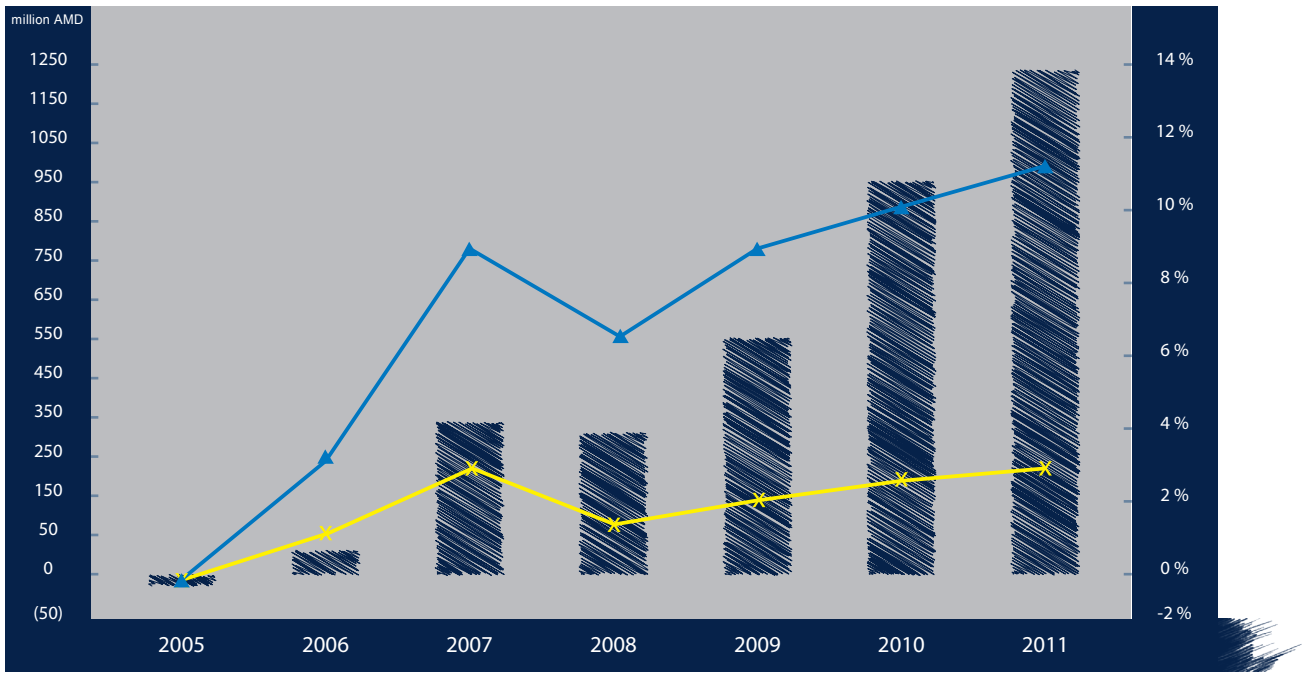





Net interest income has increased by 26% or AMD 555 million during the reporting period amounting to AMD 2.3 billion. Income on loans and securities have comprised 95% of the total interest income.

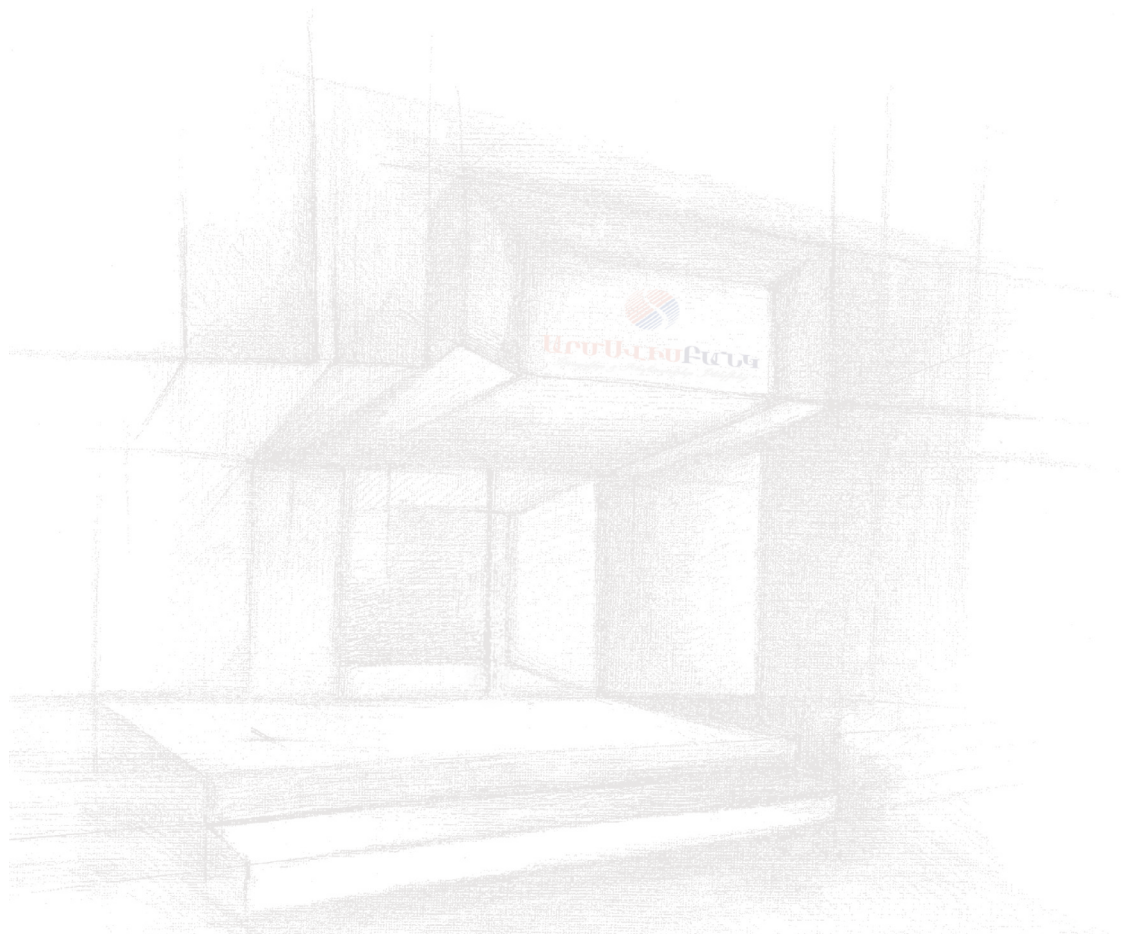
In 2011 the Bank's net profit was about AMD 1.2 billion. Compared to 2010, net profit increased by AMD 246 million which is mainly a result of increase in both the Bank's income bearing assets and the annual return on RA government securities. As a result, the

retained profit as of December 31, 2011 accrued from the moment the Bank was founded amounted to more than AMD 2.2 billion, without accounting for the provisions to the general reserve for an amount of AMD 1.0 billion. Total capital of the Bank amounted to about AMD 10.5 billion at the end of 2011, increasing by 18% compared to the previous year due to the amount of the profit made in the reporting period.

Dynamics of the annual profit and indicators of profitability



-  Annual Profit
-  ROE
-  ROA



To the Shareholders and Board of Directors of “Armswissbank” CJSC:

We have audited the accompanying financial statements of the “Armswissbank” CJSC (the “Bank”), which comprise the statement of financial position as of December 31, 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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



Grant Thornton

An instinct for growth™

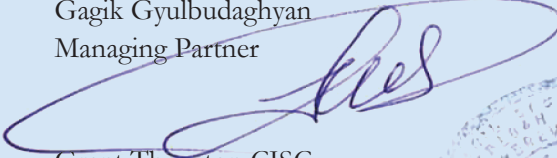
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

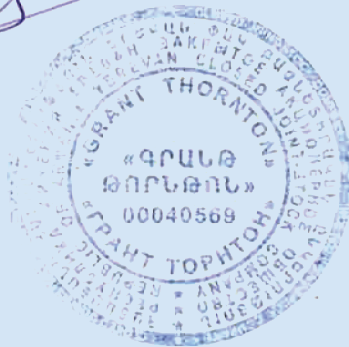
In our opinion, the financial statements give a true and fair view of the financial position of the “Armswissbank” CJSC as of December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gagik Gyulbudaghyan
Managing Partner

Armen Vanyan
Audit Manager



Grant Thornton CJSC
24 February, 2012
Yerevan



Statement of comprehensive income

In thousand Armenian drams	Notes	Year ended December 31, 2011	Year ended December 31, 2010
Interest and similar income	6	4,326,816	3,316,153
Interest and similar expense	6	(2,038,730)	(1,583,504)
Net interest income		2,288,086	1,732,649
Fee and commission income	7	150,532	92,897
Fee and commission expense	7	(22,143)	(13,049)
Net fee and commission income		128,389	79,848
Net trading income	8	128,796	68,960
Gains less losses on investments available for sale		60,788	39,184
Other income	9	99,728	74,465
Impairment charge for credit losses	17	(300,706)	(42,528)
Staff costs	10	(580,023)	(480,447)
Depreciation of property and equipment	19	(55,020)	(57,944)
Amortization of intangible assets	20	(7,698)	(6,529)
Other expenses	11	(258,343)	(202,096)
Profit before income tax		1,503,997	1,205,562
Income tax expense	12	(305,114)	(252,571)
Profit for the year		1,198,883	952,991
Other comprehensive income:			
Net unrealized gains/(losses) from changes in fair value		275,477	(186,985)
Net (gains)/losses realized to net profit on disposal of available-for-sale instruments		31,254	196,158
Income tax relating to components of other comprehensive income		(61,346)	(1,834)
Other comprehensive income for the year, net of tax		245,385	7,339
Total comprehensive income for the year		1,444,268	960,330

The accompanying notes on pages 7 to 51 are an integral part of these financial statements.

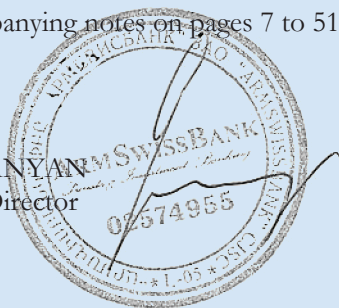
Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2011	As of December 31, 2010
ASSETS			
Cash and balances with CBA	13	5,694,191	4,040,968
Precious metals	14	49,542	153,785
Amounts due from other financial institutions	15	3,693,617	4,368,441
Derivative financial assets	16	20,764	20,644
Loans and advances to customers	17	21,841,997	13,034,621
Investments available for sale	18	4,381,926	7,347,074
Securities pledged under repurchase agreements	26	11,442,926	5,320,918
Property, plant and equipment	19	648,561	619,868
Intangible assets	20	43,784	50,354
Deferred income tax assets	12	-	16,306
Other assets	21	161,448	191,233
TOTAL ASSETS		47,978,756	35,164,212
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the CBA	22	11,977,387	5,661,265
Derivative financial liabilities	16	5,506	10,716
Financial liabilities held for trading	15,17	798,055	-
Amounts due to other financial institutions	23	8,584,986	7,936,890
Amounts due to customers	24	15,740,237	12,313,526
Current income tax liabilities		104,576	127,913
Deferred income tax liabilities	12	61,929	-
Other liabilities	25	232,044	84,134
Total liabilities		37,504,720	26,134,444
Equity			
Share capital	27	7,002,000	7,002,000
Statutory general reserve		1,000,000	500,000
Other reserves		100,726	(144,659)
Retained earnings		2,371,310	1,672,427
Total equity		10,474,036	9,029,768
TOTAL LIABILITIES AND EQUITY		47,978,756	35,164,212

The financial statements from pages 3 to 51 were signed by the Bank’s Executive Director and Chief Accountant on 24 February 2012.

The accompanying notes on pages 7 to 51 are an integral part of these financial statements.

G. MACHANYAN
 Executive Director



S. BAGHDASARYAN
 Chief accountant

Statement of changes in equity

In thousand Armenian drams

	Share capital	Statutory general reserve	Revaluation reserve of securities available for sale	Retained earnings	Total
Balance as of January 1, 2010	7,002,000	200,000	(151,998)	1,019,436	8,069,438
Distribution to reserve	-	300,000	-	(300,000)	-
Transactions with owners	-	300,000	-	(300,000)	-
Profit for the year	-	-	-	952,991	952,991
Other comprehensive income:					
Net unrealized loss from changes in fair value	-	-	(186,985)	-	(186,985)
Net losses realized to comprehensive income statement on disposal of available-for-sale instruments	-	-	196,158	-	196,158
Income tax relating to components of other comprehensive income	-	-	(1,834)	-	(1,834)
Total comprehensive income for the year	-	-	7,339	952,991	960,330
Balance as of December 31, 2010	7,002,000	500,000	(144,659)	1,672,427	9,029,768
Distribution to reserve	-	500,000	-	(500,000)	-
Transactions with owners	-	500,000	-	(500,000)	-
Profit for the year	-	-	-	1,198,883	1,198,883
Other comprehensive income:					
Net unrealized gain from changes in fair value	-	-	275,477	-	275,477
Net losses realized to comprehensive income statement on disposal of available-for-sale instruments	-	-	31,254	-	31,254
Income tax relating to components of other comprehensive income	-	-	(61,346)	-	(61,346)
Total comprehensive income for the year	-	-	245,385	1,198,883	1,444,268
Balance as of December 31, 2011	7,002,000	1,000,000	100,726	2,371,310	10,474,036

Statement of cash flows

In thousand Armenian drams	Year ended December 31, 2011	Year ended December 31, 2010
Cash flows from operating activities		
Profit before tax	1,503,997	1,205,562
<i>Adjustments for</i>		
Impairment charge for credit losses	300,706	42,528
Amortization and depreciation allowances	62,718	64,473
Net gains from sale of PPE	-	(140)
Interests receivable	(91,148)	(140,627)
Interests payable	23,762	114,015
Foreign currency translation net losses of non-trading assets and liabilities	38,236	9,015
Net income from changes in fair value of trading instruments	(5,311)	(9,928)
Cash flows from operating activities before changes in operating assets and liabilities	1,832,960	1,284,898
<i>(Increase)/decrease in operating assets</i>		
Precious metals	104,243	(153,785)
Amounts due from other financial institutions	496,379	(1,792,252)
Loans and advances to customers	(8,203,723)	(2,992,258)
Other assets	31,288	(63,478)
<i>Increase/(decrease) in operating liabilities</i>		
Repurchase agreements with the CBA	6,343,778	(2,199,985)
Financial liabilities held for trading	798,055	-
Amounts due to financial institutions	(946,107)	(88,340)
Amounts due to customers	2,620,744	3,003,516
Other liabilities	147,916	20,175
Net cash flow used in operating activities before income tax	3,225,533	(2,981,509)
Income tax paid	(311,562)	(185,178)
Net cash used in operating activities	2,913,971	(3,166,687)
Cash flows from investing activities		
(Purchase) /sale of investment securities	(2,932,222)	1,281,803
Purchase of property and equipment	(83,744)	(8,951)
Proceeds from sale of property and equipment	31	167
Purchase of intangible assets	(1,128)	(15,030)
Net cash from/ (used in) investing activities	(3,017,063)	1,257,989
Cash flow from financing activities		
Loans received from the CBA	(19,121)	7,445
Loans received from financial institutions	1,248,333	3,328,803
Other long term loans	172,266	755,317
Net cash flow from financing activities	1,401,478	4,091,565
Net increase in cash and cash equivalents	1,298,386	2,182,867
Cash and cash equivalents at the beginning of the year	4,732,924	2,596,993
Exchange differences on cash and cash equivalents	40,073	(46,936)
Cash and cash equivalents at the end of the year (note 13)	6,071,383	4,732,924
Supplementary information:		
Interest received	4,376,295	3,175,545
Interest paid	(2,128,983)	(1,469,489)

FOREIGN CORRESPONDENT BANKS

Germany

Frankfurt Main	Commerzbank AG	EUR	COBA DE FF
		USD	

Austria

Vienna	Raiffeisen Bank International AG	EUR	RZBA AT WW
		USD	

Switzerland

Zurich	UBS AG	CHF	UBSW CH ZH80A
		EUR	
		USD	

Russia

Moscow	UniCredit Bank CJSC	RUB	IMBK RU MM
		USD	
		EUR	
		CHF	
		GBP	
Moscow	Promsvyazbank JSCB	RUB	PRMSRUMM
		USD	
		EUR	

Latvia

Riga	Norvik Bank JSC	USD	LATBLV22
		EUR	

COOPERATION AND MEMBERSHIP

Union of Banks of Armenia (UBA)
NASDAQ OMX Armenia Stock Exchange
Armenian Credit Reporting Agency (ACRA)
Society for Worldwide Interbank Financial Telecommunications (SWIFT)
Factors Chain International (FCI)
American Chamber of Commerce in Armenia (AMCHAM)
Partner Bank of the German-Armenian Found (Renewable Energy program)
SME Development National Center (SME DNC)
European Bank for Reconstruction and Development (EBRD)
National Mortgage Company (NMC)

BANK DETAILS

Full Name: "ARMSWISSBANK" CJSC
Licenses: Banking License N 84 granted by the Central Bank of Armenia
on February 25, 2005
Address: 10 V. Sargsyan Str., Yerevan 0010, Republic of Armenia
Tax Code: 02574955
Correspondent account at the Central Bank of RA: 103002102509
SWIFT code: ARSJAM22
Reuters page: ARSJ, ARSI
Bloomberg page: ASWI
Telephone: +374 10 52 95 93, 58 44 19, 54 07 28
Fax: +374 10 52 95 91
E-mail: info@armswissbank.am
URL: www.armswissbank.am, www.armswissbank.com
Service hours: 9:30 – 17:30

