

Financial Statements and Independent  
Auditor's Report

“ARMSWISSBANK” closed joint stock  
company

31 December 2013

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## Independent auditor's report

Գրանթ Թորնթոն ՓԲԸ  
ՀՀ, ք. Երևան 0012  
Վաղարշյան 8/1  
Հ. + 374 10 260 964  
Ֆ. + 374 10 260 961

Grant Thornton CJSC  
8/1 Vagharshyan str.  
0012 Yerevan, Armenia  
T + 374 10 260 964  
F + 374 10 260 961  
[www.grantthornton.am](http://www.grantthornton.am)

To the Shareholder and Board of Directors of Closed Joint Stock Company “Armswissbank”:

We have audited the accompanying financial statements of “Armswissbank” closed joint stock company (the “Bank”), which comprise the statement of financial position as of December 31, 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility 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.



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” Closed Joint Stock Company as of December 31, 2013, 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  
Auditor



Grant Thornton CJSC  
01 April, 2014  
Yerevan



## Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	Year ended December 31, 2013	Year ended December 31, 2012
Interest and similar income	6	6,463,815	5,658,875
Interest and similar expense	6	(3,159,909)	(2,789,424)
<b>Net interest income</b>		<b>3,303,906</b>	2,869,451
Fee and commission income	7	130,582	104,605
Fee and commission expense	7	(44,455)	(21,498)
<b>Net fee and commission income</b>		<b>86,127</b>	83,107
Net trading income	8	90,465	37,095
Gains less losses on investments available for sale		446,912	62,176
Other income	9	168,603	152,507
Impairment charge for credit losses	16	(957,249)	(322,282)
Staff costs	10	(686,046)	(627,948)
Depreciation of property and equipment	18	(56,033)	(56,460)
Amortization of intangible assets	19	(8,151)	(7,978)
Other expenses	11	(229,784)	(212,952)
<b>Profit before income tax</b>		<b>2,158,750</b>	1,976,716
Income tax expense	12	(416,576)	(351,745)
<b>Profit for the year</b>		<b>1,742,174</b>	1,624,971
<b>Other comprehensive income:</b>			
<i>Items that will not be reclassified subsequently to profit or loss</i>		-	-
<i>Items that will be reclassified subsequently to profit or loss</i>			
Net unrealized gains from changes in fair value		5,349,771	509,220
Net gain realized to net profit on disposal of available-for-sale instruments		(314,613)	(266,069)
Income tax relating to items that will be reclassified		(1,007,032)	(48,630)
<b>Other comprehensive income for the year, net of tax</b>		<b>4,028,126</b>	194,521
<b>Total comprehensive income for the year</b>		<b>5,770,300</b>	1,819,492

The accompanying notes on pages 7 to 54 are an integral part of these financial statements.

# Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2013	As of December 31, 2012
<b>ASSETS</b>			
Cash and cash equivalents	13	8,920,558	5,529,023
Amounts due from financial institutions	14	814,031	2,405,060
Derivative financial assets	15	2,001	186
Loans and advances to customers	16	27,801,733	27,341,299
Investments available for sale	17	13,822,725	5,055,014
Securities pledged under repurchase agreements	26	17,215,842	13,222,935
Property, plant and equipment	18	756,971	758,132
Intangible assets	19	34,011	35,806
Repossessed assets	20	389,846	438
Other assets	21	53,123	227,725
<b>TOTAL ASSETS</b>		<b>69,810,841</b>	<b>54,575,618</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Amounts due to the CBA	22	17,615,856	15,464,966
Derivative financial liabilities	15	200	293
Amounts due to financial institutions	23	5,462,930	7,614,530
Amounts due to customers	24	24,154,628	18,549,952
Current income tax liabilities		171,751	230,957
Deferred income tax liabilities	12	1,060,396	95,683
Other liabilities	25	183,211	325,709
<b>Total liabilities</b>		<b>48,648,972</b>	<b>42,282,090</b>
<b>Equity</b>			
Share capital	27	8,752,800	7,002,000
Share premium		1,347,241	-
Statutory general reserve		2,000,000	1,500,000
Other reserves		4,323,373	295,247
Retained earnings		4,738,455	3,496,281
<b>Total equity</b>		<b>21,161,869</b>	<b>12,293,528</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>69,810,841</b>	<b>54,575,618</b>

The financial statements from pages 3 to 54 were signed by the Bank's Executive Director on 01 April 2014.

The accompanying notes on pages 55 to 54 are an integral part of these financial statements.

GEVORG MACHANYAN  
Executive Director




SIDRAK BAGHDASARYAN  
Chief accountant



## Statement of changes in equity

In thousand Armenian drams	Share capital	Share premium	Statutory general reserve	Revaluation reserve of securities available for sale	Retained earnings	Total
<b>Balance as of January 01, 2012</b>	<u>7,002,000</u>	<u>-</u>	<u>1,000,000</u>	<u>100,726</u>	<u>2,371,310</u>	<u>10,474,036</u>
Distribution to reserve	-	-	500,000	-	(500,000)	-
Transactions with owners	-	-	500,000	-	(500,000)	-
Profit for the year	-	-	-	-	1,624,971	1,624,971
<b>Other comprehensive income:</b>						
Net unrealized gain from changes in fair value	-	-	-	509,220	-	509,220
Net gain realized to net profit on disposal of available-for-sale instruments	-	-	-	(266,069)	-	(266,069)
Income tax relating to components of other comprehensive income	-	-	-	(48,630)	-	(48,630)
Total comprehensive income for the year	-	-	-	194,521	1,624,971	1,819,492
<b>Balance as of December 31, 2012</b>	<u>7,002,000</u>	<u>-</u>	<u>1,500,000</u>	<u>295,247</u>	<u>3,496,281</u>	<u>12,293,528</u>
Increase in share capital	1,750,800	1,347,241	-	-	-	3,098,041
Distribution to reserve	-	-	500,000	-	(500,000)	-
Transactions with owners	1,750,800	1,347,241	500,000	-	(500,000)	3,098,041
Profit for the year	-	-	-	-	1,742,174	1,742,174
<b>Other comprehensive income:</b>						
Net unrealized gain from changes in fair value	-	-	-	5,349,771	-	5,349,771
Net gain realized to net profit on disposal of available-for-sale instruments	-	-	-	(314,613)	-	(314,613)
Income tax relating to components of other comprehensive income	-	-	-	(1,007,032)	-	(1,007,032)
Total comprehensive income for the year	-	-	-	4,028,126	1,742,174	5,770,300
<b>Balance as of December 31, 2013</b>	<u>8,752,800</u>	<u>1,347,241</u>	<u>2,000,000</u>	<u>4,323,373</u>	<u>4,738,455</u>	<u>21,161,869</u>

## Statement of cash flows

In thousand Armenian drams	Year ended December 31, 2013	Year ended December 31, 2012
<b>Cash flows from operating activities</b>		
Profit before tax	2,158,750	1,976,716
<i>Adjustments for</i>		
Impairment charge for credit losses	957,249	322,282
Amortization and depreciation allowances	64,184	64,438
Interests receivable	(79,699)	125,577
Interests payable	49,748	76,299
Foreign currency translation net gain of non-trading assets and liabilities	(14,906)	(55,817)
Net (gain)/loss from changes in fair value of trading instruments	(1,908)	15,364
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>3,133,418</b>	<b>2,524,859</b>
<i>(Increase)/decrease in operating assets</i>		
Amounts due from other financial institutions	1,550,192	954,426
Loans and advances to customers	(1,604,293)	(5,033,556)
Other assets	174,400	(23,115)
<i>Increase/(decrease) in operating liabilities</i>		
Repurchase agreements with the CBA	2,331,837	3,567,881
Trading liabilities	-	(798,055)
Amounts due to financial institutions	(562,508)	(1,781,045)
Amounts due to customers	5,817,688	2,717,104
Other liabilities	(148,902)	94,334
<b>Net cash flow used in operating activities before income tax</b>	<b>10,691,832</b>	<b>2,222,833</b>
Income tax paid	(518,101)	(288,723)
<b>Net cash from operating activities</b>	<b>10,173,731</b>	<b>1,934,110</b>
<b>Cash flows from investing activities</b>		
Purchase of investment securities	(7,725,460)	(2,370,209)
Purchase of property and equipment	(54,874)	(166,173)
Proceeds from sale of property and equipment	-	142
Purchase of intangible assets	(6,356)	-
<b>Net cash used in investing activities</b>	<b>(7,786,690)</b>	<b>(2,536,240)</b>
<b>Cash flow from financing activities</b>		
Loans redeemed to the CBA	(181,587)	(66,373)
Loans received from/(repaid to) financial institutions	(1,589,839)	608,949
Other long term loans redeemed	(318,892)	(506,854)
Issue of equity capital	3,098,041	-
<b>Net cash from financing activities</b>	<b>1,007,723</b>	<b>35,722</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>3,394,764</b>	<b>(566,408)</b>
Cash and cash equivalents at the beginning of the year	5,529,023	6,071,383
Exchange differences on cash and cash equivalents	(3,229)	24,048
<b>Cash and cash equivalents at the end of the year (Note 13)</b>	<b>8,920,558</b>	<b>5,529,023</b>
Supplementary information:		
Interest received	6,384,401	5,791,099
Interest paid	(3,208,427)	(2,872,937)



# Accompanying notes to the financial statements

## 1 Principal activities

Armswissbank CJSC (the “Bank”), incorporated in the Republic of Armenia (RA) in 2004, is a closed joint stock company regulated by the legislation of RA. The Bank conducts its business under license number 84, granted on 07 October 2004 by the Central Bank of Armenia (the “CBA”).

The Bank’s main activities include provision of corporate, investment and private banking services –investments in financial instruments, accepting deposits from physical and legal entities, provision of other service in the field of finance and banking (lending and factoring).

The head office of the Bank is located in Yerevan. The registered office of the Bank is located at: 10 V. Sargsyan str., Yerevan, 0010, RA.

## 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.

There are still uncertainties about the economic situation of countries, collaborating with the RA, which may lead to the shortage of money transfers from abroad, as well as to the decline in the prices of mining products, upon which the economy of Armenia is significantly dependant. In times of more severe market stress the situation of Armenian economy and of the Bank may be exposed to deterioration. 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 Bank may be affected.

Accordingly, the financial statements of the Bank do not include the effects of adjustments, which might have been considered necessary.

## 3 Basis of preparation

### 3.1 Statement of compliance

The financial statements of the Bank 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 are stated at amortized cost and non-financial assets and liabilities are stated at historical cost.

### 3.3 Functional and presentation currency

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

### 3.4 Changes in accounting policies

In the current year the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2013.

#### *IFRS 13 Fair Value Measurement*

IFRS 13 clarifies the definition of fair value and provides relevant guidelines and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of IFRS 13 is broad and it applies to both financial and non-financial items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in certain circumstances.

Its disclosure requirements need not be applied for comparative information in the first year of application.

The Bank has applied IFRS 13 for the first time in the current year. Refer to note number 30.

#### *IAS 1 (Amendment) Presentation of Financial Statements*

The IAS 1 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The amendment, which has changed the current presentation of items in other comprehensive income; however, it has not affected the measurement or recognition of such items.

#### *IFRS 7 (Amendment) Offsetting Financial Assets and Financial Liabilities*

The amendment adds qualitative and quantitative disclosures to IFRS 7 relating to gross and net amounts of recognized financial instruments that are

- a) set off in the statement of financial position and

b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position.

The IFRS has been applied for the first time in the current year. Refer to note number 31.

### 3.5 Standards, amendments and interpretations not yet applied by the Bank

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 Bank has not early adopted any of these pronouncements.

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2014 and are required to be applied retrospectively, with the exception of amendments performed in IFRS 9 *Financial Instruments*.

#### *IFRS 9 Financial Instruments*

The IASB aims to replace *IAS 39 Financial Instruments: Recognition and Measurement* in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Because the impairment phase of the IFRS 9 project has not yet been completed, the IASB decided that a mandatory date of 1 January 2015 would not allow sufficient time for entities to prepare to apply the new Standard. Accordingly, the IASB decided that a new date should be decided upon when the entire IFRS 9 project is closer to completion. The amendments made to IFRS 9 in November 2013 remove the mandatory effective date from IFRS 9. However, entities may still choose to apply IFRS 9 immediately.

#### *IAS 36 (Amendment) Recoverable Amount Disclosure for Non-Financial Assets*

Amendments to IAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

Earlier application is permitted provided the entity has already adopted IFRS 13.

#### *IAS 32 (Amendment) Offsetting Financial Assets and Financial Liabilities*

The amendment addresses inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. Two areas of inconsistency are addressed by the amendments.

- relates to the meaning of ‘currently has a legally enforceable right of set-off’. The IASB has clarified that a right of set-off is required to be legally enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The right must also exist for all counterparties.
- relates to gross settlement systems, such as clearing houses, used by banks and other financial institutions. There had been diversity in practice over the interpretation of IAS 32’s requirement for there to be ‘simultaneous settlement’ of an asset and a liability in order to achieve offsetting.

The IASB has clarified in the amendments the principle behind net settlement and included an example of a ‘gross settlement system’ with characteristics that would satisfy the IAS 32 criterion for net settlement.

These Amendments were made in conjunction with additional disclosures in IFRS 7 on the effects of rights of set-off and similar arrangements.

### **Annual Improvements to IFRSs 2010-2012 Cycle**

The Annual Improvements 2010-2012 made several minor amendments to a number of IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014

#### ***IFRS 8 Operating Segments***

Aggregation of operating segments

- requires entities to disclose the judgements made in identifying their reportable segments when operating segments have been aggregated, including a brief description of the operating segments that have been aggregated and the economic indicators that determine the aggregation criteria.

Reconciliation of the total of the reportable segments’ assets to the entity’s assets

- clarifies that the entity is required to provide a reconciliation between the total reportable segments’ assets and the entity’s assets only if the segment assets are regularly reported to the chief operating decision maker.

#### ***IFRS 13 Fair Value Measurement***

Short-term receivables and payables

- amends the Basis for Conclusions to clarify that an entity is not required to discount short-term receivables and payables without a stated interest rate below their invoice amount when the effect of discounting is immaterial.

Several new standards and interpretations have been issued, however it is not anticipated that they will have impact on the Bank’s financial statements.

#### **4 Summary of significant accounting policies**

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

#### 4.1 Recognition of income and expenses

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

##### *Interest income and expense*

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

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

##### *Fee and commission income and expenses*

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

##### *Dividend income*

Revenue is recognized when the Bank’s right to receive the payment is established.

##### *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.

#### 4.2 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 and liabilities are recognized in the statement of profit or loss and other comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of profit or loss and other 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 analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in the own equity.



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

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 Bank in the preparation of the financial statements are as follows:

	December 31, 2013	December 31, 2012
AMD/1 US Dollar	405.64	403.58
AMD/1 Euro	559.54	532.24

#### 4.3 Taxation

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

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

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

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

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 Bank's activities. These taxes are included as a component of other expenses in the statement of profit or loss and other comprehensive income.

#### 4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balance on correspondent accounts with the Central Bank of Armenia and amounts due from other banks, 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.

#### 4.5 Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Precious metals are included in other assets in the statement of financial position.

Changes in the bid prices are recorded in net gain on operations with precious metals in other income/expense.

#### 4.6 Amounts due from financial institutions

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

#### 4.7 Financial instruments

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

When financial assets and liabilities are recognised initially, they are measured at 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 Bank classified its financial assets into the following categories: loans and receivables, financial instruments at fair value through profit or loss, 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 Bank determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

##### *Financial assets at fair value through profit or loss*

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

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognized in accordance with

the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss and other comprehensive income as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

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

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

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

#### *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. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

#### *Available-for-sale financial 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 other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of profit or loss and other comprehensive income. However, interest calculated using the effective interest method is recognised in the statement of profit or loss and other comprehensive income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank’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.

#### 4.8 Impairment of financial assets

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

##### *Assets carried at amortized cost*

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

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

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



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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

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

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

#### *Available-for-sale financial assets*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the comprehensive statement on income, is transferred from equity to the statement of profit or loss and other comprehensive income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of profit or loss and other comprehensive income. 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.

#### 4.9 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 Bank 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 Bank 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 Bank 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 Bank’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 Bank 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 Bank’s continuing involvement is the amount of the transferred asset that the Bank 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 Bank’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.

#### 4.10 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 balance sheet 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 on the balance sheet. The difference between sale and

repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

#### 4.11 Leases

##### *Finance – Bank as lessor*

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. The arrangement is presented within loans and advances. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

##### *Operating - Bank as lessee*

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

#### 4.12 Property, plant and equipment

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

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

	Useful life (years)	Rate (%)
Buildings	30	3.3
Computers	4	25
Vehicles	5	20
Office inventory	5	20
Other fixed assets	2-5	33.33-20

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 not depreciated.

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

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

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

#### 4.13 Intangible assets

Intangible assets include computer software.

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 over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Current software development costs are recognised as an expense as incurred.

#### 4.14 Repossessed assets

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

#### 4.15 Borrowings

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

#### 4.16 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value, in “Other liabilities”, being the premium received. Following initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

#### 4.17 Provisions

Provisions are recognised when the Bank 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 Share capital

#### *Share capital*

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

#### *Dividends*

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

#### 4.19 Offsetting

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

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

### 5 Critical accounting estimates and judgements

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

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

#### *Classification of investment securities*

Securities owned by the Bank comprise Armenian state and corporate bonds and corporate shares. Upon initial recognition, the Bank designates securities as available-for-sale financial assets with recognition of changes in fair value through equity.

#### *Related party transactions*

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

#### *Allowance for impairment of loans and receivables*

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the statement of profit or loss and other comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance



required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank 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 28.

*Impairment of available-for-sale equity investments*

The Bank determined that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged required judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.

## 6 Interest and similar income and expense

In thousand Armenian drams	2013	2012
Loans and advances to customers	3,136,930	2,862,541
Debt investment securities available-for-sale	2,598,878	2,098,497
Income from factoring	162,640	380,198
Amounts due from other financial institutions	228,870	108,813
Reverse repurchase transactions	122,906	85,117
Other interest income	81,522	11,321
Interest accrued on individually impaired financial assets	132,069	112,388
<b>Total interest and similar income</b>	<b>6,463,815</b>	<b>5,658,875</b>

In thousand Armenian drams	2013	2012
Amounts due to customers	1,488,940	1,083,359
Amounts due to financial institutions	598,588	807,859
Repurchase transactions	1,072,381	898,206
<b>Total interest and similar expense</b>	<b>3,159,909</b>	<b>2,789,424</b>

## 7 Fee and commission income and expense

In thousand Armenian drams	2013	2012
Cash collection	30,145	29,475
Wire transfer fees	50,149	33,683
Brokerage operations	33,723	12,054
Guarantees and letters of credit	5,922	20,503
Other fees and commissions	10,643	8,890
<b>Total fee and commission income</b>	<b>130,582</b>	<b>104,605</b>

In thousand Armenian drams	2013	2012
Wire transfer fees	19,146	17,197
Received guarantees	11,054	134
Commodity exchange payments	9,429	2,235
Other expenses	4,826	1,932
<b>Total fee and commission expense</b>	<b>44,455</b>	<b>21,498</b>

## 8 Net trading income

In thousand Armenian drams	2013	2012
Gains less losses from transactions in foreign currencies	89,003	51,667
Gains less losses from derivatives	1,462	(14,572)
<b>Total net trading income</b>	<b>90,465</b>	<b>37,095</b>

## 9 Other income

In thousand Armenian drams	2013	2012
Fines and penalties received	67,121	40,982
Gains from operations with precious metals	68,002	25,267
Net gains from foreign currency translation of non trading assets and liabilities	14,906	55,817
Income from disposal of collateral	-	14,471
Income from dividends	9,803	13,152
Insurance contribution	3,395	-
Income from disposal of fixed assets	-	650
Other income	5,376	2,168
<b>Total other income</b>	<b>168,603</b>	<b>152,507</b>

## 10 Staff costs

In thousand Armenian drams	2013	2012
Wages and salaries	686,046	585,952
Social security contributions	-	41,996
<b>Total staff costs</b>	<b>686,046</b>	<b>627,948</b>

\* With the entry into force on 1st January 2013 of the RA Law on Income Tax, the previous RA Law on Income Tax and the RA Law on Mandatory Social Security Contributions are revoked. The RA Law on Income Tax combines income tax, employee’s social security contributions and social security contributions made by the employer.

## 11 Other expenses

In thousand Armenian drams	2013	2012
Communications	65,082	63,965
Repair and maintenance of fixed assets	38,743	33,024
Representative expenses	20,150	15,809
Taxes, other than income tax, duties	17,482	14,849
Insurance expenses	14,320	15,103
Consulting and other services	13,000	10,584
Deposit expenses	12,234	8,950
Security	8,156	7,966
Office supplies	7,462	6,374
Business trip expenses	6,003	9,536
Fees to financial system mediator	5,452	5,169
Operating lease expenses	4,320	-
Acra expenses	3,679	3,318
Incasation expenses	3,027	2,300
Penalties paid	820	23
Advertising costs	663	4,647
Other expenses	9,191	11,335
<b>Total other expense</b>	<b>229,784</b>	<b>212,952</b>

## 12 Income tax expense

In thousand Armenian drams	2013	2012
Current tax expense	458,895	401,621
Deferred tax	(42,319)	(14,876)
Adjustments of current income tax of previous years	-	(35,000)
<b>Total income tax expense</b>	<b>416,576</b>	<b>351,745</b>

The corporate income tax within the Republic of Armenia is levied at the rate of 20% in 2013 (2012: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

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

In thousand Armenian drams	2013	Effective rate (%)	2012	Effective rate (%)
<b>Profit before tax</b>	<b>2,158,750</b>		1,976,716	
Income tax at the rate of 20%	<b>431,750</b>	<b>20</b>	395,343	20
Non-taxable income	<b>(1,961)</b>	-	(2,630)	-
Non-deductible expenses	<b>6,972</b>	-	932	-
Foreign exchange (gains)/losses	<b>(15,608)</b>	<b>(1)</b>	(3,270)	-
Other	<b>(4,577)</b>	-	(3,630)	-
Adjustments of current income tax of previous years	-	-	(35,000)	(2)
<b>Income tax expense</b>	<b>416,576</b>	<b>19</b>	351,745	18

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2012	Recognized in profit or loss	Recognized in other comprehensive income	2013
Other liabilities	16,529	7,125	-	23,654
Fines receivable from impaired assets	12,985	5,887	-	18,872
<b>Total deferred tax assets</b>	<b>29,514</b>	<b>13,012</b>	-	<b>42,526</b>
Cash and cash equivalents	(4,641)	1,596	-	(3,045)
Amounts due from financial institutions	(958)	(319)	-	(1,277)
Derivatives	-	(327)	-	(327)
Loans and advances to customers	(33,617)	25,234	-	(8,383)
Investments in securities available for sale	(73,811)	-	(1,007,032)	(1,080,843)
Other assets	(889)	(2,787)	-	(3,676)
Other provisions	(11,281)	5,910	-	(5,371)
<b>Total deferred tax liability</b>	<b>(125,197)</b>	<b>29,307</b>	<b>(1,007,032)</b>	<b>(1,102,922)</b>
<b>Net deferred tax liability</b>	<b>(95,683)</b>	<b>42,319</b>	<b>(1,007,032)</b>	<b>(1,060,396)</b>

In thousand Armenian drams	2011	Recognized in profit or loss	Recognized in other comprehensive income	2012
Other liabilities	5,114	11,415	-	16,529
Fines receivable from impaired assets	-	12,985	-	12,985
<b>Total deferred tax assets</b>	<b>5,114</b>	<b>24,400</b>	-	<b>29,514</b>
Loans and advances to customers	(29,475)	(4,142)	-	(33,617)
Other assets	(296)	(593)	-	(889)
Cash and cash equivalents	(2,760)	(1,881)	-	(4,641)
Amounts due from financial institutions	(3,618)	2,660	-	(958)
Other provisions	(5,713)	(5,568)	-	(11,281)
Investments in securities available for sale	(25,181)	-	(48,630)	(73,811)
<b>Total deferred tax liability</b>	<b>(67,043)</b>	<b>(9,524)</b>	<b>(48,630)</b>	<b>(125,197)</b>
<b>Net deferred tax liability</b>	<b>(61,929)</b>	<b>14,876</b>	<b>(48,630)</b>	<b>(95,683)</b>



### 13 Cash and cash equivalents

In thousand Armenian drams	2013	2012
Cash on hand	790,023	772,448
Correspondent account with the CBA	6,607,970	4,027,164
Placements with other banks	1,522,565	729,411
<b>Total cash and cash equivalents</b>	<b>8,920,558</b>	<b>5,529,023</b>

As at 31 December 2013 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 4% of certain obligations of the Bank denominated in Armenian drams and 12% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 3,142,645 thousand (2012: 8% and 12% respectively amounting to AMD 2,688,581 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Mandatory reserve deposits are non-interest bearing.

As of 31 December 2013 placements with other banks in the amount of AMD 1,383,845 thousand (91%) were due from two banks (2012: AMD 507,365 thousand (70%) due from one bank).

Non-cash transactions performed by the Bank during 2013 represent the repayment of the loans in the amount of AMD 389,409 thousand by tangible assets (2012: AMD 106,848 thousand).

### 14 Amounts due from financial institutions

In thousand Armenian drams	2013	2012
Loans and deposits	682,120	2,324,047
Reverse repurchase agreements	131,869	81,013
Other amounts	42	-
<b>Total amounts due from other financial institutions</b>	<b>814,031</b>	<b>2,405,060</b>

As at 31 December 2013 the loans and deposits in amount of AMD 521,559 thousand (64%) were due from two banks (2012: AMD 1,964,999 thousand (82%)).

As at 31 December 2013 included in loans and deposits are guarantee amounts extended by the Bank in the amount of AMD 327,456 thousand (2012: AMD 200,369 thousand) intended to carry out trade operations in international markets.

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December, 2013 are presented as follows:

In thousand Armenian drams	2013		2012	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Securities issued by the RA Ministry of Finance	131,750	131,869	83,623	81,013

In thousand Armenian drams	2013		2012	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
<b>Total assets pledged and loans under reverse repurchase agreements</b>	<b>131,750</b>	<b>131,869</b>	<b>83,623</b>	<b>81,013</b>

## 15 Derivative financial instruments

In thousand Armenian drams	2013			2012		
	Notional amount	Fair value of assets	Fair value of liabilities	Notional amount	Fair value of assets	Fair value of liabilities
<b>Derivatives held for trading</b>						
Swaps – domestic	-	-	-	258,495	86	293
Swaps – foreign currency	<b>914,406</b>	<b>2,001</b>	<b>200</b>	749,461	100	-
<b>Total derivative financial instruments and other trading liabilities</b>	<b>914,406</b>	<b>2,001</b>	<b>200</b>	<b>1,007,956</b>	<b>186</b>	<b>293</b>

## 16 Loans and advances to customers

In thousand Armenian drams	2013	2012
Loans to customers	<b>21,735,393</b>	21,927,372
Factoring	<b>1,030,673</b>	3,090,143
Reverse repurchase agreements	<b>1,603,604</b>	507,836
Overdrafts	<b>4,245,391</b>	2,454,366
Financial leasing	-	1,274
Other	<b>322</b>	298
	<b>28,615,383</b>	27,981,289
Less allowance for loan impairment	<b>(813,650)</b>	(639,990)
<b>Total loans and advances to customers</b>	<b>27,801,733</b>	27,341,299

As of 31 December 2013 accrued interest income included in loans and advances to customers amounts to AMD 394,827 thousand (2012: AMD 314,792 thousand).

As of 31 December 2013 the effective interest rates on loans and advances to customers ranged from 4.90 to 21.94 % for loans in AMD (2012: from 4.90 to 21.94%) and from 7.19 to 22.13 % for loans in USD, EUR and other freely convertible currencies (2012: from 7.19 to 19.56%).

During the year ended 31 December 2013 the Bank obtained assets by taking possession of collateral for loans to customers. As of 31 December 2013 the carrying amount of such assets was AMD 389,846 thousand (2012: AMD 438 thousand) (See Note 20). The Bank is intended to sell these assets in a short period.

As of December 31, 2013 the Bank had a concentration of loans represented by AMD 9,973,006 thousand due from the ten largest third party entities and parties related with them (34.9% of gross loan portfolio) (2012: AMD 8,238,313 thousand due from the ten largest third party entities and parties related with them or 29.4%). An allowance of AMD 187,133 thousand (2012: AMD 108, 251 thousand) was made against these loans.

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

In thousand Armenian drams	2013	2012
Industry	10,404,515	11,211,758
Agriculture	2,870,634	2,215,199
Construction	2,000,773	1,842,515
Trading	3,545,497	4,259,863
Consumer	3,514,491	800,642
Mortgage loans	2,974,454	2,823,067
Transport and communications	216,852	640,438
Public food and other service sectors	343,497	1,615,854
Other	2,744,670	2,571,953
	<b>28,615,383</b>	27,981,289
Less allowance for loan impairment	(813,650)	(639,990)
<b>Total loans and advances to customers</b>	<b>27,801,733</b>	27,341,299

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

In thousand Armenian drams								2013
	Industry	Agri- culture	Const- ruction	Trading	Con- sumer	Mortgage	Other	Total
<b>At 1 January 2013</b>	325,584	11,098	29,859	122,983	8,006	25,793	116,667	639,990
Charge/(Reversal) for the year	477,084	170,044	23,070	87,919	38,600	(14,091)	174,623	957,249
Amounts written off	(372,163)	(132,415)	(20,855)	(199,490)	(12,526)	(26,169)	(156,639)	(920,257)
Recovery	24,338	19,926	-	41,313	1,266	44,381	5,444	136,668
<b>At 31 December 2013</b>	<b>454,843</b>	<b>68,653</b>	<b>32,074</b>	<b>52,725</b>	<b>35,346</b>	<b>29,914</b>	<b>140,095</b>	<b>813,650</b>
Collective impairment	90,797	68,653	32,074	52,725	35,346	29,914	140,095	449,604
Individual impairment	364,046	-	-	-	-	-	-	364,046
	<b>454,843</b>	<b>68,653</b>	<b>32,074</b>	<b>52,725</b>	<b>35,346</b>	<b>29,914</b>	<b>140,095</b>	<b>813,650</b>
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	<b>1,384,281</b>	-	-	-	-	-	-	<b>1,384,281</b>

In thousand Armenian drams	Industry	Agriculture	Construction	Trading	Consumer	Mortgage	Other	2012
								Total
At 1 January 2012	261,506	5,723	17,929	29,912	9,960	17,846	98,325	441,201
Charge/(Reversal) for the year	74,518	29,329	63,230	93,071	(9,741)	39,727	32,148	322,282
Amounts written off	(10,440)	(23,954)	(51,300)	-	(64,405)	(31,780)	(13,806)	(195,685)
Recovery	-	-	-	-	72,192	-	-	72,192
At 31 December 2012	<u>325,584</u>	<u>11,098</u>	<u>29,859</u>	<u>122,983</u>	<u>8,006</u>	<u>25,793</u>	<u>116,667</u>	<u>639,990</u>
Collective impairment	89,214	11,098	29,859	59,599	8,006	25,793	102,595	326,164
Individual impairment	236,370	-	-	63,384	-	-	14,072	313,826
	<u>325,584</u>	<u>11,098</u>	<u>29,859</u>	<u>122,983</u>	<u>8,006</u>	<u>25,793</u>	<u>116,667</u>	<u>639,990</u>
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	<u>905,591</u>	<u>-</u>	<u>-</u>	<u>316,921</u>	<u>-</u>	<u>-</u>	<u>119,562</u>	<u>1,342,074</u>

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

In thousand Armenian drams	2013	2012
State owned enterprises	<b>1,408,953</b>	610,759
Privately held companies	<b>20,518,880</b>	21,455,019
Individuals	<b>6,517,443</b>	5,353,364
Sole proprietors	<b>170,107</b>	562,147
	<b>28,615,383</b>	27,981,289
Less allowance for loan impairment	<b>(813,650)</b>	(639,990)
<b>Total loans and advances to customers</b>	<b>27,801,733</b>	27,341,299

Loans to individuals comprise the following products:

In thousand Armenian drams	2013	2012
Mortgage loans	<b>2,982,881</b>	2,823,067
Consumer loans	<b>1,378,622</b>	1,212,820
Investments	<b>442,698</b>	663,580
Car loans	<b>109,638</b>	146,061
Other	<b>1,603,604</b>	507,836
<b>Total loans and advances to individuals (gross)</b>	<b>6,517,443</b>	5,353,364

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December 2013 are presented as follows:

In thousand Armenian drams	2013		2012	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Securities issued by the Ministry of Finance of RA	1,667,399	1,603,604	530,734	507,836
<b>Total assets pledged and loans under reverse repurchase agreements</b>	<b>1,667,399</b>	<b>1,603,604</b>	<b>530,734</b>	<b>507,836</b>

The finance lease receivables may be analyzed as follows:

In thousand Armenian drams	2013	2012
<b>Gross investment in finance leases, receivable:</b>		
Not later than 1 year	-	1,320
	-	1,320
Unearned future finance income on finance leases	-	(46)
<b>Net investment in finance leases</b>	<b>-</b>	<b>1,274</b>

The allowance for uncollectable finance lease receivables included in the allowance for impairment amounts to AMD 13 thousand at 31 December 2012.

Implied interest rate of the lease amounts to 20 %.

At 31 December 2013 and 2012 the estimated fair value of loans and advances to customers approximates its carrying value. Refer to Note 30.

Maturity analysis of loans and advances to customers is disclosed in Note 32.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in Note 33. The information on related party balances is disclosed in Note 29.

## 17 Investments available for sale

In thousand Armenian drams	2013	2012
<b>Quoted investments</b>		
Equity securities	9,524	11,600
	9,524	11,600
<b>Unquoted investments</b>		
Shares of Armenian companies	237,173	334,103
Securities issued by the Ministry of Finance of Armenia	13,182,552	4,289,977
Corporate bonds of RA	393,476	419,334
	13,813,201	5,043,414
<b>Total investments</b>	<b>13,822,725</b>	<b>5,055,014</b>

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.

All unquoted RA available-for-sale equities are recorded at cost since its fair value cannot be reliably estimated. There is no market for these investments and the Bank intends to hold it for the long term.

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

In thousand Armenian drams	2013		2012	
	%	Maturity	%	Maturity
Securities issued by the Ministry of Finance of Armenia	8.76-10.91	2014-2032	8.71-14.48	2013-2032
Corporate bonds	8.10-10.00	2014-2015	8.96-12.00	2013-2015

Debt securities available for sale at fair value of AMD 17,215,842 thousand (2012: AMD 13,222,935 thousand) are pledged to third parties for periods not exceeding one month. These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet (Note 26).

## 18 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Computers and communication means	Vehicles	Office equipment	Capital investments in fixed assets	Capital investments in leased assets	Total
<b>COST</b>							
Cost at January 1, 2012	552,102	126,079	54,641	76,346	49,708	-	858,876
Additions	-	6,545	9,159	11,286	139,183	-	166,173
Disposals	-	(839)	(5,663)	(148)	-	-	(6,650)
Reclassification	(277)	-	-	-	277	-	-
<b>At December 31, 2012</b>	<b>551,825</b>	<b>131,785</b>	<b>58,137</b>	<b>87,484</b>	<b>189,168</b>	<b>-</b>	<b>1,018,399</b>
Additions	-	23,688	-	4,587	1,610	24,989	54,874
Disposals	-	(6,723)	-	-	-	-	(6,723)
<b>At December 31, 2013</b>	<b>551,825</b>	<b>148,750</b>	<b>58,137</b>	<b>92,071</b>	<b>190,778</b>	<b>24,989</b>	<b>1,066,550</b>
<b>ACCUMULATED DEPRECIATION</b>							
At January 1, 2012	42,920	94,796	26,300	46,299	-	-	210,315
Depreciation charge	18,394	16,881	8,291	12,894	-	-	56,460
Disposals	-	(839)	(5,525)	(144)	-	-	(6,508)
<b>At December 31, 2012</b>	<b>61,314</b>	<b>110,838</b>	<b>29,066</b>	<b>59,049</b>	<b>-</b>	<b>-</b>	<b>260,267</b>
Depreciation charge	18,394	16,231	8,452	12,956	-	-	56,033
Disposals	-	(6,721)	-	-	-	-	(6,721)
<b>At December 31, 2013</b>	<b>79,708</b>	<b>120,348</b>	<b>37,518</b>	<b>72,005</b>	<b>-</b>	<b>-</b>	<b>309,579</b>
<b>CARRYING VALUE</b>							
<b>At December 31, 2013</b>	<b>472,117</b>	<b>28,402</b>	<b>20,619</b>	<b>20,066</b>	<b>190,778</b>	<b>24,989</b>	<b>756,971</b>
At December 31, 2012	490,511	20,947	29,071	28,435	189,168	-	758,132
At January 1, 2012	509,182	31,283	28,341	30,047	49,708	-	648,561

The management believes the fair value of the building of the Bank approximates its carrying amount.

As at 31 December 2013, the Bank did not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

*Fully depreciated items*

As at 31 December 2013 fixed assets included fully depreciated assets at cost in the amount of AMD 107,157 thousand (2012: AMD 62,458 thousand).

*Contractual commitments*

As at 31 December 2013 the Bank had no contractual commitments in respect of capital construction (2012: nil).

19 Intangible assets

In thousand Armenian drams	Software	Total
<b>COST</b>		
At January 1, 2012	74,819	74,819
Additions	-	-
<b>At December 31, 2012</b>	<b>74,819</b>	<b>74,819</b>
Additions	<b>6,356</b>	<b>6,356</b>
Disposals	<b>(1,127)</b>	<b>(1,127)</b>
<b>At December 31, 2013</b>	<b>80,048</b>	<b>80,048</b>
<b>ACCUMULATED AMORTISATION</b>		
At January 1, 2012	31,035	31,035
Amortization charge	7,978	7,978
<b>At December 31, 2012</b>	<b>39,013</b>	<b>39,013</b>
Amortization charge	<b>8,151</b>	<b>8,151</b>
Disposals	<b>(1,127)</b>	<b>(1,127)</b>
<b>At December 31, 2013</b>	<b>46,037</b>	<b>46,037</b>
<b>CARRYING VALUE</b>		
<b>At December 31, 2013</b>	<b>34,011</b>	<b>34,011</b>
At December 31, 2012	35,806	35,806
At January 1, 2012	43,784	43,784

As at 31 December 2013, the Bank did not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

*Contractual commitments*

As of 31 December 2013 the Bank did not have any contractual commitments (2012: nil).

20 Repossessed assets

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



In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Property	389,846	-
Other	-	438
<b>Total</b>	<b>389,846</b>	<b>438</b>

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

## 21 Other assets

In thousand Armenian drams	2013	2012
Amount receivable	10,420	124,481
<b>Total other financial assets</b>	<b>10,420</b>	<b>124,481</b>
Prepayments and other debtors	24,168	12,760
Gold in vault	12,978	84,567
Other prepaid taxes	1,443	3,872
Materials	4,114	2,022
Other assets	-	23
<b>Total non financial assets</b>	<b>42,703</b>	<b>103,224</b>
<b>Total other assets</b>	<b>53,123</b>	<b>227,725</b>

As at December 31, 2012 amounts receivable are due from disposal of assets in the amount of AMD 122,500 thousand.

## 22 Amounts due to the CBA

In thousand Armenian drams	2013	2012
Subordinate debt	2,007,670	2,007,402
Other loans and advances	348,260	534,587
Repurchase agreements	15,259,926	12,922,977
<b>Total amounts due to the CBA</b>	<b>17,615,856</b>	<b>15,464,966</b>

Other loans and advances include loans in the amount of AMD 348,260 thousand received within the scope of loan project “Development of the renewable energies” of the German-Armenian fund (2012: AMD 534,587 thousand).

The subordinate debt was provided on 29 October 2009 with a maturity term determined till 29 October 2014 with an interest rate of 7.5%.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2012: nil).

## 23 Amounts due to financial institutions

In thousand Armenian drams	2013	2012
Correspondent accounts of other banks	620	1,690
Current accounts of other financial institutions	279,836	183,485
Loans and deposits from Banks and financial institutions	958,976	3,387,107
Loans from international financial institutions	2,778,593	3,851,963
Loans under repurchase agreements	1,444,429	-
Other liabilities	476	190,285
<b>Total amounts due to financial institutions</b>	<b>5,462,930</b>	<b>7,614,530</b>

Loans from international financial institutions represent loans received within the scope of European Bank for Reconstruction and Development.

All deposits from banks have fixed interest rates.

As of 31 December 2013 the weighted average effective interest rate on amounts due to financial institutions was 6.85% (2012: 7.15%).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2012: nil).

## 24 Amounts due to customers

In thousand Armenian drams	2013	2012
<b>RA government</b>		
Loans received from the RA government	386,000	705,757
Other liabilities	20,000	20,000
	<b>406,000</b>	<b>725,757</b>
<b>Corporate customers</b>		
Current/settlement accounts	1,576,507	1,530,037
Time deposits	14,777,379	11,009,490
	<b>16,353,886</b>	<b>12,539,527</b>
<b>Retail customers</b>		
Current/settlement accounts	527,687	631,656
Time deposits	6,766,672	4,653,012
Repo contracts	100,383	-
	<b>7,394,742</b>	<b>5,284,668</b>
<b>Total amounts due to customers</b>	<b>24,154,628</b>	<b>18,549,952</b>

Loans and deposits carry fixed interest rates.

Loans from the RA government include amounts received within the scope of “Accrediting economic stability” program.

As at 31 December 2013 included in amounts due to customers are deposits amounting to AMD 1,623,399 thousand held as security against loans, guarantees and other contingent liabilities (2012: AMD 2,238,190 thousand). The fair value of those deposits approximates the carrying amount.

As of 31 December 2013 the aggregate balance of top three customers of the Bank (including related parties, (see Note 29) amounts to AMD 14,434,473 thousand (2012: 13,152,505 thousand) or 60% of total customer accounts (2012: 71%). The amount of top ten customers does not include amounts due to RA Government.

As of 31 December 2013 the weighted average effective interest rates on amounts due to customers were 7.73% (2012: 7.74%).

## 25 Other liabilities

In thousand Armenian drams	2013	2012
Amounts payable	15,989	182,883
Due to personnel	112,478	77,575
<b>Total other financial liabilities</b>	<b>128,467</b>	260,458
Tax payable, other than income tax	30,827	51,071
Other	23,917	14,180
<b>Total other non financial liabilities</b>	<b>54,744</b>	65,251
<b>Total other liabilities</b>	<b>183,211</b>	325,709

## 26 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	2013	2012	2013	2012
Securities available for sale (Note 17, 22, 23, 24)	17,215,842	13,222,935	16,804,738	12,922,977
	<u>17,215,842</u>	<u>13,222,935</u>	<u>16,804,738</u>	<u>12,922,977</u>

## 27 Equity

As at 31 December 2013 the Bank’s registered and paid-in share capital was AMD 8,752,800 thousand. In accordance with the Bank’s statutes, the share capital consists of 14,588 ordinary shares, all of which have a par value of AMD 600 thousand each.

The respective shareholdings as at 31 December 2013 and 2012 may be specified as follow:

In thousand Armenian drams	2013		2012	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Vardan Sirmakes	7,002,000	80%	7,002,000	100%
BELEGGINGSMAATSCHAPPIJ JONGO B.V.	1,750,800	20%	-	-
	<b>8,752,800</b>	<b>100%</b>	<b>7,002,000</b>	<b>100%</b>

As at 31 December 2013, the Bank did not possess any of its own shares.

In 2013 the shareholders of the Bank increased its share capital by AMD 1,750,800 thousand (2012: nil).

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 banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank’s statutes that provide for the creation of a reserve for these purposes of not less than 15 % of the Bank’s share capital reported in statutory books.

## 28 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 claim additional taxes for transactions and accounting methods, for which they did not claim 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 Bank has complied with all regulations and has completely settled all its tax liabilities.

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

### *Loan commitment, guarantee and other financial facilities*

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	2013	2012
Undrawn loan commitments	1,165,757	1,809,637
Guarantees	491,452	659,325
Letters of credit	15,667	35,667
<b>Total commitments and contingent liabilities</b>	<b>1,672,876</b>	<b>2,504,629</b>

The maximum exposure to credit risk of loan commitments, guarantee and other financial facilities

is best represented by the total amount of these commitments and contingent liabilities.

*Operating lease commitments – Bank as a lessee*

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

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

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Not later than 1 year	17,280	-
1 - 5 years	69,120	-
Later than 5 years	79,200	-
<b>Total operating lease commitments</b>	<b>165,600</b>	<b>-</b>

*Contractual commitments*

Information on the Bank’s contractual commitments is disclosed in Note 18, 19.

*Insurance*

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. However, as at 31 December 2013 the Bank’s building and transportation are insured. The Bank possesses insurances for all banking liabilities, electronic or computer crimes and for professional responsibility.

Starting from 2005 the Bank is member of the obligatory deposit insurance system. The system operates under the Armenian laws and regulations and is governed by the Law on Guarantee of Physical Persons Deposits. Insurance covers Bank’s liabilities to individual depositors for the amount up to AMD 4,000 thousand (up to AMD 2,000 thousand for deposits in foreign currency) for each individual in case of business failure and revocation of the banking license.

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. In respect of financial statements to be presented, related parties include shareholders, members of Bank’s Management as well as other persons and enterprises related with and controlled by them respectively.

The ultimate controlling party of the Bank is Swiss businessman Vardan Sirmakes.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	2013		2012	
	Shareholders and related parties	Key management personnel and related parties	Shareholders and related parties	Key management personnel and related parties
<b>Statement of financial position</b>				
<b>Loans and advances to customers</b>				
Loans outstanding at January 1, gross	818,663	238,514	850,712	247,654
Loans issued during the year	1,146,884	232,729	188,735	410,299
Loan repayments during the year	(356,707)	(270,003)	(220,784)	(419,439)
Loans outstanding at December 31, gross	1,608,840	201,240	818,663	238,514
Less allowance for loan impairment	(16,089)	(2,013)	(8,187)	(2,385)
<b>Loans outstanding at December 31</b>	<b>1,592,751</b>	<b>199,227</b>	<b>810,476</b>	<b>236,129</b>
<b>Amounts due to customers</b>				
Deposits at January 1	11,273,875	29,733	10,634,740	31,723
Deposits received during the year	43,165,170	2,729,751	8,179,307	1,793,111
Deposits repaid during the year	(38,551,798)	(2,695,489)	(7,540,172)	(1,795,101)
<b>Deposits at December 31</b>	<b>15,887,247</b>	<b>63,995</b>	<b>11,273,875</b>	<b>29,733</b>
<b>Amounts due from other financial institutions</b>				
At January 1	1,591,092	-	1,003,545	-
Increase	5,770,219	-	4,207,788	-
Decrease	(7,292,168)	-	(3,620,241)	-
<b>At December 31</b>	<b>69,143</b>	<b>-</b>	<b>1,591,092</b>	<b>-</b>
<b>Amounts due to other financial institutions</b>				
At January 1	351	-	2,373	-
Increase	2,515,676	-	6,779,292	-
Decrease	(2,515,526)	-	(6,781,314)	-
<b>At December 31</b>	<b>501</b>	<b>-</b>	<b>351</b>	<b>-</b>
<b>Guarantees issued</b>	<b>-</b>	<b>-</b>	<b>133,671</b>	<b>14,668</b>
<b>Other assets</b>	<b>-</b>	<b>-</b>	<b>122,500</b>	<b>-</b>
<b>Statement of profit or loss and other comprehensive income</b>				
Interest income on loans and advances to customers	155,447	17,668	120,349	19,961
Interest income from amounts due from other financial institutions	22,110	-	8,553	-

In thousand Armenian drams	2013		2012	
	Shareholders and related parties	Key management personnel and related parties	Shareholders and related parties	Key management personnel and related parties
Fee and commission income	7,127	-	2,088	2,430
Other income	14	-	157	405
Income from guarantees	-	-	5,025	241
Interest expense on deposits	(1,084,252)	(3,569)	(843,872)	(3,406)
Impairment (charge) /reversal for credit losses	(7,902)	372	320	92
Payment to the contractor	-	-	(89,183)	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2013	2012
Salaries and other short-term benefits	273,957	222,769
Social security costs	-	13,343
<b>Total key management compensation</b>	<b>273,957</b>	<b>236,112</b>

The loans issued to directors and other key management personnel are repayable from 2014 to 2027 and have average interest rates of 10.24% (2012: 7.7%).

### 30 Fair value measurement

The Bank’s Board determines the policies and procedures for both recurring fair value measurement, such as unquoted trading and available-for-sale securities, unquoted derivatives and for non-recurring measurement, such as assets held for sale.

External valuers are involved for valuation of significant assets, such as properties and repossessed assets. Involvement of external valuers is decided upon annually by the Board.

At each reporting date, the Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank’s accounting policies. For this analysis, the major inputs applied in the latest valuation are verified by agreeing the information in the valuation computation to contracts and other relevant documents. The Management, in conjunction with the Bank’s 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).

### 30.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	As of 31 December 2013				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
<b>FINANCIAL ASSETS</b>					
Cash and cash equivalents	-	8,920,558	-	8,920,558	8,920,558
Amounts due from financial institutions	-	814,031	-	814,031	814,031
Loans and advances to customers	-	27,801,733	-	27,801,733	27,801,733
Other financial assets	-	10,420	-	10,420	10,420
<b>FINANCIAL LIABILITIES</b>					
Amounts due CBA	-	17,615,856	-	17,615,856	17,615,856
Amounts due to other financial institutions	-	5,462,930	-	5,462,930	5,462,930
Amounts due to customers	-	24,154,628	-	24,154,628	24,154,628
Other financial liabilities	-	128,467	-	128,467	128,467

#### *Amounts due from and to financial institutions*

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

#### *Loans and advances to customers*

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 7 % to 20% per annum (2012: 7% to 20% per annum).

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

#### *Due to customers*

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

### 30.2 Financial instruments that are measured at fair value

In thousand Armenian drams	As of December 31, 2013			
	Level 1	Level 2	Level 3	Total
<b>FINANCIAL ASSETS</b>				
Listed securities and bonds	9,524	-	-	9,524
Unquoted debentures	-	13,576,028	-	13,576,028
Securities pledged under repurchase agreement	-	17,215,842	-	17,215,842
Derivative financial assets	-	2,001	-	2,001
<b>Total</b>	<b>9,524</b>	<b>30,793,871</b>	<b>-</b>	<b>30,803,395</b>
<b>FINANCIAL LIABILITIES</b>				
Derivative financial liabilities	-	200	-	200
<b>Total</b>	<b>-</b>	<b>200</b>	<b>-</b>	<b>200</b>
<b>NET FAIR VALUE</b>	<b>9,524</b>	<b>30,793,671</b>	<b>-</b>	<b>30,803,195</b>

In thousand Armenian drams	As of December 31, 2012			
	Level 1	Level 2	Level 3	Total
<b>FINANCIAL ASSETS</b>				
Listed securities and bonds	11,600	-	-	11,600
Unquoted debentures	-	4,709,311	-	4,709,311
Securities pledged under repurchase agreement	-	13,222,935	-	13,222,935
Derivative financial assets	-	186	-	186
<b>Total</b>	<b>11,600</b>	<b>17,932,432</b>	<b>-</b>	<b>17,944,032</b>
<b>FINANCIAL LIABILITIES</b>				
Derivative financial liabilities	-	293	-	293
<b>Total</b>	<b>-</b>	<b>293</b>	<b>-</b>	<b>293</b>
<b>NET FAIR VALUE</b>	<b>11,600</b>	<b>17,932,139</b>	<b>-</b>	<b>17,943,739</b>

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

#### *Unquoted RA equity securities*

The fair value of Bank’s investment in unquoted RA equity securities cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 17 for further information about this equity investment.

### 31 Offsetting of financial assets and financial liabilities

In the ordinary course of business, the Bank 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, 2013		
			Amounts offset	Amounts not offset	
	Gross financial assets/ liabilities	Gross financial assets/ liabilities offset	Net amounts presented	Financial instruments	Net
<b>FINANCIAL ASSETS</b>					
Amounts due from financial institutions (Note 14)	131,869	-	131,869	(131,750)	119
Loans and advances to customers (Note 16)	1,603,604	-	1,603,604	(1,667,399)	(63,795)
<b>FINANCIAL LIABILITIES</b>					
	Gross financial assets/ liabilities	Gross assets offset	Net amounts presented	Financial instruments	Net
Securities pledged under repurchase agreements (Note 26)	16,804,738	-	16,804,738	(17,215,842)	(411,104)

  

In thousand Armenian drams			As of December 31, 2012		
			Amounts offset	Amounts not offset	
	Gross financial assets/ liabilities	Gross financial assets/ liabilities offset	Net amounts presented	Financial instruments	Net
<b>FINANCIAL ASSETS</b>					
Amounts due from financial institutions (Note 14)	81,013	-	81,013	(83,623)	(2,610)
Loans and advances to customers (Note 16)	507,836	-	507,836	(530,734)	(22,898)
<b>FINANCIAL LIABILITIES</b>					
	Gross financial assets/ liabilities	Gross assets offset	Net amounts presented	Financial instruments	Net
Securities pledged under repurchase agreements (Note 26)	12,922,977	-	12,922,977	(13,222,935)	(299,958)

### 32 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 33.3 for the Bank’s contractual undiscounted repayment obligations.

In thousand Armenian drams	2013							
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
<b>ASSETS</b>								
Cash and cash equivalents	8,920,558	-	-	8,920,558	-	-	-	8,920,558
Amounts due from financial institutions	462,512	85,825	90,094	638,431	128,050	47,550	175,600	814,031
Derivative financial instruments	2,001	-	-	2,001	-	-	-	2,001
Loans and advances to customers	3,367,359	3,044,243	7,755,789	14,167,391	10,476,795	3,157,547	13,634,342	27,801,733
Investments available for sale	99,335	443,313	66,448	609,096	3,783,637	9,429,992	13,213,629	13,822,725
Securities pledged under repurchase agreements	15,898,338	1,317,504	-	17,215,842	-	-	-	17,215,842
Other assets	-	-	10,420	10,420	-	-	-	10,420
	<u>28,750,103</u>	<u>4,890,885</u>	<u>7,922,751</u>	<u>41,563,739</u>	<u>14,388,482</u>	<u>12,635,089</u>	<u>27,023,571</u>	<u>68,587,310</u>
<b>LIABILITIES</b>								
Amounts due to the CBA	14,303,914	1,008,958	2,035,302	17,348,174	250,454	17,228	267,682	17,615,856
Amounts due to financial institutions	2,472,258	473,206	1,566,761	4,512,225	796,403	154,302	950,705	5,462,930
Derivative financial liabilities	200	-	-	200	-	-	-	200
Amounts due to customers	4,938,460	780,631	5,562,952	11,282,043	12,872,585	-	12,872,585	24,154,628
Other liabilities	15,989	-	112,478	128,467	-	-	-	128,467
	<u>21,730,821</u>	<u>2,262,795</u>	<u>9,277,493</u>	<u>33,271,109</u>	<u>13,919,442</u>	<u>171,530</u>	<u>14,090,972</u>	<u>47,362,081</u>
<b>Net position</b>	<u>7,019,282</u>	<u>2,628,090</u>	<u>(1,354,742)</u>	<u>8,292,630</u>	<u>469,040</u>	<u>12,463,559</u>	<u>12,932,599</u>	<u>21,225,229</u>
<b>Accumulated gap</b>	<u>7,019,282</u>	<u>9,647,372</u>	<u>8,292,630</u>		<u>8,761,670</u>	<u>21,225,229</u>		

In thousand Armenian drams									2012
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total	
<b>ASSETS</b>									
Cash and cash equivalents	5,529,023	-	-	5,529,023	-	-	-	5,529,023	
Amounts due from financial institutions	2,129,828	5,479	58,180	2,193,487	146,957	64,616	211,573	2,405,060	
Derivative financial instruments	100	86	-	186	-	-	-	186	
Loans and advances to customers	2,507,765	3,149,767	7,038,447	12,695,979	11,630,390	3,014,930	14,645,320	27,341,299	
Investments available for sale	12,613	125,352	425,425	563,390	1,854,303	2,637,321	4,491,624	5,055,014	
Securities pledged under repurchase agreements	13,222,935	-	-	13,222,935	-	-	-	13,222,935	
Other assets	-	124,481	-	124,481	-	-	-	124,481	
	<u>23,402,264</u>	<u>3,405,165</u>	<u>7,522,052</u>	<u>34,329,481</u>	<u>13,631,650</u>	<u>5,716,867</u>	<u>19,348,517</u>	<u>53,677,998</u>	
<b>LIABILITIES</b>									
Amounts due to the CBA	12,291,469	699,729	46,315	13,037,513	2,345,690	81,763	2,427,453	15,464,966	
Amounts due to financial institutions	3,378,856	249,151	2,614,464	6,242,471	1,292,340	79,719	1,372,059	7,614,530	
Derivative financial liabilities	-	293	-	293	-	-	-	293	
Amounts due to customers	2,604,086	663,183	4,447,043	7,714,312	10,835,640	-	10,835,640	18,549,952	
Other liabilities	73,155	88,985	98,318	260,458	-	-	-	260,458	
	<u>18,347,566</u>	<u>1,701,341</u>	<u>7,206,140</u>	<u>27,255,047</u>	<u>14,473,670</u>	<u>161,482</u>	<u>14,635,152</u>	<u>41,890,199</u>	
Net position	<u>5,054,698</u>	<u>1,703,824</u>	<u>315,912</u>	<u>7,074,434</u>	<u>(842,020)</u>	<u>5,555,385</u>	<u>4,713,365</u>	<u>11,787,799</u>	
Accumulated gap	<u>5,054,698</u>	<u>6,758,522</u>	<u>7,074,434</u>		<u>6,232,414</u>	<u>11,787,799</u>			

### 33 Risk management

The Bank’s activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank’s continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

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

#### *Risk management structure*

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

*Board of the Bank*

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

*Management*

The Management has the responsibility to monitor the overall risk process.

*Credit Committee*

The Credit Committee performs overall management and control of the credit risk, approves credits within the scopes of its limits.

*Risk Management Department*

The Risk Management Department is responsible for the principles and policy of management of investment risks, and for the development and implementation of the Bank's risk limits.

*Financial Officer*

Financial Officer is responsible for the management of the Bank's assets and liabilities and for maintaining control over the main economic norms of the Bank's activity.

*Internal audit*

Risk management processes throughout the Bank are audited annually by the internal audit function that estimates the adequacy of the procedures, the compliance of the Bank's activity with the procedures, as well as the efficiency of operations carried out by the Bank and the opportunities for their improvement. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Management and Board of the Bank.

*Risk measurement and reporting systems*

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, risk profile changes and other indicators.

*Risk mitigation*

As part of its overall risk management, the Bank uses derivatives and other foreign currency instruments, as well as obtains insurance certificates for overall banking risks, movable and immovable property.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

*Excessive risk concentration*

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

In order to avoid excessive concentrations of risks, the Bank’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

33.1 Credit risk

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

The carrying amounts of the Bank’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.

33.1.1 Risk concentrations of the maximum exposure to credit risk

*Geographical sectors*

The following table breaks down the Bank’s main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December.

In thousand Armenian drams	2013			
	Armenia	Other non-OECD countries	OECD countries	Total
Cash and cash equivalents	7,470,256	101,937	1,348,365	8,920,558
Amounts due from financial institutions	486,575	33,051	294,405	814,031
Derivative financial assets	-	2,001	-	2,001
Loans and advances to customers	27,326,012	35,539	440,182	27,801,733
Investments available for sale	13,807,038	6,163	9,524	13,822,725
Securities pledged under repurchase agreements	17,215,842	-	-	17,215,842
Other assets	10,420	-	-	10,420
<b>As at 31 December 2013</b>	<b>66,316,143</b>	<b>178,691</b>	<b>2,092,476</b>	<b>68,587,310</b>
<b>As at 31 December 2012</b>	<b>51,901,268</b>	<b>535,890</b>	<b>1,240,840</b>	<b>53,677,998</b>

Assets have been classified based on the country in which the counterparty is located.



*Industry sectors*

The following table breaks down the Bank’s main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December 2013 and 31 December 2012.

In thousand Armenian drams	Financial institutions	Industry	Agriculture	Construct ion	Trading	Consumer sector	Mortgage	Other	Total
Cash and cash equivalents	8,920,558	-	-	-	-	-	-	-	8,920,558
Amounts due from financial institutions	814,031	-	-	-	-	-	-	-	814,031
Derivative financial assets	2,001	-	-	-	-	-	-	-	2,001
Loans and advances to customers	-	9,930,757	2,808,129	1,962,285	3,488,718	3,487,627	2,951,718	3,172,499	27,801,733
Investments available for sale	13,822,725	-	-	-	-	-	-	-	13,822,725
Securities pledged under repurchase agreements	17,215,842	-	-	-	-	-	-	-	17,215,842
Other assets	-	-	-	-	-	-	-	10,420	10,420
<b>As at 31 December 2013</b>	<b>40,775,157</b>	<b>9,930,757</b>	<b>2,808,129</b>	<b>1,962,285</b>	<b>3,488,718</b>	<b>3,487,627</b>	<b>2,951,718</b>	<b>3,182,919</b>	<b>68,587,310</b>
As at 31 December 2012	26,212,218	10,886,174	2,204,101	1,812,656	4,136,880	792,636	2,797,274	4,836,059	53,677,998

**33.1.2 Risk limit control and mitigation policies**

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

Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of the Bank.

The Board has defined criteria for choosing counterparties in the framework of credit risk based on the rating of famous credit rating agencies such as S&P’s and Moody’s Credit Rating agencies. The Board of the Bank exceptionally specifies corresponding limits of credit risk if a necessity arises to collaborate with a counterparty which does not have investment reputation.

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

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

Some other specific control and mitigation measures are outlined below.

*Collateral*

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

- Real estate pledged by mortgage contracts;
- Charges over business assets such as premises, other fixed assets and inventory;
- Charges over financial instruments such as debt securities and equities.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

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

In thousand Armenian drams	2013	2012
Loans collateralized by real estate	16,606,819	18,064,772
Loans collateralized by movable property	109,015	144,908
Loans collateralized by Armenian Government guarantees	5,699,650	4,741,216
Loans collateralized by guarantees of other organizations	2,902,040	3,734,628
Loans collateralized by shares of other companies	95,266	108,383
Loans collateralized by cash	84,220	86,522
Other collateral	3,118,373	1,100,860
<b>Total loans and advances to customers (gross)</b>	<b>28,615,383</b>	<b>27,981,289</b>

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

#### *Credit-related commitments*

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

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

### 33.1.3 Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest 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 Bank addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

#### *Individually assessed allowances*

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

#### *Collectively assessed allowances*

Allowances are assessed collectively for losses on loans and advances that are not significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

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

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

#### *Loans and advances neither past due or impaired*

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

In thousand Armenian drams	2013	2012
Loans and advances to customers		
Agriculture	2.4%	1.1%
Construction	1.6%	1.2%
Transport and communications	0.7%	1.5%
Trade	1.5%	0.8%
Mortgage	0.3%	0.5%
Services	13.6%	-
Other	3.3%	3.1%

As of 31 December 2013 and 2012 the Bank has not had any losses on other financial assets bearing credit risk.

*Past due, but not impaired loans*

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

In thousand Armenian drams

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	2013 Total
Loans and advances to customers					
Industry	-	85,617	-	-	85,617
Construction	-	-	-	-	-
Consumer sector	17,995	10,883	-	11,068	39,946
Agriculture	-	23,359	104,013	-	127,372
Trade	8,379	-	-	-	8,379
Other	20,149	13,999	7,663	62,284	104,095
<b>Total</b>	<b>46,523</b>	<b>133,858</b>	<b>111,676</b>	<b>73,352</b>	<b>365,409</b>

In thousand Armenian drams

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	2012 Total
Loans and advances to customers					
Industry	98,304	4,232	-	147,282	249,818
Construction	-	-	16,644	-	16,644
Consumer sector	-	-	6,658	-	6,658
Agriculture	-	-	137,337	-	137,337
Trade	12,593	-	-	-	12,593
Other	-	29,061	13,254	253,578	295,893
<b>Total</b>	<b>110,897</b>	<b>33,293</b>	<b>173,893</b>	<b>400,860</b>	<b>718,943</b>

### 33.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The market risk is managed and monitored based on sensitivity analysis and stress tests. The foreign currency risk is managed and monitored based on hedging strategies and positions management.

#### 33.2.1 Market risk – Non-trading

##### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2013, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, at 31 December 2013 for the effects of the assumed changes in interest rates.

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

Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity				Total
			Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	
			2013				
AMD	0.5	-	(42)	(153)	(7,665)	(11,348)	(19,208)
USD	0.5	-	-	-	-	-	-
AMD	(0.5)	-	42	153	7,677	11,383	19,255
USD	(0.5)	-	-	-	-	-	-

In thousand Armenian drams

Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity				Total
			Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	
			2012				
AMD	0.5	-	(50)	(305)	(10,107)	(28,322)	(38,784)
USD	0.5	-	-	-	-	-	-
AMD	(0.5)	-	50	306	10,136	28,561	39,053
USD	(0.5)	-	-	-	-	-	-

*Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2013 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 profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges, and equity instruments).

A negative amount in the table reflects a potential net reduction in statement of profit or loss and other comprehensive income or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	2013		2012	
	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
Currency				
USD	3%	2,756	3%	23,952
EUR	3%	(33,475)	3%	(256)

The Bank’s exposure to foreign currency exchange risk is as follows:

In thousand Armenian drams	Armenian Dram	Freely convertible currencies/ Precious metals	Non-freely convertible currencies	Total
<b>ASSETS</b>				
Cash and cash equivalents	5,448,477	3,433,870	38,211	8,920,558
Amounts due from financial institutions	258,490	522,490	33,051	814,031
Derivative financial assets	-	1,825	176	2,001
Loans and advances to customers	6,378,158	21,418,412	5,163	27,801,733
Investments available for sale	13,512,899	305,311	4,515	13,822,725
Securities pledged under repurchase agreements	17,215,842	-	-	17,215,842
Other assets	1,892	8,528	-	10,420
	<u>42,815,758</u>	<u>25,690,436</u>	<u>81,116</u>	<u>68,587,310</u>
<b>LIABILITIES</b>				
Amounts due to the CBA	17,615,856	-	-	17,615,856
Amounts due to financial institutions	2,348,957	3,113,961	12	5,462,930
Derivative financial liabilities	-	200	-	200
Amounts due to customers	2,125,290	22,013,611	15,727	24,154,628
Other liabilities	127,877	590	-	128,467
	<u>22,217,980</u>	<u>25,128,362</u>	<u>15,739</u>	<u>47,362,081</u>
<b>Net position as at 31 December 2013</b>	<u>20,597,778</u>	<u>562,074</u>	<u>65,377</u>	<u>21,225,229</u>
<b>Commitments and contingent liabilities as at 31 December 2013</b>	<u>448,831</u>	<u>1,167,594</u>	<u>56,451</u>	<u>1,672,876</u>
Total financial assets	30,063,479	23,489,264	125,255	53,677,998
Total financial liabilities	18,728,638	23,024,217	137,344	41,890,199
Net position as at 31 December 2012	11,334,841	465,047	(12,089)	11,787,799
Commitments and contingent liabilities as at 31 December 2012	898,520	1,551,641	54,468	2,504,629

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.

### 33.3 Liquidity risk

Liquidity risk is the risk that the Bank 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 Bank 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 Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 4% of certain obligations of the Bank denominated in Armenian drams and 12% on certain obligations of the Bank denominated in foreign currency. See note 13. 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 Bank.

The liquidity management of the Bank 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 Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Armenia.

As at 31 December, these ratios were as follows:	Not audited	
	2013, %	2012, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	41.88	31.30
N22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	620.17	528.38

Analysis of financial liabilities by remaining contractual maturities.

The table below summarises the maturity profile of the Bank’s financial liabilities at 31 December 2013 based on contractual undiscounted repayment obligations. See note 32 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank’s deposit retention history.

In thousand Armenian drams						2013
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
<b>NON-DERIVATIVE FINANCIAL LIABILITIES</b>						
Amounts due to the CBA	14,336,043	1,047,862	2,100,059	285,722	18,192	17,787,878
Amounts due to financial institutions	2,483,610	482,946	1,661,021	922,518	172,298	5,722,393
Amounts due to customers	4,948,686	876,085	5,819,037	12,923,239	-	24,567,047
Other liabilities	15,989	-	112,478	-	-	128,467
<b>Total undiscounted non-derivative financial liabilities</b>	<b>21,784,328</b>	<b>2,406,893</b>	<b>9,692,595</b>	<b>14,131,479</b>	<b>190,490</b>	<b>48,205,785</b>



In thousand Armenian drams							2013
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years		Total
<b>Credit risk commitments</b>	<b>194,855</b>	<b>39,594</b>	<b>691,498</b>	<b>643,896</b>	<b>103,033</b>		<b>1,672,876</b>
<b>Derivative financial liabilities</b>							
Currency swap contracts							
Inflow	912,606	-	-	-	-		912,606
Outflow	914,406	-	-	-	-		914,405
In thousand Armenian drams							2012
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years		Total
<b>NON-DERIVATIVE FINANCIAL LIABILITIES</b>							
Amounts due to the CBA	12,309,473	749,205	171,983	2,497,223	87,802		15,815,686
Amounts due to financial institutions	3,411,933	266,097	2,727,441	1,436,839	89,275		7,931,585
Amounts due to customers	2,700,542	913,201	5,393,898	11,868,353	-		20,875,994
Other liabilities	62,817	88,985	20,743	-	-		172,545
Total undiscounted non-derivative financial liabilities	18,484,765	2,017,488	8,314,065	15,802,415	177,077		44,795,810
Credit risk commitments	1,924,942	61,661	298,540	219,486	-		2,504,629
<b>Derivative financial liabilities</b>							
Currency swap contracts							
Inflow	824,551	185,002	-	-	-		1,009,553
Outflow	821,735	186,220	-	-	-		1,007,995

### 33.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank’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 Bank’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank’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 Bank 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 Bank to which they relate, with summaries submitted to the Board.

### 34 Capital adequacy

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

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

The Bank 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 Bank 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.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 12%.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit and general reserve. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserve.

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

As of 31 December 2013 and 2012 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

In thousand Armenian drams	Not audited	
	2013	2012
Tier 1 capital	13,604,775	11,563,986
Tier 2 capital	4,598,089	635,781
<b>Total regulatory capital</b>	<b>18,202,864</b>	12,199,767
Risk-weighted assets	71,286,097	55,606,823

In thousand Armenian drams	Not audited	
	2013	2012
Tier 1 capital	13,604,775	11,563,986
<b>Capital adequacy ratio</b>	<b>25.53%</b>	<b>21.94%</b>

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

The Central Bank of Armenia has set the minimal required total capital at AMD 5,000,000 thousand from January 1, 2009.

