

ANNUAL REPORT  
**ConverseBank**  
2012

*colors of the future*

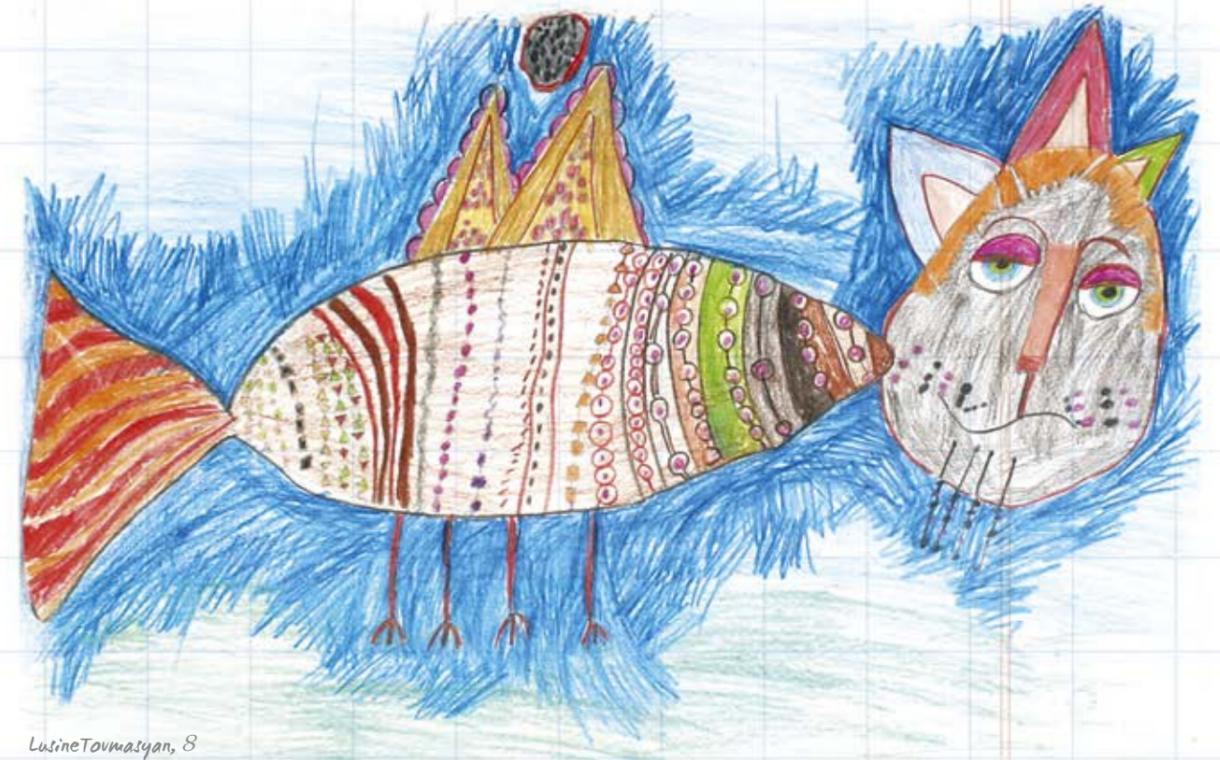


## COLORS OF THE FUTURE

The illustrations used in the annual report are the works of pupils of the National Center of Aesthetics and the schools in Yerevan and in marzes. The children used their color perceptions to express their imagination of the future.

The paintings were exposed at the “Colors of the Future” exhibition staged by Converse Bank on the International Day for Protection of Children.

In 2013, Converse Bank celebrates its 20th anniversary. One must look in the past when celebrating the birthday. When summarizing the past achievements you understand that the company’s success is sculpted by people who took their first step on the path of creation back in their childhood.

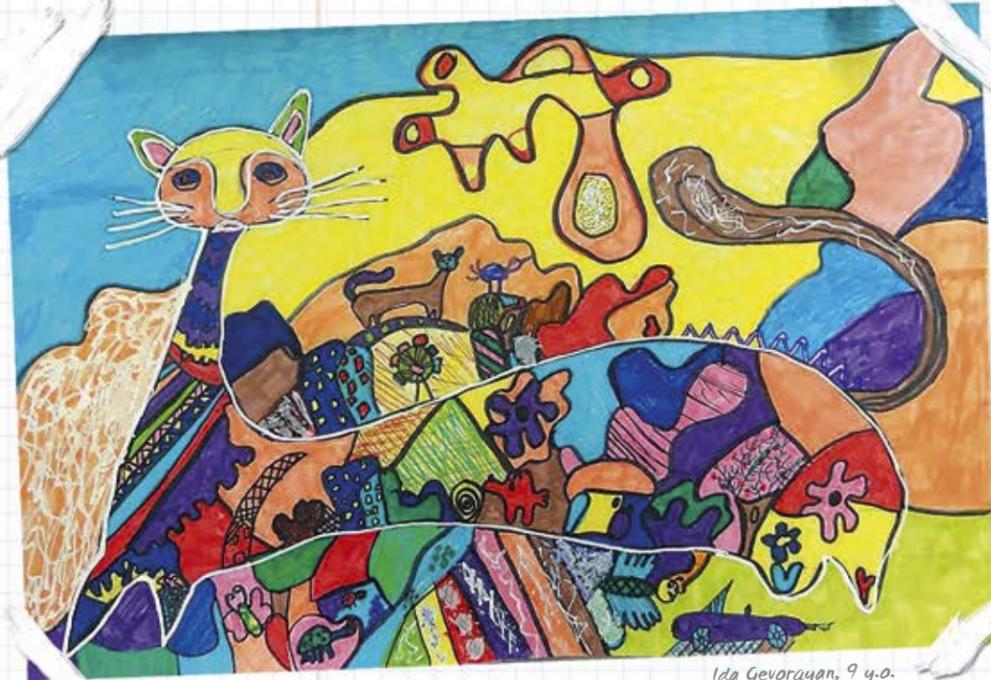


*“All grown-ups were once children... but only children know what they are looking for.”*

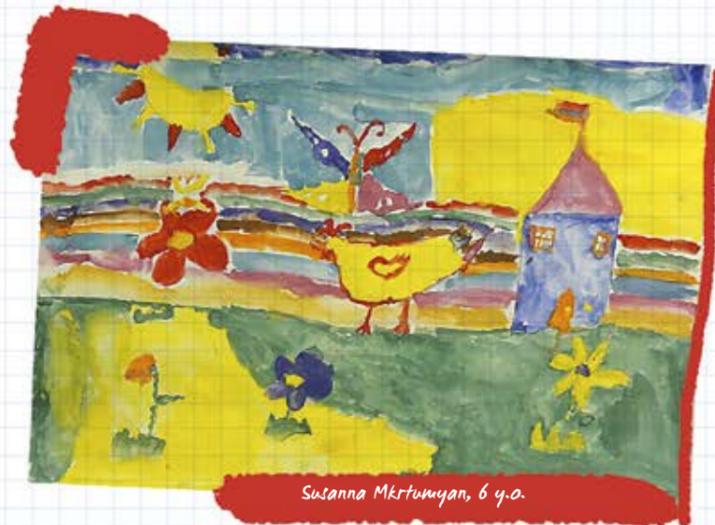
*Antoine de Saint-Exupéry*



Arpi Galoian, 10 y.o.



Ida Gevorgyan, 9 y.o.



Susanna Mkrtumyan, 6 y.o.

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## We see the colors of the future; it is our work and our vocation

“Seeing the colors of the future is our work and our vocation.”

There is a narrow window between our past and the present, a window that allows us to recollect our dreams of becoming a pilot, an astronaut, an architect ...

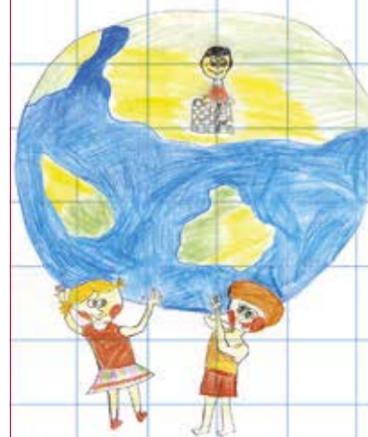
Today we are bankers at Converse Bank, and serve our past experience and even our childhood dreams and our perceptions of the future for the development of our economy. Seeing the colors of the future is our work and vocation, which we pursue ruthlessly governed by our fundamental values. We have to, since we are designing the future of our children, who after many years will take the turn to paint the future of their children. Each and all are valuable in this ever changing cycle. Each and all of us add our singular and unrepeatable color to the future canvas, thus subconsciously achieving our childhood dreams as well.

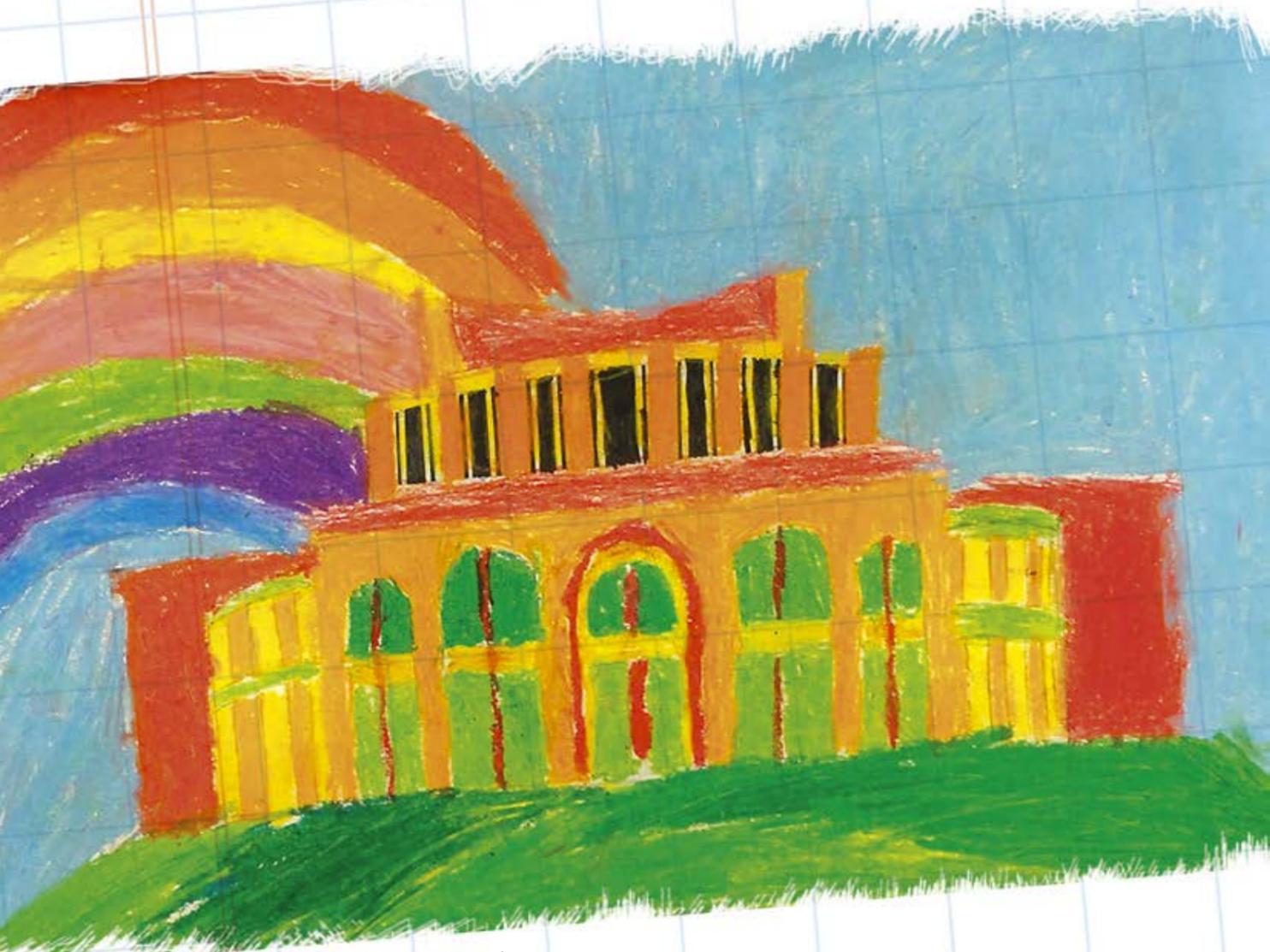
With best regards,

Armen Ter-Tachatyan  
Chairman of Board  
Converse Bank CJSC



31.12 2012,





Elen Hayrapetyan, 8 y.o.

## "Our everyday life builds the Bank's future: the more devoted are you to your work, the richer will you be with loyal customers tomorrow"

When I was a child, I dreamt to become a doctor. I was sure that the profession of doctor was the most important in the world, since its final output was the happy and the healthy person. The doctor's work was visible and highly appreciated by everyone, I believed. However, when it was time to select a profession, I realized that my personality traits and disposition oriented me towards the financial "therapy."

Today, looking back on my vivid memories of childhood, I feel pride when I think about the achievements of Converse Bank in the Armenian banking sector, which is the direct result of the therapeutic accuracy of our whole team work. Perhaps, even if professions differ, the individual qualities are to be similar to secure a solid success. The individual is the focus of attention and of business, and the more intelligent, careful and sympathetic is your treatment, the more visible are the fruits of your labor.

Converse Bank is the first-choice bank for our numerous individual and corporate customers. Such appreciation proves that we still adhere to the principles dating back to the joyous and easygoing childhood of most of our employees. And with the dynamic, vigorous and customer-oriented team we color our and our customers' future. Our everyday life builds the Bank's future; the more devoted are you to your work, the richer will you be with loyal customers tomorrow. Already today we see the bright colors of the future Converse Bank.

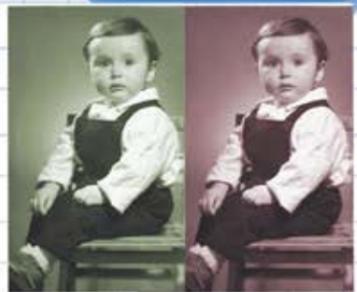
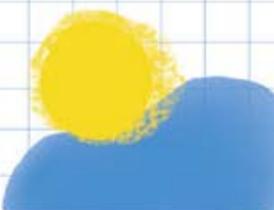
Sincerely yours,

Tigran Davtyan

Chairman of Management Board  
Chief Executive Officer  
Converse Bank CJSC



Tigran Davtyan,  
*in future*  
Converse Bank CEO



## When the future started yesterday

The commercial banks started up business in 1991, the first year of independence of Armenia. Notwithstanding the unfavorable financial situation, the development of a sustainable banking sector started in the first decade of independence. Many banks founded in those years continue business up to date.

Converse Bank was founded in 1993. Being in business for about 20 years, the Bank has expanded the list of services and improved their quality from year to year.

The controlling interest of the Bank is held by Eduardo Eurnekian, the major shareholder and the trust management board member of Armenia International Airports, Haypost CJSC and Tierras de Armenia. 5% share of the Bank is held by the Mother See of Holy Echmiadzin.

Eduardo Eurnekian, an ardent patriot and one of the major investors in Armenia, implements a number of projects aimed at economic development of the country and promotion of public welfare. In 2002, Eduardo Eurnekian signed a long-term concession agreement for the management of Zvartnots Airport, and since then he has used in Armenia the extensive experience and knowledge obtained in Latin America. Already in 2005, an ambitious project Fruitful Armenia launched, which opened new prospects for continuous development of Ararat Valley. The target group included ordinary farmers and innovative young people. All projects have combined the time-proven good traditions and the modern, innovative schemes.

*"Trust yourself, be creative and do not be afraid of making mistakes, be inquisitive and improve steadily, and most importantly, never give up," - Eduardo Eurnekian, Converse Bank major shareholder.*

*"The best results are produced by our customers rather than by us. We are simply a "fellow traveler" of our customers and partners. We have a long way to go with you, that is why we want to build a ground that will open new and fruitful prospects for us and our children," - Tigran Davtyan, CEO Converse Bank*

## Management

The management of the Bank is provided by the General Shareholder Meeting, the Board, the Management Board and the Chief Executive Officer.

### The Board

The Board performs the general management of the Bank's activities, establishes the main areas of business, approves the business plans and supervises the performance of the executive management of the Bank. Armen Ter-Tachatyan is the Chairman of the Board.

### The Management Board

The Management Board enforces the Board resolutions. The Chief Executive Officer of Converse Bank Tigran Davtyan combines the office of the Chairman of the Management Board.



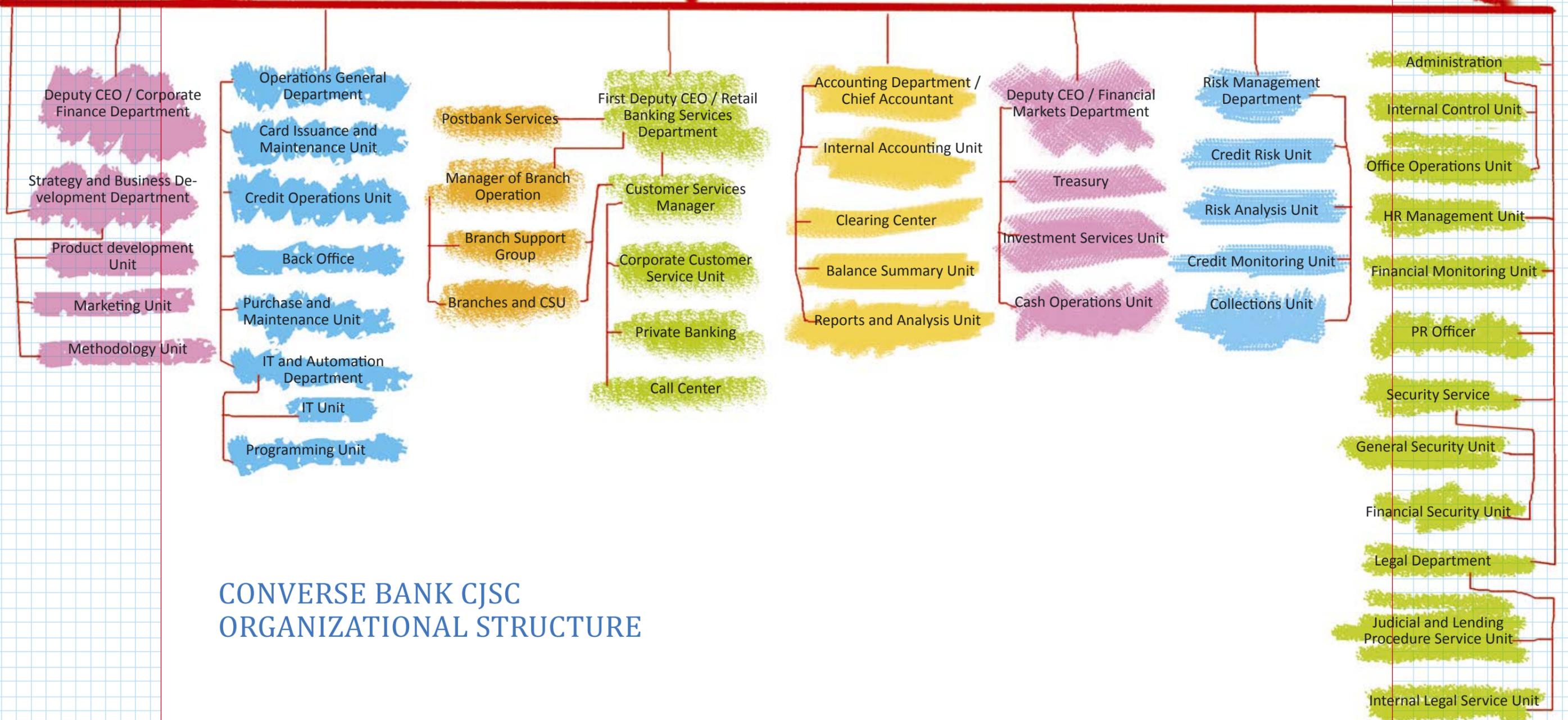
Karine Grigoryan, 10 y.o.

Internal Audit

Board

Chief Executive Officer

Management Board



## CONVERSE BANK CJSC ORGANIZATIONAL STRUCTURE

## “The best thing in the world is to go to work in the morning with the perception that any idea of yours is a contribution”

Converse Bank, one of the first commercial banks in Armenia, has passed a unique development path, which can be a guidance and an example not only for the Armenian banking system, but also for any startup business, similar to children growing up in imitation of the grown-ups surrounding them. The fundamental values, mission and customer-oriented policy of the Bank lay the anchor whereon our future is built. Today, from a position of our 20-year expertise we can state with confidence that the firm basis is the guarantee of the sound present and bright colors of the future.

*“The mission of the Bank is the pillar round which our fundamental values are built. They embody our skills to offer best services to our customers.”* Hrant Hakobyan, Adviser to CEO.

**Dignity and Respect** are among the core principles of the Bank. We respect everyone regardless of position, sex, race, ethnic, language belonging, origin, faith, social-economic status, age, residence, political views, membership or non-membership to various organizations and other conditions.

We adhere to the **Customer Orientation** principle and direct all our efforts to enhance the trust and safety of our customers. We are interested in the well-being of our customers.

*“The day-to-day contacts with our customers are a strong incentive for us. Offering the best to them, apart from being a principle, has developed into a personal interest, since we gain from such relationship and provide for continuously improving quality.”* Zara Nazaryan, Banking Hall Manager.

We are inspired by the **Achievements of our customers**. We strive for offering new, tailored and interesting solutions by quickly responding to market changes. We succeed due to our professional staff and the team work. Our employees improve and upgrade their professional skills and capacities on a continuous basis.

*“I am happy to work in an environment, which is based on Mutual Trust and Teamwork. We attain success jointly. I consider the honesty and loyalty of our colleagues in interpersonal and professional/business relations the secret of our success.”* Velikhan Muradyan, Head of Operations General Department.

Our success would not be possible without **Responsibility and Proprietor's Approach**. We understand the consequences of our actions and assume responsibility for the same. We perceive the Bank's interests as our personal and are equally responsible for achievements and failures and demonstrate proprietor's approach.

We adhere to the principle of **Transparency** when we take and implement decisions, and at the same time we maintain **Confidentiality** in all our undertakings. We create a trustworthy work environment and have the courage to counteract unacceptable behavior.

*“The best thing in the world is to go to work in the morning with the perception that any idea of yours is a contribution, and that your decisions add new colors to your future.”* Davit Iskandaryan, Deputy Head of Corporate Finance Department.

The **mission** of Converse Bank is based on three pillars of its business - **customers, shareholders** and **personnel** by contributing to their strengthening, well-being and fast growth.

Our **vision** is grounded on our mission:

To become the first preferable bank for **each and every citizen** of Armenia, which, based on accessibility, transparency and trust, offers quality and innovative services, thus becoming the **bank for everyone**.



## “In fact being a banker is a rather difficult and responsible job”

Having been positioned as a corporate banking service provider since establishment, Converse Bank has been the leader in the particular segment by offering tailored products and services to corporate customers for many years.

*“In fact being a banker is a rather difficult and responsible job, especially with regard to corporate banking services. Here you are not only accountable to your employer, but also to the company using your services, for its financial stability and even for its clients.” – Artur Hakobyan, First Deputy CEO.*

Though corporate customers being the target clientele of Converse Bank initially, the retail banking services have been the main focus of business since 2010.

The retail banking services allows us making the banking culture more accessible to a greater number of individuals. Offering best services to corporate customers we have accumulated extensive knowledge and experience, based whereon we have structured our retail banking services. Moving to the retail banking market we have also transferred our competitive advantages – our skills of working with large companies.

*“In 2010 the Bank took an essential strategic decision – reposition as a retail commercial bank. Our new approach to the fullest extent reflects our principle to offer the best to our customers, due whereon we facilitate a significant growth in the particular sector.” – Artur Hakobyan.*

Among active customers, the individuals comprised 93.5% and businesses made 6.5% at the end of 2012. The number of active customers grew roughly 3 times as opposed to 2007, which was attributable to several factors. Particularly, we opened a number of new branches, created new credit options and offered new deposits. In addition, we organized a range of actions to promote sales of loans, deposits and credit cards.

The improvement of the credit policy facilitated the growth of loan portfolio on 2012. Innovative projects were developed and implemented, which also

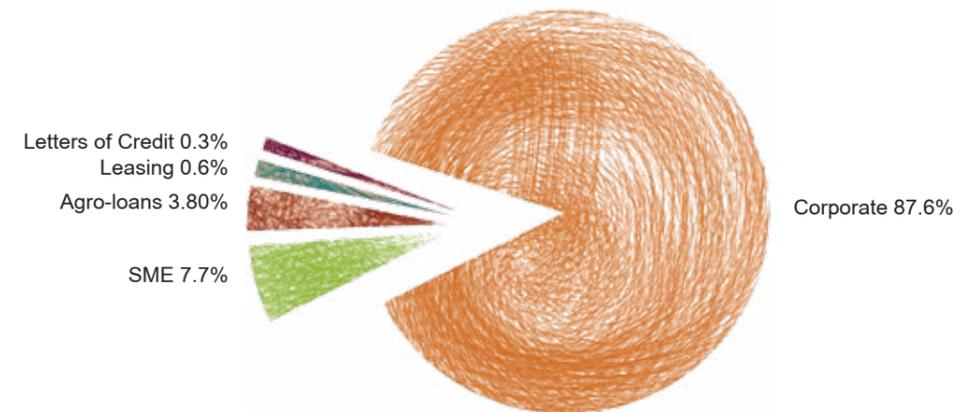
furthered the growth of the loan portfolio.

*“Any project can be easily implemented if designed for a definite period. The general picture and the colors can change cardinally in the matter of long term strategies. This is where the vision and the mission prompt the way.” – Artur Hakobyan.*

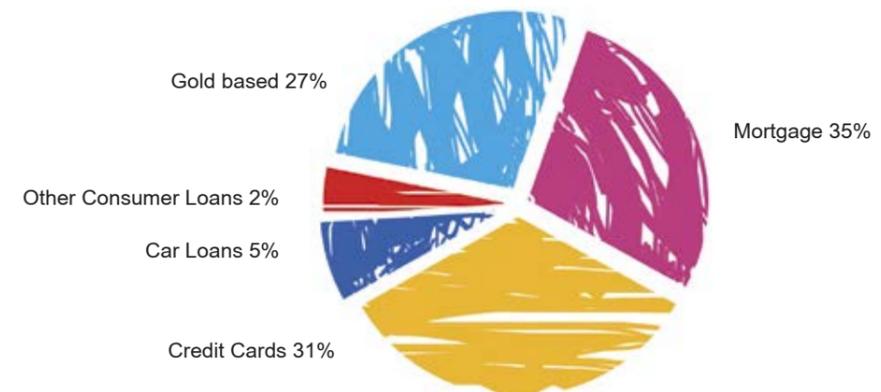
In 2012, the loan portfolio grew by AMD 13.5B vs. the past year and amounted to AMD 59.7B or 51.6% of total assets.

In 2012, the main sectors of investment included manufacturing, construction, trade, mortgage and consumer loans. The investments in manufacturing comprised AMD 5.9B or 9.1% of total investments, in construction - AMD 7.8B or 12% of total investments, and in trade - AMD 8.5B or 13.1% of total investments.

Corporate loan portfolio, 2012



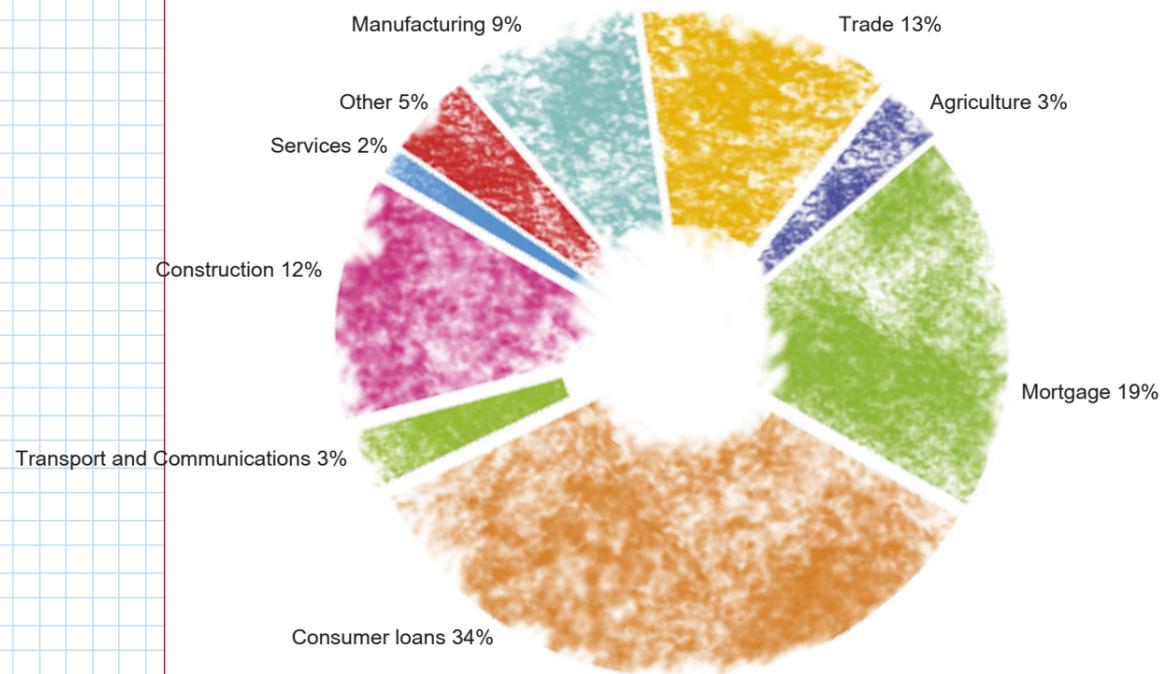
Retail loan portfolio, 2012



Artur Hakobyan  
in future  
First Deputy CEO



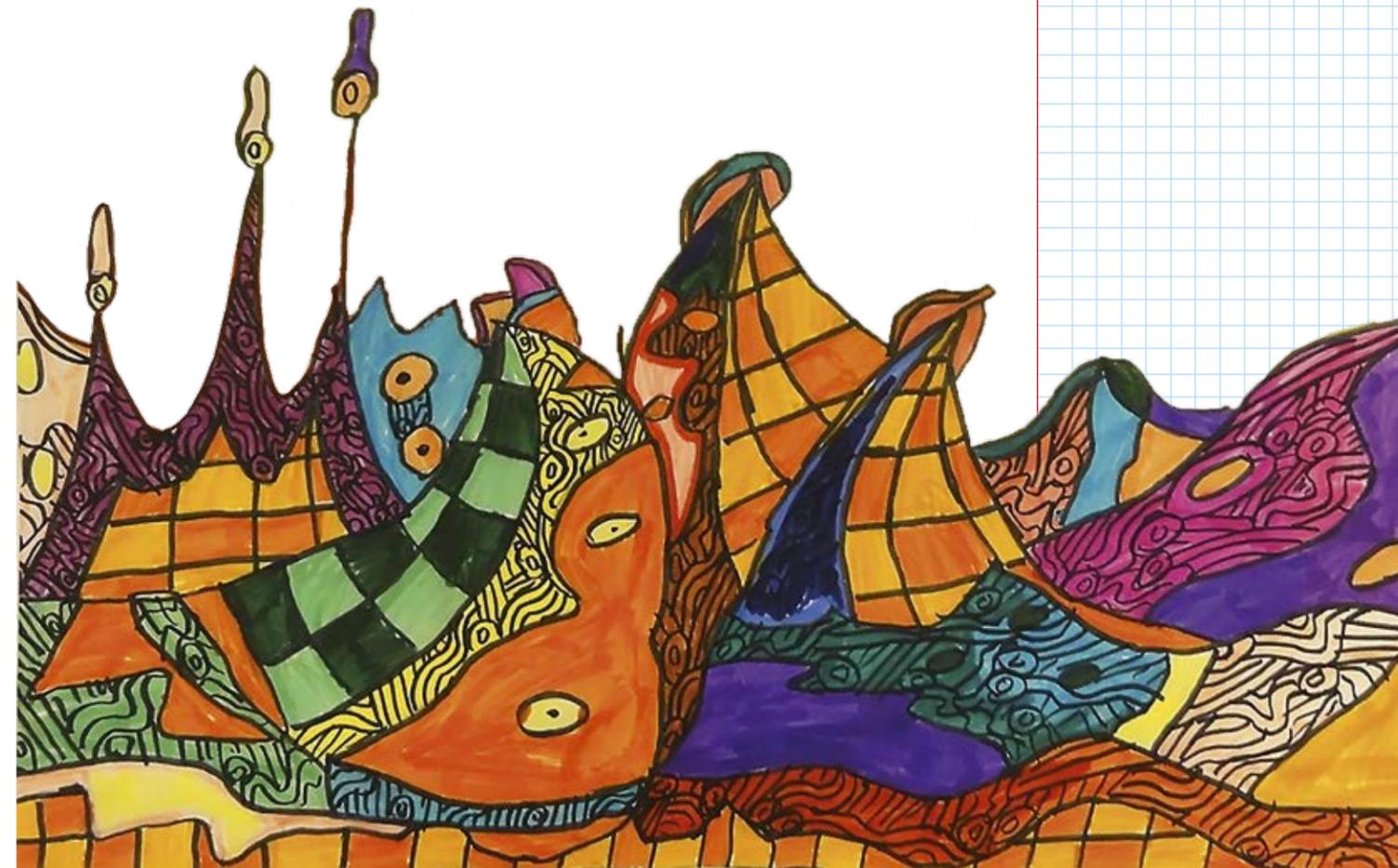
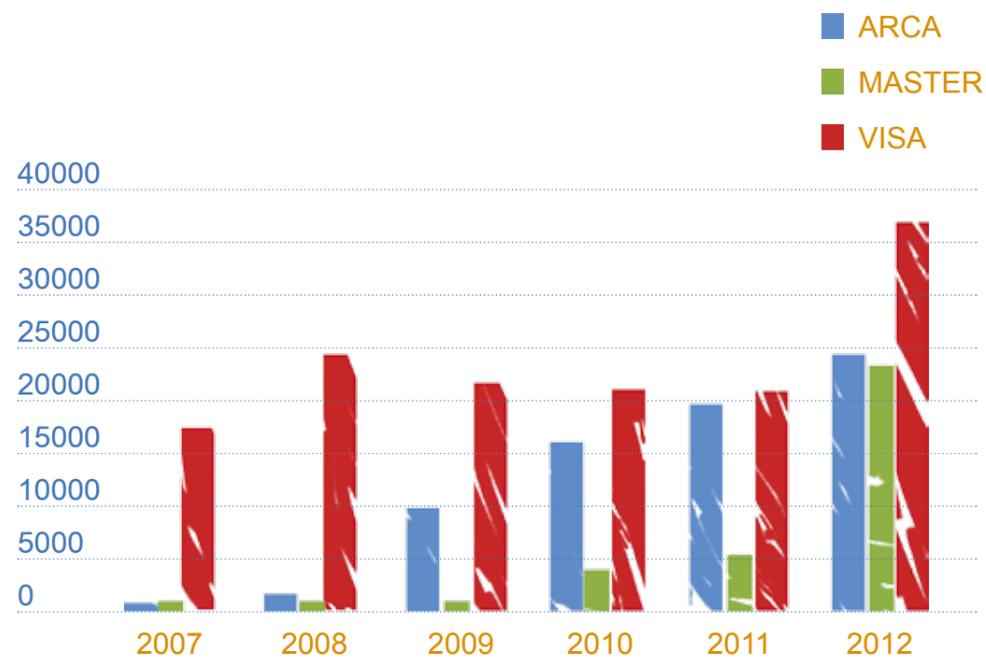
Loan Investments by industries, 31.12.2012



The investments in agriculture and services comprised 3.3% and 1.5% accordingly. The mortgage and consumer loans amounted to AMD 12.6B or 19.4% and AMD 22.2B or 34.2%. Importantly, at the end of the previous year among the consumer loans the mortgage loans made AMD 12.6B and the gold-based loans made AMD 9.6B.

The credit cards make a specific and dynamic business direction of the Bank. In 2012, the Bank continued the implementation of an extensive project in the particular sector, intending to position as a leader in the card market. The Bank's income from cards amounted to AMD 577M in 2012.

PAYMENT CARDS



Tigran Movisiyan, 11 y.o.



## “Noncash payments have good prospects: Bank Cards”

Each year the global banking system records unprecedented decline in cash transactions. The growth tendencies in noncash payments are also present in Armenia. The particular tendencies are furthered by online shopping, credit cards, as well as the extended geography of POS terminals.

*“We conduct ongoing dialogues with our customers to understand their needs and at the same time to be a step ahead of them, thus creating advanced demand. The growth of noncash transactions is supported by the 2012 business results of the Bank: 40% growth vs. 2011,” - Artur Mkhitaryan, Head of Product Development Unit.*

Such growth was greatly contributed by the marketing policy, one of the core goals being the enforcement of relations with the cardholders, for which purpose the customer loyalty projects were implemented. Taking the card business development as a priority, a number of privileges and schemes were introduced:

- **Converse Rewards**
- **Cash-back**

In addition to the aforementioned, the Premium cardholders were offered free access to VIP Lounge of Armenia International Airports.

**Converse Rewards**  
program is designed for any card of the Bank, which allows all our cardholders to collect points from noncash transactions and exchange the same with various gifts.

**Cash-back** program allows the customers to return 5-10% of their noncash payments for purchases made at merchants and on specific days determined by the Bank.

The card business was further developed due to diversification of card products, within the scope whereof several new cards were introduced, such as: Traveler Cards, Healthy Life Card, Student Card, and the unprecedented Pension Credit Card designed for pensioner.

To promote the noncash transactions with cards, and as well to implant the culture of noncash payments, Converse Goal and Master Voyage actions, Woman’s Card promotion programs and some other projects were developed

and implemented jointly with VISA and MASTERCARD payment systems.

*“We create our new banking services in line with the market movements. For instance, our surveys reveal that the “role of woman” has essentially increased in business, moreover women are quicker to respond to market novelties. That is why we have created card products specially designed for women,” - Naira Tovmasyan, Head of Marketing Unit.*

In addition, the Bank provided the Plastic Card Online Order option to make easier the acquisition of a card for the customers.

In money terms, our successes resulted in the income of about AMD 577M in 2012 with regard to cards.

*“Today we can state that in 2012 the number of the Bank cards grew roughly by 87% and amounted to 91,717. To meet the needs of our customers, we placed new ATMs and POS terminals, as the result whereof the total number of ATMs reached 73 and POS terminals - 363 in Yerevan and the regions of Armenia. The co-branded card model was further expanded. Consequently, at the end of 2012, the total number of the Bank card servicing points amounted to 1033. Of course, we have not reached the finish, but the result is impressive,” - Artur Hakobyan, First Deputy CEO.*

In 2013, we will intensively continue our development and will offer innovative services to our customers intending to expand our client base and the range of parties interested in our banking services. Specifically, we are planning the following novelties: VISA, MASTERCARD smart cards, 3-D secure (Verified by VISA) certification and VISA e-trade licensing, and introduction of VISA Pay Wave card.

## “The future, where you are always reachable and visible”

*“Today we are accessible to our customers in Armenia and the NKR, and elsewhere in the world due to internet banking,” - Ani Khanoyan, Customer Service Manager.*

We expanded the branch network to become more accessible to our customers. As the result of “Bank for Everyone” philosophy, a singular postbank cooperation platform was designed and introduced to achieve the accessibility objective. The system provides for one-stop shopping for any customer visiting the Postbank to conclude two transactions – post and banking at a time. So far the Bank has launched 2 branches of the type – Postbank 19 in Yerevan and Postbank Kapan 01 in Kapan. The efficient operation of Postbank branches allows to find new opportunities for cooperation between Converse Bank and Haypost.

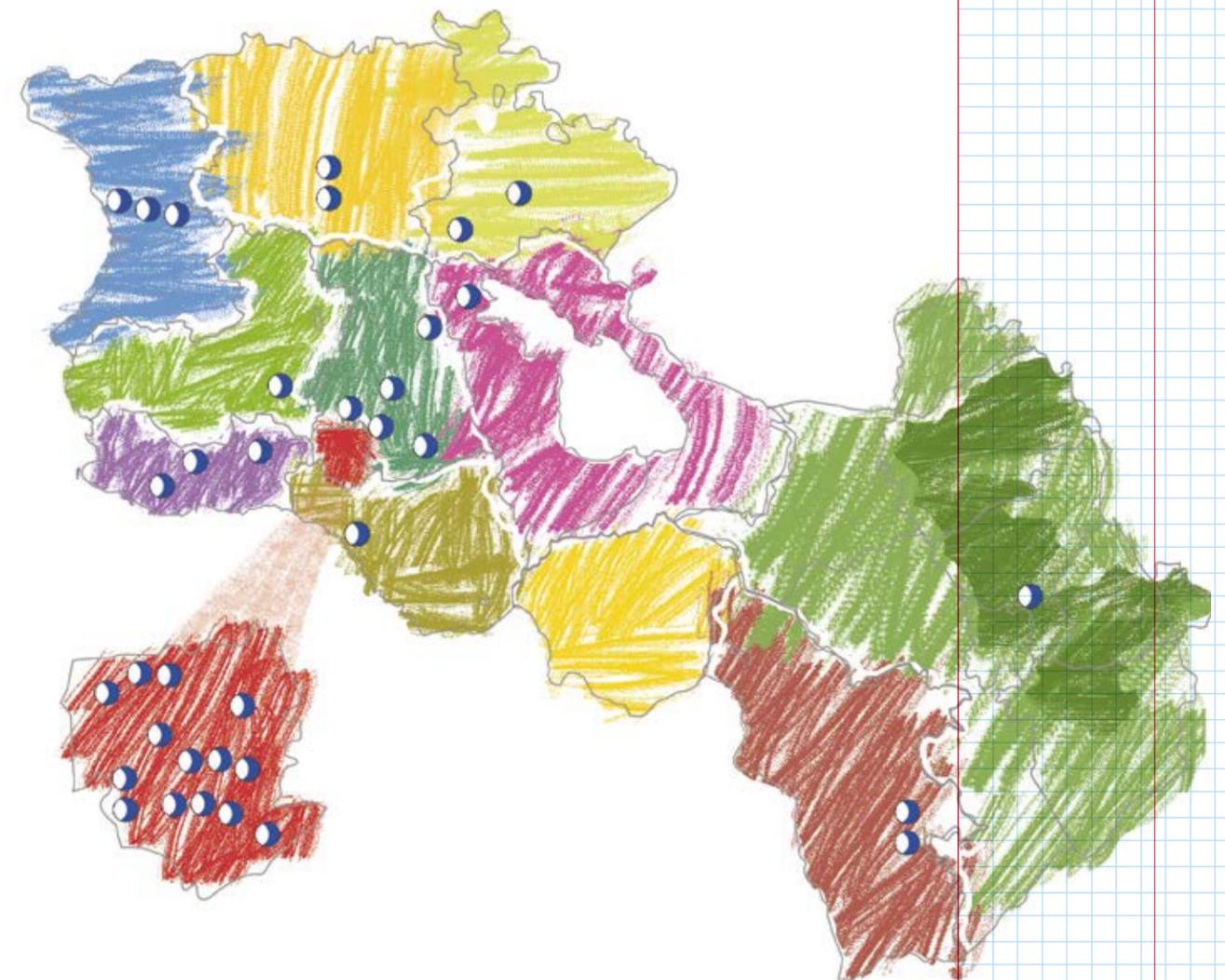
*“Due to the new approach we can offer banking services in regions where other banks are not represented. It is the future of the banking services, isn't it?” - Davit Sahakyan, Postbank Services Manager.*

### Payroll Projects

In 2012, the Bank serviced about 280 payroll projects including the largest Armenia-based organizations and businesses. Governed by the principle of offering comprehensive services to customers, Converse Bank designed special rates for each organization, and the personnel of the latter got the opportunity to use various retail services and to apply for individual loans on preferential terms.

### Money Transfers

The Bank has gradually extended the partnership with international transfer systems. To date the Bank operates Быстрая Почта, Money Gram, Unistream, Interexpress, Anelik and Avers systems.



1. Head office  
Yerevan, 26/1 Vazgen Sargsyan
2. "Central" branch  
Yerevan, 49 Komitas
3. "Avan" branch  
Yerevan, 161/1 Khudyakov
4. "Araratyan" branch  
Yerevan, 13-111 Bagratunyats
5. "Zvartnots Airport" branch  
Yerevan, 42 Zvartnots IA Departure
6. "Aviation" branch  
Yerevan, 42 Zvartnots Arrivals
7. "Davitashen" branch  
Yerevan, 18/6 section,  
3rd district Davtashen
8. "Zeitun" branch  
Yerevan, Qanaqer-Zeitun district,  
Rubinyants str. 14/7
9. "Nor Norq" branch  
Yerevan, 12/10 Gai ave.
10. "Moskovyan" branch  
Yerevan, 39/12 Mashtots ave.
11. "Kilikia" branch  
Yerevan, 4/1 Hrazdan gorge
12. "Sayat-Nova" branch  
Yerevan, 19 Sayat-Nova
13. "Erebouni" branch  
Yerevan, 11 Erebouni
14. "Nor-Hachn" branch  
Nor Hachn, 8 Charents
15. "Lori" branch  
Vanadzor, 54 G. Lusavorich

16. "Vanadzor" branch  
Vanadzor, 1c Khorenatsi
17. "Gyumri" branch  
Gyumri, 4b G. Nzdeh
18. "Kumayri" branch  
Gyumri, 46a Kh. Hayrik
19. "Shirak" branch  
Gyumri, Airport Lounge
20. "Artashat" branch  
Artashat, 43-23 Ogestos str.
21. "Armavir" branch  
Armavir, 46 Shahumyan
22. "Metsamor" branch  
Mecamor, 1st floor City Hall
23. "Charentsavan" branch  
Charentsavan, 1st floor,  
21 th bld, 6th district
24. "Hrazdan" branch  
Hrazdan, 1st floor, 104 Baghranyan  
(Micro district)
25. "Avan-1" branch  
Kotayk, On the right side of the  
Yerevan-Sevan roadway "Global Motors"  
auto salon
26. "Sevan" branch  
Sevan, 155, 2 Nairyan
27. "Etchmiadzin" branch  
Etchmiadzin, 69/90 Mashtots
28. "Abovyan" branch  
Abovyan, 8 Sahmanadrutyan Hraparak
29. "Ijevan" branch  
Ijevan, 6/1 Valans str.

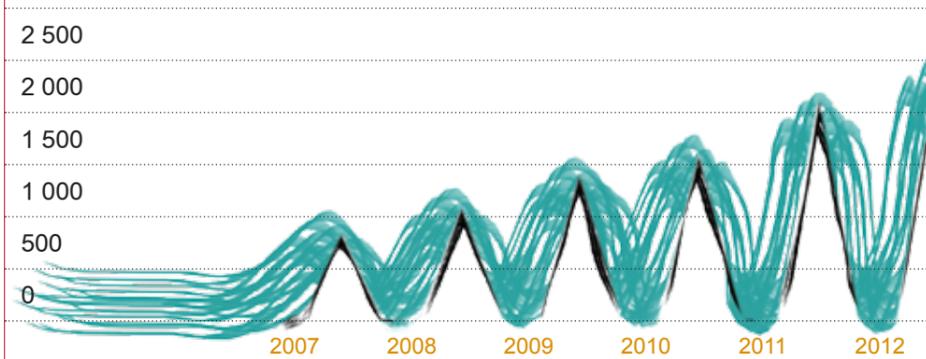
30. "Kapan" branch  
Kapan, 1/2 Tumanyan
31. "Dilijan" branch  
Dilijan, Myasnikyan street
32. "Stepanakert" branch  
Stepanakert, NKR, 25/2 & 25/3 V. Sargsyan
33. "PostBank 19" branch  
Yerevan, 23 Baghranyan
34. "PostBank Kapan 01" branch  
Kapan, 1 Tumanyan
35. "Ashtarak" branch  
Ashtarak, 1 Sisakyan str,  
Ashtarak city community



Mariam Avetyan, 6 y.o.

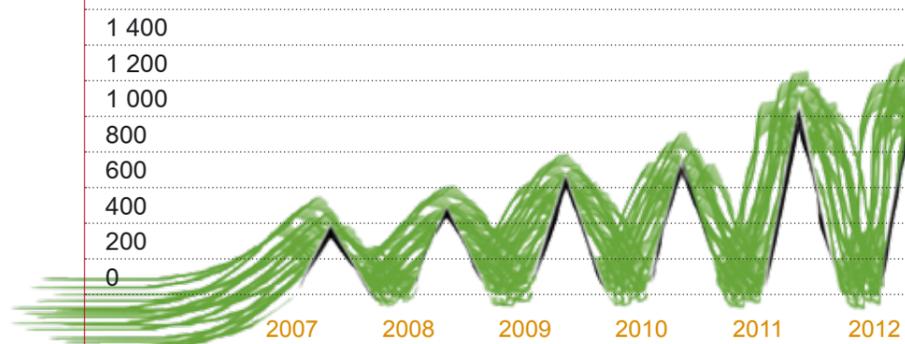
### ASSETS OF THE ARMENIAN BANKING SECTOR

mlrd dram



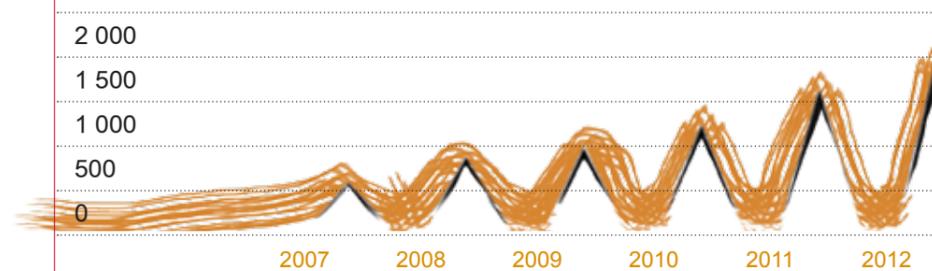
### BANK DEPOSITS OF THE ARMENIAN BANKING SECTOR

mlrd dram



### LOAN PORTFOLIO OF THE ARMENIAN BANKING SECTOR

mlrd dram



## The very thought that the future of the Armenian banking environment is being constructed today, is a great responsibility

In 2012, Armenia continued to overcome the consequences of economic crisis. Having gradually overpassed the adverse impact of 2009, a number of general economic indexes were improved; for instance the economic growth made 5.5% in 2012 vs. 4.4% in 2011.

The high growth rates in agriculture in 2011 persisted in 2012, which was attributable to the measures taken by the Government. At the year-end the agricultural growth made about 8.2% against the planned 8-9%.

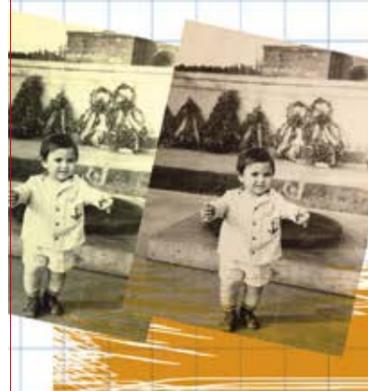
The construction turnover, in spite of about 0.6% decline in the first quarter, recorded 2.6% growth in the first half-year and reached 4.5% by the end of the year. The growth was due to the increase of construction volumes funded by the population, as well as the World Bank funded agricultural infrastructure building loan.

Throughout the year the Armenian banking system preserved the higher-than-required capital adequacy and liquidity rates, and manageable market risks. The yearly return of the banking system comprised AMD 42.6B, the ROA made 1.8%, and the ROE made 10.4%. The growth of return made 14.6% vs. the previous year. At the end of 2012, the assets of the banking sector amounted to AMD 2,412B and grew by 17.3% vs. the previous year; the total liabilities grew by 19.7% and reached AMD 2,002.7B. In the accounting period, the total capital of the banking system grew by 10.5% and reached AMD 409.5B, and the share capital grew by 4.35% and reached AMD 244.1B. The bank deposits comprised AMD 1,239B, the growth making 11% vs. the previous year. The loan investments grew by 21.07% and amounted to AMD 1,517.4B.

*“Based on the dynamics of the key indicators of the banking system in recent years., we can positively state that the system grows at a steady rate. The same is further proved by the statistics,” – Vahé Dalyan, Deputy Executive Director Head of Commercial Lending Department*



Vahé Dalyan,  
in future  
Deputy Executive Director  
Head of Commercial  
Lending Department





Hripsime Navoyan, 11 y.o.

## “Today we have to use to the fullest extent the opportunity of integration with the global economy”

In 2012, the Bank continued the cooperation with international financial organizations. For instance, the crediting under the World Bank Enterprise Development Program amounted to AMD 587M at the end of the past year. The credits issued under RESCAD and IFAD agricultural support programs amounted to AMD 351M and AMD 182M accordingly.

*“We are integrating with the global economy step by step. This affords a range of opportunities for our customers, for the Armenian economy and for the Bank. Today we have to use to the fullest extent the opportunity of integration with the global economy,” - Misak Davtyan, Deputy CEO/Head of Financial Markets Department*

At year-end 2012, the Bank’s securities portfolio comprised AMD 5.6B or about 4.8% of the total assets, of which roughly 91.7% was the share of T-bills. The non-government securities amounted to AMD 461M, of which AMD 257M were the available-for-sale securities of the internationally recognized companies.

The Bank made investments in securities mainly to ensure the required liquidity level of the Bank, and those securities were recorded as available-for-sale. At the same time, the portfolio ensured an acceptable level of return; for instance the securities yield to maturity of 2012-2015 was 9%-15.41% per annum.

*“Given a number of circumstances, we have chosen the passive portfolio management principle for securities at 1-year maturity, and at the year-end no securities were recorded in the particular portfolio,” - Misak Davtyan.*



Misak Davtyan,  
in future  
Deputy CEO/Head of Financial  
Markets Department

*“When I was a child I dreamt of becoming a football player or an architect. Quite often we had to use our vivid imagination when playing the guitar and organizing outdoor team games ...”*





Vake Asatryan, 8 y.o.



Alisa Abrahamyan, 6 y.o.

## "Sound judgment, flexibility, and a bit of professional intuition"

Banking risks are the crossing point for international, domestic, individual and common approaches. This is where we need maximum reserve and as well flexibility to apply technical mechanisms and not to forget about the human factor.

Converse Bank persists in upgrading the risk management mechanisms based on the planned growth of the loan portfolio, the aftershocks of the possible new financial crisis, and the domestic and international market changes.

*"Risk management rather than being a profession is a combination of professions. Qualification and experience are essential; however projection of economic changes is no less important, which though it may sound strange, needs a bit of intuition ... - Arman Asatryan, Head of Risk Management Department."*

Last year we designed a toolkit including the restraining mechanisms for any possible operational risks and losses of the Bank, their specifics and application methods. The introduction and application of the scoring model sped up the credit purchase process and reduced the particular credit risk. A similar comprehensive risk management will continue in 2013, including the following:

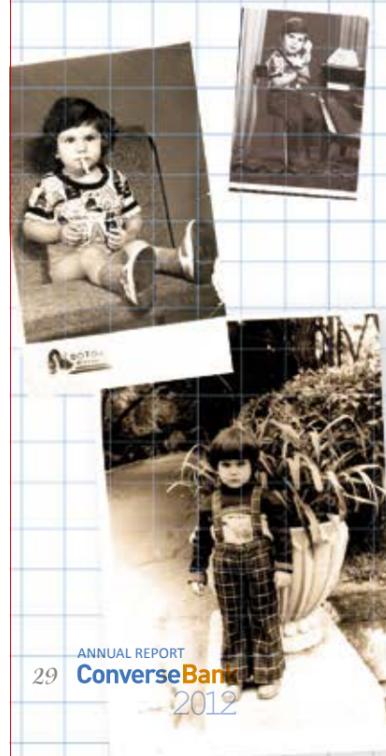
- Introduction of "Risk Appetite" concept, which is based on the aggregate of all existing risks,
- Revision of internal norms by aligning the same with the findings of the macro-economic analyses based on the domestic and international market trends,
- Credit rating – credit risk assessment by applying econometric models.

Converse Bank has developed specific risk management principles according to policies and procedures, and norms and limits, and based on the regular and continuous risk identification, measure, control and monitoring. They take into account the ratio of risk management costs to the expected benefits from risk reduction, as well as prevention of unjustified risks as far as possible; and as well adjust the acceptable limits for inevitable risks arising from internal and external transactions of the Bank.



Arman Asatryan,  
in future  
Head of Risk Management  
Department.

*"In today's dynamically developing world the quick decision-making abilities and sound judgment of the young generation have become a top priority and are essential for the flexible perception of changes. In the modern digital world we have to learn a lot from the quick witted youth."*



The most actual risks of the Bank and the basic ways of their mitigation include :

### Credit risk

- Customer credit scoring and rating
- Involvement of concerned units in loan approval process
- Loan portfolio monitoring by products and branches
- Application of lending limits based on analysis and credit histories
- Ongoing loan portfolio analysis, migration projection

### Liquidity risk

- Management of assets and liabilities liquidity gap by daily monitoring and current liquidity projection and planning
- Liquidity control based on established internal norms
- Diversification of attracted and allocated funds by maturities, currencies, products and investors
- Short and long term liquidity management in stress situations

### Currency risk

- Daily currency risk management based on internal rules and regulations of the Bank by applying VAR methodology and Bollinger Bands
- Application of monthly stress tests to assess flexibility of open positions for assets and liabilities in foreign currency, including in force majeure situation
- Application of parametric and nonparametric models

### Interest risk

- Interest risk management by applying sensitivity gap, duration and basis risk models
- Application of stress scenarios of various gravity to project potential loss
- Basic risk management of investment portfolio interest rate through hedging
- Analysis and projection of yield curves for various securities
- Interest margin target level monitoring

### Operational risk

- Operational risk management through double verification of all documents supporting business processes, the related internal rules and regulations, the respective limits set for all processes and transactions and deals concluded by the Bank
- Comprehensive banking risk management: insurance of property, electronic and computer crimes and management liability
- Restriction of information access
- Improvement of IT system reliability
- Application and archiving of data registers

### Capital risk

- Assessment of capital loss rate per risk
- Application of internal norms
- Application of stress tests of various strength and result analysis
- Analysis of structure of financial market, dynamics of scales and price indices, liquidity of specific financial instruments and identification of existing trends



Safia Vardanyan, 11 y.o.

## “Any investment in HR development is decisive for the future”

The presence of a qualified and enthusiastic team is a competitive advantage of any company.

*“The secret of our success is the professional staff of the Bank working in the environment where team spirit, mutual respect and trust are honored and appreciated. We encourage the continuous improvement and upgrading of professional skills and competences, due where to we are in the position to promptly respond to the market changes and offer new, tailored and attractive solutions to our customers on a regular basis,” - Lusine Meliksetyan.*

Each and every employee is essential at any stage of our activities. Each and every employee constitutes a unique and indivisible link in a chain, and each and every link is essential for the integrity of the chain and ensures the soundness of the preceding and succeeding links in the overall chain. Only the availability of a strong and professional personnel allows to record the best results on product development, administrative and customer service levels.

Having the HR policy built on recruitment of a professional team and continuous increase of their efficiency, the Bank produces impressive results year after year.

In 2012, the Bank made substantial investments in personnel training and development. We continued cooperation with the leading universities in Armenia to attract ambitious and promising students. Students having passed the internship successfully were offered employment as the Bank team member.

Apart from financial motivation, in 2012 the Bank developed and introduced a non-financial motivation scheme allowing to recognize the individual contribution of employee in the progress of the Bank and the Team, and to strengthen the team spirit by prioritizing the achievements of the employee and the team.

*“We do believe that any investment in HR development is decisive for the future. The more consistent and caring are we with this matter, the brighter will the colors of the future be,” - Lusine Meliksetyan.*

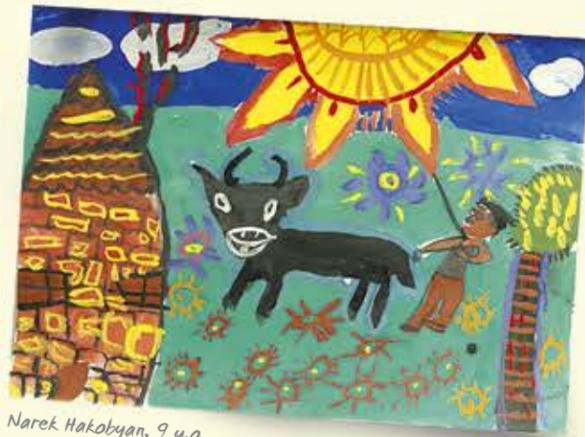


Lusine Meliksetyan,  
in future  
Head of HR Management Unit

*“I have been a good mixer since childhood. I was good at singing and was always the center of attention. I was sure I would become a singer...”*



Pictures from  
 "Colors of the Future"  
 Exhibition



Narek Hakobyan, 9 y.o.



Lili Grigoryan, 10 y.o.



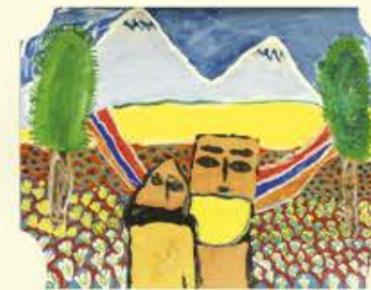
Ani Avetisyan, 8 y.o.



Vani Baghtasaryan, 5 y.o.



Armine Martinyan, 7 y.o.



Sevak Navoyan, 10 y.o.



Edgar Andreyan, 6 y.o.



Edmond Gevorgyan, 12 y.o.



Grigor Hovhannisyan, 9 y.o.



Karine Yeghiazaryan, 14 y.o.



Sona Saqapetoyan, 7 y.o.



Anoush Zilfugharyan, 7 y.o.

## "Man is the core focus of our business"

Today's life is changing rapidly. The urge to see tomorrow's results drive people to move fast. Almost all spheres undergo change, and the banking sector does not stand aside.

We, like everyone, strive for seeing the future in bright colors. On the road to the future each of us take a specific role, acting as an individual and a professional, a banking professional in our case. Though we improve continuously as professionals and are eager to produce the best results, we are well aware that these results are achieved by our customers, rather than by us.

*"The customer is not only our financial partner, but also the source and initiator of our innovative efforts to reforms. Each and all customers are the generator or mover of interesting and advantageous ideas for us," - Naira Tovmasyan, Head of Marketing Unit.*

To identify the customer needs, to understand their perception of the world and to provide advice they need for organization of their planned activity, we conduct regular "conversations" with our customers, thus trying to strengthen the interpersonal relations and to find new opportunities of communication for the common benefit.

*"The Bank focuses the marketing policy on the Man: man-customer, man-borrower, man-investor," - Naira Tovmasyan, Head of Marketing Unit.*

In 2012, we initiated and conducted a number of "conversations" or "CONVERSations" as we usually spell.

- ✓ The Rock CONVERSation was initiated parallel to the student packages and the card project. The goal of this "conversation" was to attract students and as well to introduce them to the Armenian Rock.
- ✓ The Chess CONVERSation was an excellent opportunity for the customers and employees of the Bank and all chess lovers to play a simultaneous game with the World and Olympic chess champions. It was rather inspiring to see numerous children participating in the "conversation," since it is our firm belief that direct contacts with heroes, champions and exemplary personalities are essential for the development of the self-consciousness and self-confidence of a man and especially of a child. Through this "conversation" we intended to enforce the sense that people having achieved names, titles and medals were real, and moreover, they had also been kids and had dreamt and had fulfilled their dreams.



Naira Tovmasyan, in future Head of Marketing Unit.



*"When I was a child I truly believed in magic. I still believe; but I was merely waiting for magic in childhood, and I create magic today ..."* - Naira Tovmasyan, Head of Marketing Unit.



- ✓ The Extreme CONVERSation was arranged jointly with Extreme Sports Club. We pursued the goal to promote the concept that we were not only a bank for each and all, but also a bank taking the challenges side by side with our customer and appreciating the courage and initiative of our team and customers.
- ✓ The events with children and for children were granted specific attention in a series of conversations. Among others, the most important was the year-end action "Become a Santa Claus: make the dream of a frontier child come true." It was important, since it was aimed at promotion of the public attention on the children living in the borderline villages.

*"At present the bank marketing mostly acts as a combination of new technological tools and a new outlook. It opens new borders and allows the customer to turn from an observer into a participant. Today the consumer is not a passive target audience. They prefer to get involved," - Naira Tovmasyan, Head of Marketing Unit.*





Zinaida Abrahamyan, 13 y.o.

## "Being inquisitive since childhood helps to be substantial throughout the life"

The Bank succeeded to strengthen its position in the Armenian banking sector notwithstanding the global economic volatility and the intensively increasing competition in the Armenian financial market.

The net profit grew due to a number of factors, such as:

- ✓ Increase of loans and advances to customers by AMD 13.5B or 29.3%
- ✓ Increase of claims to other financial organizations by AMD 6.7B or 57.9%
- ✓ Growth of securities portfolio by AMD 792M or 16.6%.

In 2012, the Bank continued the expansion of branch network, and had 35 branches (including the Head Office), of which 14 in Yerevan, 20 in the regions and 1 in the NKR.

One of the 2012 core goals of the Bank was the improvement of the assets quality and their efficient allocation by preserving the optimal level of risk and profitability. The Bank's assets amounted to AMD 115.8B as of December 31, 2012.

As the result, at the end of 2012:

- ✓ The Bank's loan portfolio comprised AMD 59.7B or 51.6% of assets;
- ✓ The gross loan portfolio made AMD 64.9B, of which individual loans comprised AMD 35.6B, and corporate loans comprised AMD 29.3B. In 2012, retail loans grew by 26.2%, and corporate loans grew by 34.4%;
- ✓ The ratio of loan loss reserve to issued loans improved as well, which made 8.03% at the year-end, decreasing by 0.6 percentage point versus the previous year;
- ✓ The claims to other financial organizations made AMD 18.3B or 15.8% of assets;
- ✓ The securities portfolio made AMD 5.6B or 4.8% of assets.



Gohar Harutyunyan,  
*in future*  
Head of Accounting Department





Victoria Saghoyan, 9 y.o.



Nane Haroyan, 4 y.o.

In 2012, the Bank did not breach any main economic norms. The norms characterized the Bank as a solvent financial institution of high liquidity with extensive credit and liquidity risk tolerance.

**The Bank's liabilities** amounted to AMD 99B at the end of 2012. The individual deposits grew by AMD 1.8B or 27.5%. The real growth of corporate account balances and demand deposits made AMD 15.8B.

The dynamics of time deposits attracted by the Bank demonstrated sustainable growth, which proved the high level of customer trust to the Bank. Specifically:

- ✓ Individual time deposits increased by AMD 5.9B or about 27% and made AMD 27.6B;
- ✓ Time deposits of corporate customers (including the RA Government) and loans attracted from them increased by AMD 4.6B or 38.3% and made AMD 14.4B.

The Bank actively cooperated with international and local financial institutions. For instance, the funds attracted from **European Bank for Reconstruction and Development (EBRD)**, which the Bank used for SME financing, amounted to **AMD 2.2B**. The funds attracted and allocated from **European Fund for Southeast Europe** amounted to **AMD 3.4B**.

In addition, the Bank implemented joint SME projects with local project implementation units (PIU), including the Rural Finance Facility and the German-Armenian Fund PIUs.

The Bank closely cooperated with the National Mortgage Company and Home for Youth refinancing credit organizations, and used the funds attracted from them to issue mortgage and student loans with AMD and at favorable interest rates. The particular loan portfolio comprised **AMD 1.1B**.

At the end of 2012, the total **equity** of the Bank amounted to AMD 16.8B.

The client base contained 4,849 legal entities and 69,883 individuals, and outperformed the same indicator of 2011 by 32.9%.

*"I have been rather emotional from childhood. I felt sorry for the poor children, I was upset over the cut trees and the ruined streets... I am still anxious, and wish peace and harmony, so that the children are well-off, the trees are not cut down... I am happy to work in an organization that is bound in honor to assume social responsibility", - Galnar Harutyunyan, Chief Accountant*

## “Any profit earned should be reinvested in Armenia”

*“When I was a child I dreamt about the Space. I believed that in the 21st century people would live in the Space. When I grew up I understood that we were the creators of our future, and we do it every day,” - Eduardo Eurnekian, Converse Bank major shareholder.*

Viewing back at the past of the Bank, we understand that the bright colors of today's success are attributable to the firm basis built 20 years ago. When drawing the strategic development of the Bank we have been inspired with our achievements and have took up the challenge of adding brighter colors to the future of the Bank.

This is our vision of our main strategic goals:

- Expand the active client base and offer a wide range of quality banking services based on the loyalty of customers and shareholders and keeping balance between risk, capital and profit;
- Strengthen our leading positions in the Armenian banking sector by offering the best to customers and meeting their needs;
- Introduce new flexible banking toolkit and implement optimal rate policy;
- Expand cooperation with Haypost CJSC to broaden accessibility of the Bank services;
- Strengthen the technology leader's position in the Armenian banking sector by improving the quality and the reliability of customer service;
- Provide for a diversified loan portfolio sized up to the business development level and the financial needs of the current investment projects by securing high quality of the loan portfolio;
- Increase the share of the Bank's loan portfolio in mortgage, consumer, SME and agro loan markets;
- Strengthen the leader position in the cards market.



Elina Davtyan, 8 y.o.



Ani Yepremyan, 7 y.o.

*“I believe that by helping our Motherland we have to think about the future of our country. When you do business in Armenia you should not think of taking out the capital. Any profit earned should be reinvested in Armenia to create new jobs, so that the young people do not think about leaving Armenia,” - Eduardo Eurnekian.*

## Independent auditor's report

To the Shareholders and Board of Directors of Closed Joint Stock Company "Converse Bank":

We have audited the accompanying financial statements of "Converse Bank" CJSC (the "Bank"), which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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 whether financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in 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 Bank's preparation and fair presentation of the financial statement 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 Bank'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 audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of "Converse Bank" Closed Joint Stock Company as of December 31, 2012, 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  
18 March, 2013  
Yerevan

## Statement of comprehensive income

In thousand Armenian drams	Notes	Year ended December 31, 2012	Year ended December 31, 2011
Interest and similar income	6	<b>8,198,163</b>	7,387,700
Interest and similar expense	6	<b>(4,228,162)</b>	(3,584,957)
Net interest income		<b>3,970,001</b>	3,802,743
Fee and commission income	7	<b>1,472,775</b>	1,391,611
Fee and commission expense	7	<b>(386,853)</b>	(341,782)
Net fee and commission income		<b>1,085,922</b>	1,049,829
Net trading income	8	<b>979,533</b>	843,984
Gains less losses on investments available for sale		<b>613</b>	90,737
Other income	9	<b>343,081</b>	321,393
Impairment charge for credit losses	10	<b>(297,229)</b>	(1,689,352)
Foreign currency translation net gain/(loss) of non-trading assets and liabilities		<b>(199,780)</b>	320,816
Staff costs	11	<b>(2,659,365)</b>	(2,061,372)
Depreciation of property plant and equipment	21	<b>(793,484)</b>	(621,215)
Amortization of intangible assets	22	<b>(44,673)</b>	(76,876)
Other expenses	12	<b>(1,998,629)</b>	(1,853,718)
Profit before income tax		<b>385,990</b>	126,969
Income tax expense	13	<b>(61,690)</b>	(50,509)
Profit for the year		<b>324,300</b>	76,460
Other comprehensive income:			
Net unrealized gain/(loss) from changes in fair value of available-for-sale instruments		<b>282,527</b>	(3,343)
Net (gain)/loss realized to net profit on disposal of available-for-sale instruments		<b>(6,101)</b>	5,792
Income tax relating to components of other comprehensive income		<b>(55,285)</b>	(490)
Other comprehensive income for the year, after tax		<b>221,141</b>	1,959
Total comprehensive income for the year		<b>545,441</b>	78,419

The accompanying notes on pages 7 to 68 are an integral part of these financial statements.

## Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2012	As of December 31, 2011
<b>ASSETS</b>			
Cash and balances with CBA	14	23,582,048	69,136,771
Precious metals	15	118,037	146,308
Trading securities	16	168,448	120,617
Amounts due from other financial institutions	17	18,284,023	11,578,753
Derivative financial assets	18	2,135	28,749
Loans and advances to customers	19	59,732,908	46,190,254
Investments available for sale	20	5,387,527	3,610,849
Securities pledged under repurchase agreements	30	-	1,032,481
Property, plant and equipment	21	4,811,309	4,801,785
Intangible assets	22	178,364	218,780
Repossessed assets	23	2,758,321	59,228
Prepaid income taxes		56,750	215,300
Other assets	24	754,490	454,022
<b>TOTAL ASSETS</b>		<b>115,834,360</b>	<b>137,593,897</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Amounts due to CB of RA	25	4,492,089	5,535,186
Amounts due to other financial institutions	26	10,070,868	12,465,027
Derivative financial liabilities	18	-	2,677
Amounts due to customers	27	83,833,092	102,374,094
Deferred income tax liabilities	13	207,519	361,094
Other liabilities	28	441,519	337,568
Other provisions	29	9,713	40,699
<b>TOTAL LIABILITIES</b>		<b>99,054,800</b>	<b>121,116,345</b>
<b>Equity</b>			
Share capital	31	4,860,033	4,860,033
Share premium		63,233	63,233
Statutory general reserve		715,505	715,505
Other reserves		3,160,131	3,260,329
Retained earnings		7,980,658	7,578,452
<b>Total equity</b>		<b>16,779,560</b>	<b>16,477,552</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>115,834,360</b>	<b>137,593,897</b>

The financial statements from pages 3 to 57 were signed by the Bank's Executive Director and Chief Accountant on March 18, 2013. The accompanying notes on pages 7 to 57 are an integral part of these financial statements.

T. DAVTYAN  
Executive Director



G. HARUTYUNYAN  
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	Revaluation reserve of PPE	Retained earnings	Total
Balance as of January 1, 2011	4,860,033	63,233	648,183	(37,427)	3,617,136	7,413,682	16,564,840
Transfers to reserves	-	-	67,322	-	-	(67,322)	-
Dividends to shareholders	-	-	-	-	-	(165,707)	(165,707)
Transactions with owners	-	-	67,322	-	-	(233,029)	(165,707)
Profit for the year	-	-	-	-	-	76,460	76,460
<b>Other comprehensive income:</b>							
Adjustment to revaluation reserve on depreciation of PPE	-	-	-	-	(321,339)	321,339	-
Net unrealized loss from changes in fair value	-	-	-	(3,343)	-	-	(3,343)
Net losses realized to comprehensive income statement on disposal of available-for-sale instruments	-	-	-	5,792	-	-	5,792
Income tax relating to components of other comprehensive income	-	-	-	(490)	-	-	(490)
Total comprehensive income for the year	-	-	-	1,959	(321,339)	397,799	78,419
Balance as of December 31, 2011	4,860,033	63,233	715,505	(35,468)	3,295,797	7,578,452	16,477,552
Dividends to shareholders	-	-	-	-	-	(243,433)	(243,433)
Transactions with owners	-	-	-	-	-	(243,433)	(243,433)
Profit for the year	-	-	-	-	-	324,300	324,300
<b>Other comprehensive income:</b>							
Adjustment to revaluation reserve on depreciation of PPE	-	-	-	-	(321,339)	321,339	-
Net unrealized gain from changes in fair value	-	-	-	282,527	-	-	282,527
Net gains realized to comprehensive income statement on disposal of available-for-sale instruments	-	-	-	(6,101)	-	-	(6,101)
Income tax relating to components of other comprehensive income	-	-	-	(55,285)	-	-	(55,285)
Total comprehensive income for the year	-	-	-	221,141	(321,339)	645,639	545,441
Balance as of December 31, 2012	4,860,033	63,233	715,505	185,673	2,974,458	7,980,658	16,779,560

## Statement of cash flows

In thousand Armenian drams	Year ended December 31,2012	Year ended December 31,2011
<b>Cash flows from operating activities</b>		
Interest received	7,827,302	7,601,977
Interest paid	(4,488,048)	(3,467,739)
Fees and commissions received	1,472,775	1,391,611
Fees and commissions paid	(386,853)	(341,782)
Gains less losses on trading of trading assets	4,066	116
Realised gains from dealing in foreign currencies	996,663	882,800
Other income received	333,420	316,988
Fair value gain/( loss) on financial assets recognised in profit and loss	23,960	(26,072)
Recovery of previously written off loans	1,095,440	428,714
Salaries and benefits paid	(2,632,630)	(2,104,006)
Other operating expenses paid	(1,958,215)	(1,853,718)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>2,287,880</b>	<b>2,828,889</b>
<i>Net (increase)/decrease in operating assets</i>		
Deposited funds in the CBA	14,469	95,257
Precious metals	28,259	(53,779)
Amounts due from other financial institutions	3,907,584	(4,074,024)
Loans and advances to customers	(17,479,287)	(3,804,729)
Other assets	(66,026)	54,294
<i>Increase/(decrease) in operating liabilities</i>		
Amounts due to CB of RA	1,043,097	730,885
Amounts due to financial institutions	(3,707,061)	3,581,383
Amounts due to customers	(20,252,151)	38,871,591
Other liabilities	(13,817)	(111,313)
<b>Net cash flow from/(used in) operating activities before income tax</b>	<b>(34,237,053)</b>	<b>38,118,454</b>
Income tax paid	(112,000)	(79,373)
<b>Net cash from/(used in) operating activities</b>	<b>(34,349,053)</b>	<b>38,039,081</b>
<b>Cash flows from investing activities</b>		
(Purchase)/sale of investment securities	(1,607,924)	860,943
Dividends received	2,454	2,005
Purchase of property, equipment and intangible assets	(813,228)	(512,191)
Proceeds from sale of property, equipment and intangible assets	10,748	2,500
<b>Net cash from/(used in) investing activities</b>	<b>(2,407,950)</b>	<b>353,257</b>
<i>Cash flow from financing activities</i>		
Redemption of debt securities issued	-	300,000
Dividends paid to shareholders	(243,433)	(165,707)
<b>Net cash from/(used in) financing activities</b>	<b>(243,433)</b>	<b>134,293</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(37,000,436)</b>	<b>38,526,631</b>
Cash and cash equivalents at the beginning of the year	72,401,755	30,190,270
Effect of exchange rate changes on cash and cash equivalents	498,319	3,684,854
<b>Cash and cash equivalents at the end of the year</b>	<b>35,899,638</b>	<b>72,401,755</b>



Idea by Naira Tovmasyan

Editing by Hrachuhi Barseghyan

Style and Design by Hasmik Movsesyan / photogroup studio

ConverseBank.am



*Sona Petrosyan, 9 y.o.*