Grant Thornton

Financial Statements and Independent Auditor's Report

"Converse Bank" closed joint stock company

31 December 2013

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Independent auditor's report

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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 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 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 our 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, 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
07 March, 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	**10,896,817**	8,409,933
Interest and similar expense	6	**(5,757,518)**	(4,228,162)
Net interest income		**5,139,299**	4,181,771
Fee and commission income	7	**1,364,852**	1,291,232
Fee and commission expense	7	**(516,962)**	(386,853)
Net fee and commission income		**847,890**	904,379
Net trading income	8	**861,952**	979,533
Gains less losses on investments available for sale		**43,447**	613
Other income	9	**766,417**	312,854
Impairment charge for credit losses	10	**(300,139)**	(297,229)
Foreign currency translation net loss of non-trading assets and liabilities		**(252,289)**	(199,780)
Staff costs	11	**(2,958,244)**	(2,659,365)
Depreciation of property plant and equipment	20	**(924,603)**	(793,484)
Amortization of intangible assets	21	**(111,449)**	(44,673)
Other expenses	12	**(2,349,026)**	(1,998,629)
Profit before income tax		**763,255**	385,990
Income tax expense	13	**(292,457)**	(61,690)
Profit for the year		**470,798**	324,300
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of PPE		**2,414,982**	-
Income tax relating to items that will not be reclassified		**(1,077,888)**	-
Net income from items that will not be reclassified subsequently to profit or loss		**1,337,094**	-
Items that will be reclassified subsequently to profit or loss			
Net unrealized gain from changes in fair value of available-for-sale instruments		**839,237**	282,527
Net gain realized to net profit on disposal of available-for-sale instruments		**(47,488)**	(6,101)
Income tax relating to items that will be reclassified		**(158,349)**	(55,285)
Net income from items that will be reclassified subsequently to profit or loss		**633,400**	221,141
Other comprehensive income for the year, net of tax		**1,970,494**	221,141
Total comprehensive income for the year		**2,441,292**	545,441

The accompanying notes on pages 7 to 59 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
ASSETS			
Cash and cash equivalents	14	**21,103,526**	35,899,638
Trading securities	15	**268,904**	168,448
Amounts due from other financial institutions	16	**2,883,839**	5,966,433
Derivative financial assets	17	**-**	2,135
Loans and advances to customers	18	**79,957,304**	59,732,908
Investments available for sale	19	**7,594,409**	5,387,527
Property, plant and equipment	20	**7,313,542**	4,811,309
Intangible assets	21	**191,883**	178,364
Repossessed assets	22	**1,012,014**	2,758,321
Prepaid income taxes		**46,763**	56,750
Other assets	23	**998,479**	872,527
TOTAL ASSETS		**121,370,663**	115,834,360
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to CB of RA	24	**4,043,242**	4,492,089
Amounts due to other financial institutions	25	**11,951,850**	10,070,868
Amounts due to customers	26	**84,422,004**	83,833,092
Deferred income tax liabilities	13	**1,533,878**	207,519
Other liabilities	27	**486,759**	451,232
TOTAL LIABILITIES		**102,437,733**	99,054,800
Equity			
Share capital	28	**4,860,033**	4,860,033
Share premium		**63,233**	63,233
Statutory general reserve		**780,365**	715,505
Other reserves		**4,873,554**	3,160,131
Retained earnings		**8,355,745**	7,980,658
Total equity		**18,932,930**	16,779,560
TOTAL LIABILITIES AND EQUITY		**121,370,663**	115,834,360

The financial statements from pages 3 to 59 were signed by the Bank's Executive Director and Chief Accountant on March 07, 2014. The accompanying notes on pages 7 to 59 are an integral part of these financial statements.

TIGRAN DAVTYAN
Executive Director

GOHAR 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, 2012	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
Other comprehensive income:							
Adjustment to PPE revaluation reserve	-	-	-	-	(321,339)	321,339	-
Net unrealized gain from changes in fair value	-	-	-	282,527	-	-	282,527
Net gains realized to profit or loss 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**
Dividends to shareholders	**-**	**-**	**-**	**-**	**-**	**(287,922)**	**(287,922)**
Transfers to reserves	**-**	**-**	**64,860**	**-**	**-**	**(64,860)**	**-**
Transactions with owners	**-**	**-**	**64,860**	**-**	-	**(352,782)**	**(287,922)**
Profit for the year	**-**	**-**	**-**	**-**	-	**470,798**	**470,798**
Other comprehensive income:							
Adjustment to PPE revaluation reserve	**-**	**-**	**-**	**-**	**(257,071)**	**257,071**	**-**
Revaluation of PPE	**-**	**-**	**-**	**-**	**2,414,982**	**-**	**2,414,982**
Net unrealized gain from changes in fair value	**-**	**-**	**-**	**839,237**	**-**	**-**	**839,237**
Net gains realized to profit or loss and other comprehensive income on disposal of available-for-sale instruments	**-**	**-**	**-**	**(47,488)**	**-**	**-**	**(47,488)**
Income tax relating to components of other comprehensive income	**-**	**-**	**-**	**(158,349)**	**(1,077,888)**	**-**	**(1,236,237)**
Total comprehensive income for the year	**-**	**-**	**-**	**633,400**	**1,080,023**	**727,869**	**2,441,292**
Balance as of December 31, 2013	**4,860,033**	**63,233**	**780,365**	**819,073**	**4,054,481**	**8,355,745**	**18,932,930**

Statement of cash flows

In thousand Armenian drams	**Year ended December 31,2013**	Year ended December 31,2012
Cash flows from operating activities		
Interest received	**10,350,018**	7,827,302
Interest paid	**(5,072,495)**	(4,488,048)
Fees and commissions received	**1,589,365**	1,472,775
Fees and commissions paid	**(516,962)**	(386,853)
Gains less losses on trading of trading assets	**766**	4,066
Realised gains from dealing in foreign currencies	**813,263**	996,663
Other income received	**901,125**	333,420
Fair value gain on financial assets recognised in profit and loss	**47,923**	23,960
Recovery of previously written off loans	**988,494**	1,095,440
Salaries and benefits paid	**(2,918,474)**	(2,632,630)
Other operating expenses paid	**(2,261,679)**	(1,958,215)
Cash flows from operating activities before changes in operating assets and liabilities	**3,921,344**	2,287,880
Net (increase)/decrease in operating assets		
Deposited funds in the CBA	**(100,000)**	14,469
Amounts due from other financial institutions	**3,140,263**	3,907,584
Loans and advances to customers	**(19,349,997)**	(17,479,287)
Other assets	**1,345,743**	(37,767)
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	**3,416,065**	(3,266,836)
Amounts due to customers	**(1,246,276)**	(20,252,151)
Other liabilities	**(277,305)**	(13,817)
Net cash used in operating activities before income tax	**(9,150,163)**	(34,839,925)
Income tax paid	**(192,348)**	(112,000)
Net cash used in operating activities	**(9,342,511)**	(34,951,925)
Cash flows from investing activities		
Purchase of investment securities	**(1,909,735)**	(1,607,924)
Dividends received	**2,317**	2,454
Purchase of property, equipment and intangible assets	**(893,655)**	(813,228)
Proceeds from sale of property, equipment and intangible assets	**29,378**	10,748
Net cash used in investing activities	**(2,771,695)**	(2,407,950)
Cash flow from financing activities		
Amounts due to CB of RA	**(439,315)**	1,043,097
Amounts due to financial institutions	**(2,531,718)**	(440,225)
Dividends paid to shareholders	**(287,922)**	(243,433)
Net cash from (used in) financing activities	**(3,258,955)**	359,439
Net decrease in cash and cash equivalents	**(15,373,161)**	(37,000,436)
Cash and cash equivalents at the beginning of the year	**35,899,638**	72,401,755
Effect of exchange rate changes on cash and cash equivalents	**577,049**	498,319
Cash and cash equivalents at the end of the year (Note 14)	**21,103,526**	35,899,638

Accompanying notes to the financial statements

1 Principal activities

Converse Bank CJSC (the "Bank") is a closed joint-stock company, which was incorporated in the Republic of Armenia in 1994. The Bank is regulated by the legislation of RA and conducts its business under license number 57, granted on November 28, 1994 by the Central Bank of Armenia (the "CBA").

The Bank accepts deposits from the public and extends credit, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

The Bank's main office is in Yerevan and its 32 branches are located in Yerevan and in different regions, and 1 branch is located in NKR. The registered office of the Bank is located at 26/1 Vazgen Sargsyan Str., Yerevan, 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, with the exception of land and buildings which are stated at revalued amount.

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 Dram ("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 31.

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 32.

3.5 Standards 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 income statement 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.

Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases and is recorded in the income statement in "Other income".

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 are recognised 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 incomein other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

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

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

The exchange rates at year-end used by the 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, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), 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.

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/loss on operations with precious metals in other income/expense.

4.6 Amounts due from other financial institutions

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks and other financial institutions. 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 Banks and 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 balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

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

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

The 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 investments. 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 recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss and other comprehensive incomeas 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 unrealised 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 as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

Available for sale financial 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 statement on income, is transferred from equity to the statement of profit or loss and other comprehensive income.

Reversals of impairment in respect of equity instruments classified as available-for-sale are not recognised in the statement of profit or loss and other comprehensive incomebut accounted for in other comprehensive income in a separate component of equity. Reversals of impairment losses on debt instruments are reversed through the statement of profit or loss and other comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4.9 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. Securities purchased under agreements to resell ("reverse repo") are not recognized on the balance sheet, and the extended amounts are faced as the separate balance sheet item. 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 leasee

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 except land and buildings.

The buildings are stated at fair value less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at fair value. It has unlimited useful life and thus is not depreciated.

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	20	5
Computers	1	100
Vehicles	5	20
Equipment	5	20
Other fixed assets	5	20

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are not depreciated.

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.

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

The Bank transfers increase of fixed asset's unit revaluation to retained earnings in line with the calculation of depreciation during the useful life of the asset and at disposal of the fixed asset.

4.13 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 1 to 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.

Costs associated with maintaining computer software programmes are recorded 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 Grants

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

4.16 Borrowings

Borrowings, which include amounts due to the Central Bank and Government, amounts due to financial institutions, amounts due to customers, debt securities issued 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.

4.17 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.

4.18 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.

4.19 Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both 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.

4.20 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 state and corporate bonds and corporate shares. Upon initial recognition, the Bank designates securities as trading or available-for-sale financials 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. 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 29.

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	**9,758,711**	7,295,671
Debt securities available-for-sale	**751,747**	578,570
Amounts due from other financial institutions	**218,131**	129,005
Reverse repurchase transactions	**100,162**	108,151
Interest accrued on individually impaired financial assets	**62,550**	298,125
Other interest income	**5,516**	411
Total interest and similar income	**10,896,817**	8,409,933
Amounts due to customers	**4,446,929**	3,031,988
Amounts due to financial institutions	**1,309,808**	1,188,335
Repurchase transactions	**781**	7,839
Total interest and similar expense	**5,757,518**	4,228,162

7 Fee and commission income and expense

In thousand Armenian drams	**2013**	2012
Cash operation	**114,518**	122,365
Wire transfer fees	**446,762**	438,751
Loans	**125,156**	74,841
Plastic cards operations	**632,317**	576,597
Guarantees and letters of credit	**23,997**	49,235
Other	**22,102**	29,443
Total fee and commission income	**1,364,852**	1,291,232

In thousand Armenian drams	2013	2012
Wire transfer fees	**63,827**	58,342
Cash operations	**148,444**	108,031
Plastic cards operations	**283,569**	210,617
Other expenses	**21,122**	9,863
Total fee and commission expense	**516,962**	386,853

8 Net trading income

In thousand Armenian drams	2013	2012
Gains less losses from foreign currency transactions	**813,263**	996,663
Net gain from changes in fair value of trading assets and liabilities	**45,768**	8,433
Net gain(loss) on foreign currency swap	**2,155**	(29,629)
Gains less losses on trading of trading assets	**766**	4,066
Total net trading income	**861,952**	979,533

9 Other income

In thousand Armenian drams	2013	2012
Fines and penalties received	**464,426**	247,609
Net income from operations with precious metals	**20,810**	12,554
Income from grants	**2,422**	2,422
Income from sale of fixed assets	**-**	4,785
Dividend income	**2,317**	2,454
Other income	**276,442**	43,030
Total other income	**766,417**	312,854

10 Impairment charge/(reversal of impairment) for credit losses

In thousand Armenian drams	2013	2012
Loans and advances to customers (Note 18)	**291,700**	260,455
Other assets (Note 23)	**(240)**	67,760
Other provisions (Note 29)	**8,679**	(30,986)
Total impairment charge for credit losses	**300,139**	297,229

11 Staff costs

In thousand Armenian drams	2013	2012
Wages and other benefits	**2,958,244**	2,442,474
Social security contributions	**-**	216,891
Total staff costs	**2,958,244**	2,659,365

* 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.

12 Other expenses

In thousand Armenian drams	**2013**	2012
Consulting and other services	**65,425**	80,297
Operating lease	**371,573**	281,321
Taxes, other than income tax, duties	**15,223**	226,979
Advertising costs	**435,907**	396,337
Insurance expenses	**111,722**	137,375
Impairment loss on fixed assets	**10,471**	-
Impairment loss on foreclosed assets	**197,246**	-
Loss on disposal of PPE	**2,166**	-
Fixed assets maintenance	**105,370**	139,737
Communications	**125,692**	109,336
Security	**159,287**	129,082
Cash collection expenses	**86,055**	70,593
Insurance of deposits	**83,369**	63,355
Office supplies	**47,443**	42,839
Business trip expenses	**14,946**	18,569
Armenian Software expenses	**120,871**	82,867
Plastic card expenses	**35,375**	29,386
Expenses related to ARCA	**93,126**	66,253
Penalties paid	**647**	99
Other expenses	**267,112**	124,204
Total other expense	**2,349,026**	1,998,629

13 Income tax expense

In thousand Armenian drams	**2013**	2012
Current tax expenses	**202,335**	270,550
Deferred tax expense	**90,122**	(208,860)
Total income tax expense	**292,457**	61,690

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (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 (%)
Profit before tax	**763,255**		385,990	
Income tax at the rate of 20%	**152,651**	**20**	77,198	20
Non-deductible expenses	**128,650**	**17**	17,570	5
Foreign exchange losses	**11,156**	**1**	39,956	10
Utilization of unrecognised tax losses	**-**		(73,034)	(19)
Income tax expense	**292,457**	**38**	61,690	16

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	**As of December 31, 2012**	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**As of December 31, 2013**
Trading securities	**3,822**	**-**	**-**	**3,822**
Property, plant and equipment	**15,554**	**17,958**	**-**	**33,512**
Other liabilities	**18,673**	**6,258**	**-**	**24,931**
Total deferred tax assets	**38,049**	**24,216**	**-**	**62,265**
Securities available for sale	**(46,417)**	**-**	**(158,349)**	**(204,766)**
Loans and advances to customers	**(147,020)**	**(203,397)**	**-**	**(350,417)**
Other assets	**(52,131)**	**24,792**	**-**	**(27,339)**
Property, plant and equipment	**-**	**64,267**	**(1,077,888)** *	**(1,013,621)**
Total deferred tax liability	**(245,568)**	**(114,338)**	**(1,236,237)**	**(1,596,143)**
Net deferred tax liability	**(207,519)**	**(90,122)**	**(1,236,237)**	**(1,533,878)**

*Due to changes in the tax legislation in 2012, the tax base of revalued fixed assets changed and the Bank has formed deferred tax liability in respect of revaluation reserve of fixed assets in 2013.

In thousand Armenian drams	As of December 31, 2011	Recognized in profit or loss	Recognized in other comprehensive income	As of December 31, 2012
Trading securities	3,822	-	-	3,822
Securities available for sale	8,868	-	(8,868)	-
Property, plant and equipment	2,852	12,702	-	15,554
Other liabilities	12,968	5,705	-	18,673
Tax losses carried forward	529,039	(529,039)	-	-
Gross deferred tax assets	557,549	(510,632)	(8,868)	38,049
Unrecognized deferred tax asset	(73,034)	73,034	-	-
Total deferred tax assets	484,515	(437,598)	(8,868)	38,049
Securities available for sale	-	-	(46,417)	(46,417)
Loans and advances to customers	(792,859)	645,839	-	(147,020)
Other assets	(52,750)	619	-	(52,131)
Total deferred tax liability	(845,609)	646,458	(46,417)	(245,568)
Net deferred tax asset(liability)	(361,094)	208,860	(55,285)	(207,519)

As of December 31, 2011 the Bank had available AMD 2,645,198 thousand in tax losses carried forward which was totally utilized in 2012.

14 Cash and cash equivalents

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Cash on hand	**6,630,166**	6,208,742
Other money market placements	**-**	605
Correspondent accounts with the CBA	**9,930,206**	16,952,701
Placements with other banks	**4,543,154**	12,737,590
Total cash and cash equivalents	**21,103,526**	35,899,638

As of 31 December 2013 correspondent account with Central Bank of Armenia includes 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 (2012: 8% of obligations denominated in Armenian drams and 12% of obligations of the Bank, denominated in foreign currency) and amounts to AMD 8,979,409 thousand (2012: to AMD 9,402,744 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 4,045,977 thousand (89%) were due from three banks (2012: AMD 11,059,376 thousand (87%) due from one bank).

Non-cash transactions performed by the Bank during 2013 represent the repayment of the loans in the amount of AMD 1,042,627 thousand by tangible assets (2012: AMD 2,971,475 thousand).

15 Trading securities

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Trading securities issued by the Ministry of Finance of RA-unquoted	**214,792**	168,448
RA corporate bonds	**54,112**	-
Total trading securities	**268,904**	168,448

Nominal interest rates and maturities of these securities are as follows:

In thousand Armenian drams	**As of December 31, 2013**		As of December 31, 2012	
	%	**Maturity**	%	Maturity
Securities issued by the Ministry of Finance of RA	**9.07-10.84**	**2015-2028**	13.83-15.04	2015-2028
RA corporate bonds	**10.24**	**2018**	-	-

16 Amounts due from other financial institutions

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Deposited funds with CBA	**520,000**	420,000
Loans and deposits to financial institutions	**374,337**	3,251,115
Reverse repurchase agreements	**1,040,365**	842,910
Payment and settlement systems	**442,412**	1,067,090
Other	**506,725**	385,318
Total amounts due from other financial institutions	**2,883,839**	5,966,433

As of 31 December 2013 the amounts included in loans and deposits to financial institutions in the amount of AMD 330,776 thousand (88%) were due from two counterparties (2012: AMD 2,432,260 thousand (75%) due from two counterparties).

As of 31 December 2013 other amounts due from other financial institutions are guarantee deposits placed by the Bank for its operations and include AMD 54,557 thousand (2012: AMD 54,280 thousand) a blocked deposit for membership in Master Card payment system and AMD 272,501 thousand (2012: AMD 270,501 thousand) a blocked deposit for membership in Visa International.

Deposited funds with CBA include a guaranteed deposit for settlements via ArCa payment system.

Correspondent account and mandatory reserve deposits in the CBA are non-interest bearing.

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

In thousand Armenian drams	As of December 31, 2013		As of December 31, 2012	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Securities pledged under repurchase agreements	**1,042,306**	**1,040,365**	845,998	842,910
Total assets pledged under repurchase agreements	**1,042,306**	**1,040,365**	845,998	842,910

17 Derivative financial instruments

In thousand Armenian drams	As of December 31, 2013			As of December 31, 2012		
	Notional amount	Fair value of assets	Fair value of liabilities	Notional amount	Fair value of assets	Fair value of liabilities
Derivatives held for trading						
Foreign exchange contracts						
Swaps - domestic	-	-	-	32,203	2,135	-
Total derivative financial instruments	-	-	-	32,203	2,135	-

18 Loans and advances to customers

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Loans to customers	**73,877,370**	59,502,961
Overdrafts	**9,161,337**	5,223,239
Letter of credit	**5,486**	68,115
Financial lease receivables	**170,629**	154,407
	83,214,822	64,948,722
Less allowance for loan impairment	**(3,257,518)**	(5,215,814)
Total loans and advances to customers	**79,957,304**	59,732,908

As of 31 December 2013, accrued interest income included in loans and advances to customers amounted to AMD 732,845 thousand (2012: AMD 754,433 thousand).

As of 31 December 2013 the effective interest rates on loans and advances to customers ranged from 5.11 to 27.25 % for loans in AMD (2012: from 5.11 to 31.86 %) and from 5.11 to 24.11 % for loans in USD, EUR and other freely convertible currencies (2012: from 5.11 to 23.76 %).

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 1,012,014 thousand (2012: AMD 2,758,321 thousand) (See Note 22). The Bank is intended to sell these assets in a short period.

As of 31 December 2013 the Bank had a concentration of loans totalling to AMD 18,925,171 thousand due from the ten largest third party entities and parties related with them (23% of gross loan portfolio) (2012: AMD 13,484,832 thousand or 21%). An allowance for impairment in the amount of AMD 1,575,601 thousand (2012: AMD 3,519,631 thousand) was made against these loans.

Loans and advances to customers by industries of economy may be specified as follows:

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Manufacture	**5,992,118**	5,898,416
Agriculture	**2,212,206**	2,143,088
Construction	**9,691,524**	7,777,723
Trading	**8,538,926**	8,491,350
Transport and communication	**7,500,383**	2,041,503
Services	**1,319,189**	943,865
Consumer	**27,027,398**	22,180,579
Mortgage	**16,453,609**	12,606,053
Other sectors	**4,479,469**	2,866,145
	83,214,822	64,948,722
Less allowance for loan impairment	**(3,257,518)**	(5,215,814)
Total loans and advances to customers	**79,957,304**	59,732,908

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

In thousand Armenian drams										2013
	Manufacture	**Agriculture**	**Construction**	**Trading**	**Transport and communi-cations**	**Services**	**Consumer**	**Mortgage**	**Other**	**Total**
At 1 January 2013	**2,176,076**	**264,738**	**1,638,760**	**427,584**	**137,322**	**28,662**	**226,751**	**289,023**	**26,898**	**5,215,814**
Charge/(reversal) for the year	**126,532**	**(8,145)**	**(19,948)**	**243,290**	**(95,920)**	**79,111**	**(47,981)**	**136,432**	**(121,671)**	**291,700**
Amounts written off	**(2,137,185)**	**-**	**(92,544)**	**(211,262)**	**-**	**(51,261)**	**(196,493)**	**(107,185)**	**-**	**(2,795,930)**
Recoveries	**25,608**	**44,561**	**2,730**	**82,268**	**46,374**	**2,254**	**147,519**	**57,693**	**136,927**	**545,934**
At 31 December 2013	**191,031**	**301,154**	**1,528,998**	**541,880**	**87,776**	**58,766**	**129,796**	**375,963**	**42,154**	**3,257,518**
Individual impairment	**177,947**	**289,703**	**1,420,681**	**509,423**	**10,533**	**30,474**	**25,087**	**192,462**	**33,430**	**2,689,740**
Collective impairment	**13,084**	**11,451**	**108,317**	**32,457**	**77,243**	**28,292**	**104,709**	**183,501**	**8,724**	**567,778**
	191,031	**301,154**	**1,528,998**	**541,880**	**87,776**	**58,766**	**129,796**	**375,963**	**42,154**	**3,257,518**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**431,650**	**501,196**	**1,420,681**	**865,449**	**354,897**	**60,887**	**25,087**	**289,595**	**117,419**	**4,066,861**

In thousand Armenian drams										2012
	Manufacture	Agriculture	Construction	Trading	Transport and communi-cations	Services	Consumer	Mortgage	Other	Total
At 1 January 2012	1,373,674	161,160	1,773,254	74,657	11,927	64,109	177,086	561,870	169,150	4,366,887
Charge/(reversal) for the year	788,523	100,624	(531,738)	199,251	119,291	(49,042)	10,229	(235,009)	(141,674)	260,455
Amounts written off	(18,829)	(4,457)	-	(18,462)	(3,367)	(6,326)	(215,482)	(234,992)	(5,053)	(506,968)
Recoveries	32,708	7,411	397,244	172,138	9,471	19,921	254,918	197,154	4,475	1,095,440
At 31 December 2012	2,176,076	264,738	1,638,760	427,584	137,322	28,662	226,751	289,023	26,898	5,215,814
Individual impairment	2,143,016	247,854	1,487,271	419,451	-	21,028	4,714	102,967	-	4,426,301
Collective impairment	33,060	16,884	151,489	8,133	137,322	7,634	222,037	186,056	26,898	789,513
	2,176,076	264,738	1,638,760	427,584	137,322	28,662	226,751	289,023	26,898	5,215,814
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	2,576,374	454,879	1,576,313	1,228,883	-	116,823	5,893	240,714	-	6,199,879

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

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Individuals	**44,140,635**	35,636,388
Privately held companies	**33,677,440**	24,177,035
Sole proprietors	**3,516,316**	3,714,555
State owned enterprises	**1,740,763**	1,413,390
Non-commercial institutions	**139,668**	7,354
	83,214,822	64,948,722
Less allowance for loan impairment	**(3,257,518)**	(5,215,814)
Total loans and advances to customers	**79,957,304**	59,732,908

Loans to individuals comprise the following products:

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Mortgage loans	**16,453,609**	12,606,053
Credit card loans	**14,128,198**	10,379,793
Consumer loans	**6,087,633**	4,601,167
Gold loans	**5,570,919**	5,628,116
Car loans	**1,240,648**	1,571,503
Other	**659,628**	849,756
Total loans and advances to individuals (gross)	**44,140,635**	35,636,388

The finance lease receivables may be analyzed as follows:

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Gross investment in finance leases, receivable:		
Not later than 1 year	**9,652**	44,078
1-5 years	**207,369**	153,990
	217,021	198,068
Unearned future finance income on finance leases	**(46,392)**	(43,661)
Net investment in finance leases	**170,629**	154,407

As of December 31, 2013 the allowance for finance lease receivables amounted to AMD 670 thousand (2012 :AMD 1,544 thousand).

Implied interest rate of the lease is 12-16 %.

As of 31 December 2013 and 31 December 2012 the estimated fair value of loans and advances to customers approximates their carrying value. Refer to Note 31.

Maturity analysis of loans and advances to customers are disclosed in Note 33.

Credit, currency, liquidity and interest rate analyses of loans and advances to customers are disclosed in Note 34. The information on related party balances is disclosed in Note 30.

19 Investments available for sale

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Unquoted investments		
Government bonds	**6,995,104**	4,926,555
RA equity shares	**126,223**	107,794
Equity shares of OECD countries	**371,136**	257,233
RA corporate bonds	**101,946**	95,945
Total investments available for sale	**7,594,409**	5,387,527

All debt securities have fixed coupons.

All unquoted RA equity shares are recorded at cost since their fair value cannot be reliably estimated. There is no market for these investments and the Bank intends to hold them for the long term.

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

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

In thousand Armenian drams	**As of December 31, 2013**		As of December 31, 2012	
	%	**Maturity**	%	Maturity
Government bonds	**7.84-10.91**	**2014-2032**	8.7-15.04	2013-2032
RA corporate bonds	**8.60**	**2014**	11.33	2013

20 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Equipment	Vehicles	Computers	Other fixed assets	Leasehold improve-ments	Investments in PPE	Total
REVALUED AMOUNT OR COST								
As of January 1, 2012	4,364,730	476,756	94,807	1,608,618	440,148	134,687	20,457	7,140,203
Additions	-	96,197	59,775	374,386	77,537	68,199	128,221	804,315
Disposals	-	(7,182)	(22,576)	(48,480)	(5,321)	(7,260)	-	(90,819)
Reclassification	12,980	(4,345)	-	(5,888)	(4,439)	152,505	(146,157)	4,656
As of December 31, 2012	**4,377,710**	**561,426**	**132,006**	**1,928,636**	**507,925**	**348,131**	**2,521**	**7,858,355**
Additions	**25,217**	**80,739**	**8,861**	**417,271**	**175,328**	**478,959**	**133**	**1,186,508**
Disposals	**-**	**(31,760)**	**(41,619)**	**(56,737)**	**(86,851)**	**(17,894)**	**-**	**(234,861)**
Revaluation net	**2,404,511**	**-**	**-**	**-**	**-**	**-**	**-**	**2,404,511**
Revaluation adjustment	**(1,181,438)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,181,438)**
As of December 31, 2013	**5,626,000**	**610,405**	**99,248**	**2,289,170**	**596,402**	**809,196**	**2,654**	**10,033,075**

In thousand Armenian drams	Land and buildings	Equipment	Vehicles	Computers	Other fixed assets	Leasehold improve-ments	Investments in PPE	Total
ACCUMULATED DEPRECIATION								
As of January 1, 2012	391,611	367,214	51,401	1,065,378	380,201	82,613	-	2,338,418
Depreciation charge	393,372	49,537	14,643	258,977	31,031	45,924	-	793,484
Disposals	-	(6,587)	(22,576)	(47,973)	(5,288)	(2,432)	-	(84,856)
As of December 31, 2012	**784,983**	**410,164**	**43,468**	**1,276,382**	**405,944**	**126,105**	**-**	**3,047,046**
Depreciation charge	**396,455**	**58,048**	**17,073**	**316,443**	**43,779**	**92,805**	**-**	**924,603**
Disposals	**-**	**(29,419)**	**(8,189)**	**(17,430)**	**(14,246)**	**(1,394)**	**-**	**(70,678)**
Revaluation adjustment	**(1,181,438)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,181,438)**
As of December 31, 2013	**-**	**438,793**	**52,352**	**1,575,395**	**435,477**	**217,516**	**-**	**2,719,533**
CARRYING VALUE								
As of December 31, 2013	**5,626,000**	**171,612**	**46,896**	**713,775**	**160,925**	**591,680**	**2,654**	**7,313,542**
As of December 31, 2012	3,592,727	151,262	88,538	652,254	101,981	222,026	2,521	4,811,309
As of January1, 2012	3,973,119	109,542	43,406	543,240	59,947	52,074	20,457	4,801,785

Revaluation of assets

The buildings and land owned by the Bank were revalued by an independent appraiser as of 31 December 2013 using comparative and income methods resulting in a revaluation of AMD 2,414,982 thousand. Management has based its estimate of the fair value of the buildings and land on the results of the independent appraisal.

The net book value of buildings that would have been recognized under the historic cost method is AMD 593,103 thousand as of 31 December 2013 (2012: AMD 647,800 thousand).

Fully depreciated items

As of 31 December 2013 fixed assets included fully depreciated assets in amount of AMD 1,751,037 thousand (2012: AMD 1,532,794 thousand).

Fixed assets in the phase of installation

As of 31 December 2013 fixed assets included assets in the phase of installation in amount of AMD 132,242 thousand (2012: AMD 241,021 thousand).

Restrictions on title of fixed assets

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

Contractual commitments

As of 31 December 2013 the Bank had a contractual commitments totalling AMD 47,719 thousand (2012: AMD 141,539 thousand). The Bank's Management has already allocated the necessary resources in respect of this commitment. The Bank's Management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

21 Intangible assets

In thousand Armenian drams	Licenses	Computer software	Other	Total
COST				
As of January 1, 2012	342,733	35,960	76,660	455,353
Additions	7,593	-	1,320	8,913
Reclassification	-	-	(4,656)	(4,656)
As of December 31, 2012	**350,326**	**35,960**	**73,324**	**459,610**
Additions	**100,798**	**6,238**	**17,932**	**124,968**
As of December 31, 2013	**451,124**	**42,198**	**91,256**	**584,578**
ACCUMULATED AMORTISATION				
As of January 1, 2012	205,860	24,242	6,471	236,573
Amortisation charge	37,450	1,957	5,266	44,673
As of December 31, 2012	**243,310**	**26,199**	**11,737**	**281,246**
Amortisation charge	**104,021**	**2,799**	**4,629**	**111,449**
As of December 31, 2013	**347,331**	**28,998**	**16,366**	**392,695**
CARRYING VALUE				
As of December 31, 2013	**103,793**	**13,200**	**74,890**	**191,883**
As of December 31, 2012	107,016	9,761	61,587	178,364
As of January1, 2012	136,873	11,718	70,189	218,780

Fully amortized items

As of 31 December 2013 intangible assets included fully amortized assets in amount of AMD 242,752 thousand (2012: AMD 134,035 thousand).

As of 31 December 2013, the Bank does 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 had a contractual commitments totalling AMD 5,056 thousand (2012: nill). The Bank's Management has already allocated the necessary resources in respect of this commitment. The Bank's Management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

22 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	**656,354**	2,393,866
Vehicles	**-**	8,855
Other	**355,660**	355,600
Total	**1,012,014**	2,758,321

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.

23 Other assets

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Prepayments and other debtors	**426,438**	203,633
Receivables on cash transfers	**27,926**	45,823
Total other financial assets	**454,364**	249,456
Less allowance for impairment of financial assets	**(74,501)**	(73,690)
Total net other financial assets	**379,863**	175,766
Unamortized insurance premium	**59,778**	61,978
Settlements with employees	**3,505**	20
Prepayments to suppliers	**273,136**	328,535
Other prepaid taxes	**5,547**	20,977
Precious metals	**52,462**	118,037
Materials	**222,323**	165,349
Other	**1,865**	1,865
Total non-financial assets	**618,616**	696,761
Total other assets	**998,479**	872,527

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

In thousand Armenian drams	Total
As of January 1, 2012	103,556
Charge for the year	67,760
Amounts written off	(123,334)
Recoveries	25,708
As of December 31, 2012	**73,690**
Reversal for the year	**(240)**
Amounts written off	**(39,252)**
Recoveries	**40,303**
As of December 31, 2013	**74,501**

24 Amounts due to CB of RA

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Obligations due to CBA	**2,878,619**	3,327,334
Subordinated debt	**1,164,623**	1,164,755
Total amounts due to CB of RA	**4,043,242**	4,492,089

Subordinated debt represents amounts attracted from the RA CB amounting to AMD 1,160,700 thousand with 7.5% annual interest rate maturing in 2015.

As of 31 December 2013 obligations due to CBA represent loans received from the German-Armenian fund within the scope of retroactive financing for extending credits to the Small and Medium business, consumer and other purposes (2012: also).

25 Amounts due to other financial institutions

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Loans and deposits from financial institutions	**9,938,703**	9,239,319
Current accounts of other financial institutions	**1,861,601**	754,585
Correspondent accounts of other banks	**146,835**	75,996
Other amounts	**4,711**	968
Total amounts due to other financial institutions	**11,951,850**	10,070,868

Loans and deposits from financial institutions include loans from European Bank for Reconstruction and Development, European Fund For Southeast Europe.

As of 31 December 2013 the amounts included in loans and deposits from financial institutions in the amount of AMD 8,295,173 thousand (83%) were due to five counterparties (2012: AMD 8,286,399 thousand (90%) due to four counterparties).

All deposits from banks have fixed interest rates. Loans from financial institutions have fix and variable interest rates.

As of 31 December 2013 the effective interest rates on amounts due to the financial institutions ranged from 5.64 to 13.08% for borrowings in AMD (2012: 4.06 to 10.47%) and from 4.07 to 7.98% for borrowings in USD, EUR and other freely convertible currencies (2012: from 3.09 to 5.55%).

The Bank did not have any defaults of principal, interest or other breaches with respect to its borrowings during the year (2012: nil).

26 Amounts due to customers

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Government of the RA		
Received loans	**639,484**	2,203,846
	639,484	2,203,846
Corporate customers		
Subordinated debt	**6,225,413**	2,527,417
Current/Settlement accounts	**12,982,670**	31,285,207
Time deposits	**19,019,666**	11,913,490
	38,227,749	45,726,114
Retail customers		
Current/Settlement accounts	**9,890,981**	8,315,839
Time deposits	**35,663,790**	27,587,293
	45,554,771	35,903,132
Total amounts due to customers	**84,422,004**	83,833,092

Customer deposits carry fixed rates.

Subordinate debt represents a long term borrowing agreement, which, in case of the Bank's default, would be secondary to the Bank's other obligations, including deposits and other debt instruments. Subordinated debt is due to one counterparty, issued in USD, with average interest rate of 6.86% per annum with contractual maturity in January 2017 – June 2018 (See note 30).

As of 31 December 2013 included in payables to Government are loans in the amount of AMD 429,945 thousand (2012: AMD 658,713 thousand) attracted under the World Bank PIU on "Agriculture Finance Support Facility" and "Agricultural Reform support project", the amount of AMD 20,532 thousand attracted from "Millennium Challenges Foundation-Armenia" SNCO (2012: AMD 32,212 thousand), and the loans received within the scope of "Small and Medium business loan project" of German-Armenian fund in the amount of AMD 188,976 thousand (2012: AMD 1,512,921 thousand).

As of 31 December 2013 included in amounts due to customers are deposits amounting to AMD 7,726,550 thousand (2012: AMD 1,709,577 thousand) held as security against loans, letters of credit issued, guarantees issued and other transaction related to contingent liabilities. The fair value of those deposits approximates the carrying amount.

As of 31 December 2013 the aggregate balance of top ten customers of the Bank (including related parties, see Note 30) amounts to AMD 37,015,768 thousand (2012: 43,952,858 thousand) or 44.18% of total customer accounts (2012: 53.84%). The amount of top ten customers does not include amounts due to RA Government.

As of 31 December 2013 the effective interest rates on amounts due to customers ranged from 4.06 to 17.22% for amounts attracted in AMD (2012: 4.98 to 17.23%) and from 0.25 to 12.01 % for amounts attracted in USD, EUR and other freely convertible currencies (2012: from 0.97 to 12.5 %).

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

27 Other liabilities

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Accounts payables	**177,041**	163,030
Due to personnel	**127,974**	88,205
Total other financial liabilities	**305,015**	251,235
Other provisions	**18,392**	9,713
Tax payable, other than income tax	**112,646**	141,331
Revenues of future periods	**4,118**	3,801
Grants related to assets	**35,700**	38,122
Due to on payment checks	**8,137**	6,976
Other	**2,751**	54
Total other non financial liabilities	**181,744**	199,997
Total other liabilities	**486,759**	451,232

Grants related to assets

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
At January 1	**38,122**	40,544
Recognition of income (Note 9)	**(2,422)**	(2,422)
As of December 31	**35,700**	38,122

28 Equity

As of 31 December 2013 the Bank's registered and paid-in share capital was AMD 4,860,033 thousand (2012: AMD 4,860,033 thousand).

In accordance with the Bank's statues, the share capital consists of 16,200 ordinary shares, all of which have a par value of AMD 300,000 each and of 333 privileged shares, all of which have a par value of AMD 100 each.

The respective shareholdings as of 31 December 2013 and 31 December 2012 may be specified as follows:

In thousand Armenian drams	**Paid-in share capital**	**% of total paid-in capital**
Advanced Global Investments LLC	**4,617,000**	**95**
Advanced Global Investments LLC (preference shares)	**33**	**-**
Saint Apostolic Church of Armenia	**243,000**	**5**
	4,860,033	**100**

As of 31 December 2013, the Bank did not repurchase any of its own shares. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank.

The preference shareholders are entitled to receive annual dividends amounting 20% of the nominal value of the shares they own if decision on dividend payment is made by authorized body.

The share capital of the Bank was contributed by the shareholders in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams.

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 50% of the Bank's share capital reported in statutory books.

29 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	**As of December 31, 2013**	As of December 31, 2012
Undrawn loan commitments	**5,409,809**	5,324,113
Letters of credit	**139,868**	-
Guarantees	**1,839,222**	971,322
	7,388,899	6,295,435
Reserves against credit related commitments	**(18,392)**	(9,713)
Total commitments and contingent liabilities	**7,370,507**	6,285,722

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.

The movement in other provisions was as follows:

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
As of January 1	**9,713**	40,699
Charge/(reversal)	**8,679**	(30,986)
As of December 31	**18,392**	9,713

Operating lease commitments – Bank as a lessee

In the normal course of business the Bank enters into other lease agreements for buildings and 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	**407,436**	311,798
1 - 5 years	**1,202,536**	1,056,679
Later than 5 years	**631,397**	324,152
Total operating lease commitments	**2,241,369**	1,692,629

Capital commitments

Information on the Bank's capital commitments is disclosed in notes 20, 21.

Insurance

The insurance industry in Armenia is at developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. However, as at 31 December 2013 the Bank possesses insurance for its transportation (also compulsory motor third party liability insurance) and buildings, properties, ATMs, banking risks, electronic or computer crimes and for professional responsibility. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

Starting from 2005 the Bank is a 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.

30 Transactions with related parties

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of 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 Argentinean businessman E. Eurnekian.

A number of banking transactions are entered into with related parties. These include loans, deposits and other transactions. 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	As of December 31, 2013		As of December 31, 2012	
	Shareholders and parties related with them	**Key management personnel and parties related with them**	Share-holders and parties related with them	Key management personnel and parties related with them
Statement of financial position				
Loans and advances to customers				
Loans outstanding at January 1, gross	**540,684**	**191,845**	423,218	126,091
Loans issued during the year	**7,910,722**	**374,764**	964,600	231,564
Loan repayments during the year	**(4,537,650)**	**(349,653)**	(847,134)	(165,810)
Loans outstanding at December 31, gross	**3,913,756**	**216,956**	540,684	191,845
Less: allowance for loan impairment	**(40,801)**	**(2,189)**	(5,407)	(1,918)
Loans outstanding as of December 31	**3,872,955**	**214,767**	535,277	189,927
Amounts due to customers				
Deposits at January 1	**31,488,237**	**118,372**	60,389,121	67,102
Deposits received during the year	**1,039,117,016**	**539,165**	1,093,054,273	1,112,938
Deposits repaid during the year	**(1,055,353,431)**	**(549,074)**	(1,121,955,157)	(1,061,668)
Deposits as of December 31	**15,251,822**	**108,463**	31,488,237	118,372
Amounts due to customers -Subordinated debt				
Subordinated debt at January 1	**2,527,417**	**-**	-	-
Subordinated debt received during the year	**3,697,996**	**-**	2,527,417	-
Subordinated debt repaid during the year	**-**	**-**	-	-
Subordinated debt as of December 31	**6,225,413**	**-**	2,527,417	-
Commitments and guarantees issued	**102,314**	**-**	-	-
Statement of profit or loss and other comprehensive income				
Interest income	**193,987**	**19,254**	41,213	14,953
Commission income	**19,809**	**261**	17,027	6,224
Foreign currency translation gain of non-trading assets and liabilities	**121,182**	**676**	98,495	694
Interest expense	**(1,087,247)**	**(6,689)**	(517,946)	(10,182)
Impairment charge for credit losses	**(35,394)**	**(271)**	(1,175)	(657)
Advisory expenses	**(3,651)**	**(33,552)**	(18,553)	(23,640)
Lease payments	**(72,407)**	**-**	(14,078)	-
Other operating expenses	**(5,841)**	**(5,127)**	(10,113)	(53)

The loans issued to directors and other key management personnel (and close family members) have maturity from 1 year to 14 years (2012: from 1 year to 20 years) and have interest rates of 8-24% (2012: 5-22%). The loans advanced to the directors are collateralised by gold, real estate, cash and other assets.

During 2013 repossessed assets amounting to AMD 1,628,420 thousand were sold to a related party (2012: AMD 312,540 thousand).

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	**2013**	2012
Salaries and other short-term benefits	**293,813**	248,800
Social security costs	**-**	14,272
Total key management compensation	**293,813**	263,072

31 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).

31.1 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**
FINANCIAL ASSETS					
Cash and cash equivalents	**-**	**21,103,526**	**-**	**21,103,526**	**21,103,526**
Amounts due from other financial institutions	**-**	**2,883,839**	**-**	**2,883,839**	**2,883,839**
Loans and advances to customers	**-**	**79,957,304**	**-**	**79,957,304**	**79,957,304**
Other financial assets	**-**	**379,863**	**-**	**379,863**	**379,863**
FINANCIAL LIABILITIES					
Amounts due CBA	**-**	**4,043,242**	**-**	**4,043,242**	**4,043,242**
Amounts due to other financial institutions	**-**	**11,951,850**	**-**	**11,951,850**	**11,951,850**
Amounts due to customers	**-**	**84,422,004**	**-**	**84,422,004**	**84,422,004**
Other financial liabilities	**-**	**305,015**	**-**	**305,015**	**305,015**

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 5 % to 24% per annum (2012: 5% to 24% 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.

31.2 Financial instruments that are measured at fair value

In thousand Armenian drams	**As of December 31, 2013**			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Trading securities	**-**	**268,904**	**-**	**268,904**
Investments available for sale	**-**	**7,097,050**	**-**	**7,097,050**
Unquoted equity investments of OECD countries	**-**	**371,136**	**-**	**371,136**
Total	**-**	**7,737,090**	**-**	**7,737,090**
NET FAIR VALUE	**-**	**7,737,090**	**-**	**7,737,090**

In thousand Armenian drams	As of December 31, 2012			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Trading securities	-	168,448	-	168,448
Investments available for sale	-	5,022,500	-	5,022,500
Unquoted equity investments of OECD countries	-	257,233	-	257,233
Derivative financial assets	-	2,135	-	2,135
Total	-	5,450,316	-	5,450,316
NET FAIR VALUE	-	5,450,316	-	5,450,316

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 19 for further information about this equity investment.

31.3 Fair value measurement of non-financial assets and liabilities

In thousand Armenian drams	**As of December 31, 2013**			
	Level 1	**Level 2**	**Level 3**	**Total**
NON FINANCIAL ASSETS				
Buildings	**-**	**-**	**2,471,846**	**2,471,846**
Land	**-**	**-**	**3,154,154**	**3,154,154**
Total	**-**	**-**	**5,626,000**	**5,626,000**
NET FAIR VALUE	**-**	**-**	**5,626,000**	**5,626,000**

Fair value measurements in Level 3

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

In thousand Armenian drams	Land and buildings	Total
NON FINANCIAL ASSETS		
Balance as at 1 January 2013	**4,377,710**	**4,377,710**
Purchases	**25,217**	**25,217**
Losses recognised in profit or loss	**(10,471)**	**(10,471)**
Gains recognised in other comprehensive income	**2,414,982**	**2,414,982**
Revaluation adjustment	**(1,181,438)**	**(1,181,438)**
Balance as at 31 December, 2013	**5,626,000**	**5,626,000**
NET FAIR VALUE	**5,626,000**	**5,626,000**

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

The appraisal was carried out using a comparative and income methods that reflect observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use and other.

The land and buildings were revalued on 31 December 2013. The buildings were previously revalued in 31 December 2010.

The significant unobservable input is the adjustment for factors specific to the land in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is a subjective judgement, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

32 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			**Amounts offset**	**As of December 31, 2013** **Amounts not offset**	
In thousand Armenian drams	**Gross financial assets/ liabilities**	**Gross financial assets/ liabilities offset**	**Net amounts presented**	**Financial instruments not recognized in the statement of financial position**	**Net**
FINANCIAL ASSETS					
Reverse repurchase agreements (Note 16)	**1,040,365**	**-**	**1,040,365**	**(1,042,306)**	**(1,941)**
Other amounts due from other financial institutions	**564,941**	**(566,020)**	**(1,079)**	**-**	**(1,079)**
FINANCIAL LIABILITIES					
Other amounts due to other financial institutions	**566,020**	**(564,941)**	**1,079**	**-**	**1,079**

In thousand Armenian drams			Amounts offset	As of December 31, 2012 Amounts not offset	
In thousand Armenian drams	Gross financial assets/ liabilities	Gross financial assets/ liabilities offset	Net amounts presented	Financial instruments not recognized in the statement of financial position	Net
FINANCIAL ASSETS					
Reverse repurchase agreements (Note 16)	842,910	-	842,910	(845,998)	(3,088)
Other amounts due from other financial institutions	918,826	(919,726)	(900)	-	(900)
FINANCIAL LIABILITIES					
Other amounts due to other financial institutions	919,726	(918,826)	900	-	900

33 Maturity analysis of assets and liabilities

The table below shows an analysis of main financial assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 34.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams								**As of December 31, 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**
ASSETS								
Cash and cash equivalents	**21,103,526**	**-**	**-**	***21,103,526***	**-**	**-**	**-**	***21,103,526***
Trading securities	**-**	**-**	**657**	***657***	**74,623**	**193,624**	***268,247***	**268,904**
Amounts due from other financial institutions	**120,720**	**1,514,878**	**57,051**	***1,692,649***	**344,132**	**847,058**	***1,191,190***	**2,883,839**
Loans and advances to customers	**5,161,061**	**4,322,407**	**21,968,498**	**31,451,966**	**23,397,932**	**25,107,406**	***48,505,338***	**79,957,304**
Investments available for sale	**59,743**	**14,814**	**428,707**	**503,264**	**3,825,431**	**3,265,714**	***7,091,145***	**7,594,409**
Other financial assets	**379,863**	**-**	**-**	**379,863**	**-**	**-**	**-**	**379,863**
	26,824,913	**5,852,099**	**22,454,913**	**55,131,925**	**27,642,118**	**29,413,802**	**57,055,920**	**112,187,845**

In thousand Armenian drams	**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**
								As of December 31, 2013
LIABILITIES								
Amounts due to CB of RA	**13,610**	**612,515**	**-**	***626,125***	**3,417,117**	**-**	***3,417,117***	**4,043,242**
Amounts due to other financial institutions	**1,865,991**	**444,324**	**6,021,095**	***8,331,410***	**2,785,134**	**835,306**	***3,620,440***	**11,951,850**
Amounts due to customers	**28,639,560**	**8,654,881**	**35,599,292**	***72,893,733***	**11,444,030**	**84,241**	***11,528,271***	**84,422,004**
Other liabilities	**305,015**	**-**	**-**	***305,015***	**-**	**-**	**-**	**305,015**
	30,824,176	**9,711,720**	**41,620,387**	***82,156,283***	**17,646,281**	**919,547**	***18,565,828***	**100,722,111**
Net position	**(3,999,263)**	**(3,859,621)**	**(19,165,474)**	***(27,024,358)***	**9,995,837**	**28,494,255**	***38,490,092***	**11,465,734**
Accumulated gap	**(3,999,263)**	**(7,858,884)**	**(27,024,358)**		**(17,028,521)**	**11,465,734**		

In thousand Armenian drams	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
								As of December 31, 2012
ASSETS								
Cash and cash equivalents	35,899,638	-	-	35,899,638	-	-	-	35,899,638
Trading securities	-	7,881	451	8,332	16,383	143,733	160,116	168,448
Amounts due from other financial institutions	3,917,485	1,243,630	60,537	5,221,652	-	744,781	744,781	5,966,433
Derivative financial assets	-	-	2,135	2,135	-	-	-	2,135
Loans and advances to customers	4,637,051	3,541,756	14,472,031	22,650,838	19,939,505	17,142,565	37,082,070	59,732,908
Investments available for sale	11,227	110,033	760,540	881,800	2,306,031	2,199,696	4,505,727	5,387,527
Other financial assets	107,850	67,916	-	175,766	-	-	-	175,766
	44,573,251	4,971,216	15,295,694	64,840,161	22,261,919	20,230,775	42,492,694	107,332,855
LIABILITIES								
Amounts due to CB of RA	3,578	-	1,503,177	1,506,755	2,985,334	-	2,985,334	4,492,089
Amounts due to financial institutions	579,338	1,996,288	1,868,520	4,444,146	4,492,078	1,134,644	5,626,722	10,070,868
Amounts due to customers	43,497,289	6,230,102	28,551,614	78,279,005	2,000,045	3,554,042	5,554,087	83,833,092
Other liabilities	244,735	-	6,500	251,235	-	-	-	251,235
	44,324,940	8,226,390	31,929,811	84,481,141	9,477,457	4,688,686	14,166,143	98,647,284
Net position	248,311	(3,255,174)	(16,634,117)	(19,640,980)	12,784,462	15,542,089	28,326,551	8,685,571
Accumulated gap	248,311	(3,006,863)	(19,640,980)		(6,856,518)	8,685,571		

34 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.

The process of risk management is organized in accordance with the mission, principal and interim objectives of the Bank and is designed to improve the financial position and the reputation of the Bank.

The aim of the risk management process is the assistance to the management of the Bank in making decisions in the framework of risk mitigation measures, limits and internal acts for effectively managing the risks related to the assets and liabilities of the Bank and its customers by the means of excluding or minimizing the possible losses related to the risks, ensuring the acceptable level of profitability, liquidity and solvency. The risk management is based on procedures, regulations, norms and limits, approved by the Bank's authorized body. The identification, measurement, supervision and monitoring of the Bank's risks are ongoing and regular processes. The risk analysis is an integral part of the Bank's strategic planning, as well as the evaluation of investment programs. The Bank's risks management principles include: the implementation of non-standard risk management procedures in critical situations, periodical implementation of stress scenarios for testing the financial stability, avoiding the concentrations of business processes in the assets and loan portfolio, diversification of the Bank's assets and liabilities, implementation of monitoring by a frequency consistent with the risks undertaken by the Bank, management of the risk concentrations, the ongoing cooperation between the risk management administration and departments.

Risk management structure

The risk management is organized and coordinated by the Executive Director in accordance with the internal legal acts approved by the Bank's Board. The risk management is implemented in a clear and documented manner for all business processes described, through appropriate internal legal acts and limits determined for all the processes and operations.

The Bank's Board

The Board is responsible for the overall supervision of risk management and risk management policy, as well as approval of the policies related to the risk management, based on which the Bank's Executive Director organizes the risk management, taking into consideration the management limits and the requirements of the Bank's internal legal acts.

Direction

The Bank's Executive Board implements the following for the purpose of risk management:

- Approval of complex measures, in agreement with the Board, based on the Bank's risk management, associated with the Bank's profitability in the critical situations, as well as operating, strategic, reputational and legal risks.
- Determining prohibitions for several transactions,
- Determining limits for transactions without collateral in inter-bank markets,
- Determining internal norms for banking risks regulation and supervision.

The Executive Board is responsible for the management of the Bank's assets and liabilities, as well as the overall financial system. The Bank's Executive Board is also responsible for the Bank's liquidity financial risks. The Executive Board is designed to fulfill the functions of the Bank's Assets and Liabilities Management Committee.

Risk management division

The main functions of the risk management division are:

- Elaboration and implementation of active mechanisms and processes for risk management in the Bank, as well as monitoring over their implementation,
- Analysis of the risk level of loans issued by the Bank and the monitoring over the lending process in the framework of program loans,
- Monitoring of issued loans, identification of issues related to them and reporting,
- Supervision over the evaluation of pledged property and periodical revaluations of the pledged property.
- Organization of the insurance process of the Bank's property,
- Management of the doubtful loans portfolio.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Bank's Board.

Risk measurement and reporting systems

Depending upon various factors, the Bank divides the risks into the internal and external risks.

The external risks include the country, legislation, force-major factors, price and competition risks.

Internal risks of the Bank are the risks associated with its activity. They include the credit, operational, liquidity, interest rate, currency, reputational, capital decrease, staff and money laundering risks.

The country risk is managed by the Bank using the rating of international rating agencies (Moody's, S&P, Fitch), granted to international banks and organizations, as well as the Berry index, if necessary, which is a widely accepted country risk measure. The risk management division monitors the rating of internal bank counterparties of the Bank and quarterly presents to the Bank's Executive Board approval, the limits for each bank.

The minimal possible price risk level is ensured in the framework of the following measures: analysis of the financial markets' structural, volume and price indicators' dynamics, and liquidity of several financial instruments, as well as identification of current trades, assessment of possible losses on a monthly basis using the stress testing, determination of limits for financial instruments (by types of transactions with securities, by dealer, by issuer), diversification of securities portfolio by issuer, industry, maturity profile etc.

The management of competition risk is implemented by the business divisions and marketing department, by periodically comparing the range of services and conditions provided by the Bank and its competitors.

The interest rate risk is managed by the Risk Management Division of the Bank by elaborating and implementing interest rate mitigation mechanisms/models, based on which the Bank's Assets and Liabilities Management Committee makes decisions. The Risk Management Division has elected to use the models interest rate change sensitivity gap, duration and basic risk. Interest rate change sensitivity gap and duration models are implemented through stress testing on a monthly basis. The interest rate basic risk is managed through stress tests by implementing scenarios of different severity on a quarterly basis

For liquidity risk management purposes daily discussions are held around the structure of assets and liabilities maturity profiles and the liquidity gap, as well as supervision is established over the weight of investments in highly liquid instruments. For mitigation of the liquidity risk the Bank’s Risk management division presents monthly analysis of the Bank’s expected repayments, amounts to be lent and the positions to the Bank’s Assets and Liabilities Management Committee. The liquidity risk management includes the elaboration of pricing mechanisms for assets of the Bank, limits of amounts attracted by the Bank, their types or gross interest expenses, limits on concentrations of the financial sources used by the Bank for fulfilling the liquidity requirements, the diversification of the maturities of the borrowings, limits on the borrowings attracted from the Bank’s related parties aimed at satisfying the liquidity needs, principles and methods for determining the interest rate risk limit, including the interest rate risk and limits related to the off-balance sheet items, the intended level of interest margins, mechanisms and procedures of making decisions on attraction and attribution of financial means, acceptable limits of maturity gaps between the Bank’s assets and liabilities , the ways of coordinating the Bank’s other divisions activities, who can influence the Bank’s liquidity level by their operations, the extraordinary liquidity requirements fulfilment programs (which can arise from reduction of the income, increase of doubtful assets, concentrations of deposits), the forms of reports on liquidity management to be submitted to the Bank’s executive body and Board.

The capital decrease risk measurement mechanisms are the norms determined internally and by the CBA (capital adequacy, one borrower risk etc.) The stress tests implemented monthly allow determining the maximum loss of capital, depending on different circumstances.

The staff risk is managed by the Staff management department, which periodically observes the vacancies and offered conditions existing in the RA banking system, as well as organizes trainings for improving the professional skills level of the employees by using internal and external resources.

The money laundering risk management is conducted by the financial observations department, which operates in accordance with the requirements of anti money laundering legislation and Bank’s internal legal acts.

Excessive risk concentrations

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.

For avoiding the excessive risk concentrations, the Bank’s policy and processes included special principles aimed at maintaining diversified assets types, loan and securities portfolios.

34.1 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 is managed in accordance with the Bank's credit policy and the internal legal acts regulating the sphere. The risk management division implements daily monitoring of the loan portfolio, calculation of dynamics based on the structured series and analysis of the quality of loan portfolio by products and branches, which is used for forecasting the qualitative indicators of the loan portfolio. The risk management division also conducts monitoring of different loan types in accordance with approved procedures, and monitors also other loans if it is necessary in case of worsening of the borrower's creditability. The loans issued by the Bank are also approved by the risk management division in accordance with the requirements of internal legal acts for reducing the credit risk. The credit risk management and control are centralised in Risk Management Division and reported to the Executive Board regularly.

As of December 31, 2013 and 2012 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.

34.1.1 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 December 31 2013 and 31 December 2012.

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Cash and cash equivalents	**14,831,101**	**1,182,226**	**5,090,199**	**21,103,526**
Trading securities	**268,904**	**-**	**-**	**268,904**
Amounts due from other financial institutions	**2,260,859**	**141,711**	**481,269**	**2,883,839**
Loans and advances to customers	**76,546,530**	**3,396,075**	**14,699**	**79,957,304**
Investments available for sale	**7,223,273**	**-**	**371,136**	**7,594,409**
Other financial assets	**97,998**	**127**	**281,738**	**379,863**
As of 31 December 2013	**101,228,665**	**4,720,139**	**6,239,041**	**112,187,845**
As of 31 December 2012	92,411,836	2,012,440	12,908,579	107,332,855

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 December 31 2013 and 31 December 2012.

In thousand Armenian drams	Financial institu-tions	Manufac-turing	Agricul-ture	Trading	Construc-tion	State sector	Consumer sector (mortgage)	Services	Other	Total
Cash and cash equivalents	**21,103,526**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21,103,526**
Trading securities	**-**	**-**	**-**	**-**	**54,112**	**214,792**	**-**	**-**	**-**	**268,904**
Amounts due from other financial institutions	**2,883,839**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,883,839**
Loans and advances to customers	**-**	**5,801,087**	**1,911,052**	**7,997,046**	**8,162,526**	**-**	**42,975,248**	**8,673,030**	**4,437,315**	**79,957,304**
Investments available for sale	**453,466**	**-**	**-**	**101,946**	**-**	**6,995,104**	**-**	**-**	**43,893**	**7,594,409**
Other financial assets	**27,647**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**352,216**	**379,863**
As of 31 December 2013	**24,468,478**	**5,801,087**	**1,911,052**	**8,098,992**	**8,216,638**	**7,209,896**	**42,975,248**	**8,673,030**	**4,833,424**	**112,187,845**
As of 31 December 2012	42,325,137	3,722,340	1,878,350	8,063,766	6,138,963	5,095,003	34,270,858	915,203	4,923,235	107,332,855

34.1.2 Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

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, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Credit Committee.

The exposure to any one borrower including banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures.

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:

- Mortgages over residential properties;
- Charges over business assets such as premises, equipment, inventory and vehicles.
- Gold and cash

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Generally no collaterals are required for provision of loans and advances to financial institutions, especially to Banks. The exception is collaterals obtained under repurchase agreements and securities borrowing transactions. Debt securities, treasury and other eligible bills are generally unsecured.

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

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Loans collateralized by real estate	**29,077,097**	23,367,526
Loans collateralized by gold	**9,219,011**	9,679,708
Loans collateralized by guarantees of enterprises	**24,859,710**	20,514,453
Loans collateralized by vehicles	**3,545,354**	1,571,503
Loans collateralized by cash	**6,055,746**	817,403
Loans collateralized by inventories	**1,478,819**	1,094,575
Loans collateralized by equipment	**300,078**	632,978
Other collateral	**4,817,760**	3,449,874
Unsecured loans	**3,861,247**	3,820,702
Total loans and advances to customers (gross)	**83,214,822**	64,948,722

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.

34.1.3 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 estimates impairment for loans based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment have been identified approaching conservatively. 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		
Manufacturing	**0.2**	-
Agriculture	**0.7**	0.6
Construction	**1.3**	-
Transport and communication	**1.1**	1.6
Trading	**0.4**	-
Public food and services	**2.3**	-
Consumer	**0.4**	-
Mortgage	**1.1**	1.5
Other sectors	**0.2**	1.7

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

Past due but not individually 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					**As of December 31, 2013**
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Manufacture	**-**	**-**	**6,164**	**14,139**	**20,303**
Agriculture	**3,208**	**-**	**6,887**	**21,215**	**31,310**
Construction	**519**	**-**	**-**	**-**	**519**
Trade	**13,019**	**-**	**-**	**41,494**	**54,513**
Transport and communication	**10,419**	**-**	**-**	**-**	**10,419**
Consumer	**190,443**	**33,604**	**41,792**	**62,640**	**328,479**
Mortgage	**49,214**	**10,689**	**-**	**54,764**	**114,667**
Services	**-**	**-**	**-**	**-**	**-**
Other sectors	**-**	**-**	**-**	**33,660**	**33,660**
Total	**266,822**	**44,293**	**54,843**	**227,912**	**593,870**

In thousand Armenian drams					As of December 31, 2012
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacture	6,364	4,367	-	-	10,731
Agriculture	4,901	13,135	-	7,397	25,433
Trade	9,186	8,465	25,525	1,340	44,516
Consumer	-	-	-	1,308	1,308
Mortgage	60,654	35,287	23,791	648,424	768,156
Services	66,287	39,690	11,387	65,324	182,688
Other sectors	-	-	-	196,360	196,360
Total	147,392	100,944	60,703	920,153	1,229,192

34.2 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 Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses.

34.2.1 Market risk – Trading

The Bank uses Basel II interest rate measurement methods and approaches to measure the risk of its securities held for trading. The method defines interest rate risk as the sum of specific and general interest rate risks.

To measure the interest rate risk the net positions in debt securities are calculated against the groups based on the following principles. To be included in the same group the securities must meet all of the following criteria:

- be issued by the same entity,
- expressed in the same currency,
- bear the same interest rate, or at maximum having a difference in interest rates of 0.2 interest points.

Measurement of specific interest rate risk

To measure the specific interest rate risk the positions of debt securities are calculated first. After which the gross position in debt securities is measured. In calculation of the gross position the debt securities are weighted according to the following classes:

- state debt securities
- reliable debt securities
- other debt securities

Measurement of general interest rate risk

To measure the general interest rate risk the positions in debt securities are calculated first as well. The gross net position in net securities is calculated as the difference between the sum of long positions in debt securities and sum of short positions in debt securities (in absolute terms). After the positions in debt securities are calculated the long or short positions debt securities are divided and weighted according to their remaining maturity. The minimal position in debt securities for each maturity band is defined as the minimal amount of the sum of all long and short positions (in absolute terms). Depending on the maturity all securities are divided into appropriate zones.

The general interest rate risk for a given day is the sum of the following:

- 10% of minimal position of each maturity band
- 40% of minimal position of the first zone
- 30% of minimal position of the second zone
- 30% of minimal position of the third zone
- 40% of minimal positions between the first and second zones
- 40% of minimal positions between the second and third zones
- 150% of minimal positions between the first and third zones
- 100% of the gross net position of debt securities.

On the days when there were no changes in the Bank's statement of financial position (including non-working days) the daily data is based on the previous day's data.

The Banks' exposure to interest rate risk on its' trading portfolio is presented below:

In thousand Armenian drams	Specific risk	General risk	Total risk on trading portfolio
As of December 31, 2013	**18,991**	**28,644**	**47,635**
As of December 31, 2012	6,401	22,517	28,918

34.2.2 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. The Board of Directors has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank’s comprehensive 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. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets 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. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

In thousand Armenian drams **As of December 31, 2013**

			Sensitivity of equity				
Currency	**Change in basis points**	**Sensitivity of net interest income**	**Up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
AMD	**1%**	**2,148**	**1,473**	**2,540**	**38,254**	**27,684**	**69,951**
USD	**1%**	**541**	**-**	**1,019**	**-**	**-**	**1,019**
AMD	**-1%**	**(2,148)**	**(1,473)**	**(2,540)**	**(38,254)**	**(27,684)**	**(69,951)**
USD	**-1%**	**(541)**	**-**	**(1,019)**	**-**	**-**	**(1,019)**

In thousand Armenian drams As of December 31, 2012

			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	+1%	1,684	1,026	6,252	23,711	19,236	50,225
USD	+1%	-	-	-	-	-	-
AMD	-1%	(1,684)	(1,026)	(6,252)	(23,711)	(19,236)	(50,225)
USD	-1%	-	-	-	-	-	-

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The currency risk is managed using the standard and VaR methodologies. The currency rates are monitored daily, based on which at the end of each month the currency rates are forecasted. The Board of Directors has set limits on positions by currency.

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 income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of equity instruments). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	As of December 31, 2013			As of December 31, 2012		
Currency	**Change in currency rate in %**	**Effect on profit before tax**	**Effect on equity**	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	**+5**	**3,763**	**3,010**	+5	(1,151)	(921)
USD	**-5**	**(3,763)**	**(3,010)**	-5	1,151	921
EUR	**+8**	**(690)**	**(552)**	+8	307	245
EUR	**-8**	**690**	**552**	-8	(307)	(245)

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

In thousand Armenian drams	**Armenian Dram**	**Freely convertible currencies**	**Non-freely convertible currencies**	**Total**
ASSETS				
Cash and cash equivalents	**11,970,579**	**7,633,733**	**1,499,214**	**21,103,526**
Trading securities	**214,792**	**54,112**	**-**	**268,904**
Amounts due from other financial institutions	**1,982,575**	**849,442**	**51,822**	**2,883,839**
Loans and advances to customers	**22,460,057**	**57,495,381**	**1,866**	**79,957,304**
Investments available for sale	**7,492,463**	**101,946**	**-**	**7,594,409**
Other financial assets	**191,527**	**188,194**	**142**	**379,863**
	44,311,993	**66,322,808**	**1,553,044**	**112,187,845**
LIABILITIES				
Amounts due to CB of RA	**4,043,242**	**-**	**-**	**4,043,242**
Amounts due to financial institutions	**7,113,449**	**4,690,550**	**147,851**	**11,951,850**
Amounts due to customers	**22,783,870**	**61,200,576**	**437,558**	**84,422,004**
Other liabilities	**290,699**	**14,316**	**-**	**305,015**
	34,231,260	**65,905,442**	**585,409**	**100,722,111**
Net position as of 31 December 2013	**10,080,733**	**417,366**	**967,635**	**11,465,734**
Commitments and contingent liabilities as of 31 December 2013	**3,570,369**	**3,800,138**	**-**	**7,370,507**
Total financial assets	36,816,263	68,987,122	1,529,470	107,332,855
Total financial liabilities	30,239,075	68,258,899	149,310	98,647,284
Net position as of 31 December 2012	6,577,188	728,223	1,380,160	8,685,571
Commitments and contingent liabilities as of 31 December 2012	2,758,830	3,526,892	-	6,285,722

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.

34.3 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. 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 14. 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 in accordance with the requirement of the Central Bank of Armenia.

	Not audited	
As at 31 December, these ratios were as follows:	**2013, %**	2012, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	**30.03**	32.06
N22- Current liquidity ratio(Highly liquid assets /liabilities on demand)	**123.62**	101.51

Analysis of financial liabilities by remaining contractual maturities.

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2013 based on contractual undiscounted repayment obligations. See note 33 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						**As of December 31, 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**
FINANCIAL LIABILITIES						
Amounts due to CB of RA	**13,610**	**620,380**	**-**	**4,110,019**	**-**	**4,744,009**
Amounts due to other financial institutions	**2,034,792**	**449,920**	**6,186,575**	**3,663,563**	**1,251,674**	**13,586,524**
Amounts due to customers	**28,709,630**	**8,763,908**	**37,505,923**	**13,928,498**	**160,032**	**89,067,991**
Other financial iabilities	**305,015**	**-**	**-**	**-**	**-**	**305,015**
Total undiscounted financial liabilities	**31,063,047**	**9,834,208**	**43,692,498**	**21,702,080**	**1,411,706**	**107,703,539**
Commitments and contingent liabilities	**160,652**	**327,013**	**1,477,625**	**1,367,384**	**4,037,833**	**7,370,507**
Total undiscounted financial liabilities as of December 31, 2012	45,066,708	8,235,824	33,586,766	11,433,255	5,882,707	104,205,260
Commitments and contingent liabilities as of December, 2012	241,612	265,107	922,320	1,131,876	3,724,807	6,285,722

The Bank has received significant funds from its shareholder and its related parties. Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

34.4 Operational risk

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Executive Board of the Bank. Operational risk is the risk of incompatibility of the Banks' operations and procedures to the legislation in force or their breach, the lack of information of the Bank's staff and their errors, the losses from insufficiency of the functional properties of the information technologies and systems implemented by the Bank. 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 operational risk management is conducted in a clear and documented manner for all the business processes described, through the internal legal acts regulating those business process, as well as limits for all the processes and operations, and double control mechanisms for all transactions. The more actual operational risk management is described below.

Legal risk: all the standard contract forms of the Bank are prepared by the Bank's Legal Department by cooperating with the Bank's appropriate departments and are approved by the Bank's Executive Board. In the Bank's day-to-day operations non standard contracts between the Bank and third parties are allowed only in case of appropriate conclusion from the Banks Legal Department.

The IT risks are managed in accordance with internal legal acts.
The risk mitigation mechanisms for the process are:

- Regulation of all business processes by internal legal acts,
- Physical protection of the Bank's assets and critical documents (including loans contracts)
- Establishing and maintaining limits,
- Common preservation of property and records,
- Implementation and archiving of data journals,
- Implementation of double control mechanism in recording transactions.

The internal audit periodically assesses the internal control system effectiveness and adequacy with the Banks risks and supervises the Bank's activity and operational risks.

The Bank's correspondence with the standards is accompanied by the internal auditor's periodic observations. The results of those observations are discussed by the Bank's management's appropriate representative to whom it concerns. The summaries of the observations are submitted to the Board.

35 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 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, polices and processes from the previous years.

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

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

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.

	Not audited	
In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Tier 1 capital	**10,769,570**	9,852,593
Tier 2 capital	**5,384,785**	3,533,072
Total regulatory capital	**16,154,355**	13,385,665
Risk-weighted assets	**113,843,235**	99,029,479
Capital adequacy ratio	**14.19%**	13.52%

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.

The Bank has complied with 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.

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