

Declaration of the Management of “Converse Bank” CJSC

We are responsible for drafting and approval of authentic and reliable financial statements on the Bank’s financial position. Henceforth the Bank Management is in charge of:

- selection of accounting policy, its approval by the Board and consecutive implementation,
- substantiated appraisal and calculations,
- adherence to international accounting standards, in case of deviations from international accounting standards – notifications attached to financial statements for disclosure of deviations,
- accurate keeping of accounting records,
- drafting financial statements on the basis of the Bank’s uninterrupted operation.

The Bank enforces an effective and reliable system of internal control in line with minimum standards as specified by the RA Central Bank;

The Bank applies a functional accounting system in line with the RA Legislation and international accounting standards, providing in time and valid information on the Bank’s financial position;

The Bank takes appropriate actions to identify and prevent any frauds, inaccuracy or errors, and ensure security of assets in the Bank.

Executive Director

Tigran Davtyan

Chief Accountant

Gohar Harutyunyan

**CONVERSE BANK CJSC
NOTIFICATIONS ENCLOSED WITH FINANCIAL STATEMENTS
AS OF 30.06.2014**

Notification 1. “Legal framework and corporate management”

Main Activities

“Converse Bank” CJSC was founded in the Republic of Armenia as a closed joint-stock company. The Bank received Banking License #57 dated November 28, 1994 by the Central Bank of Republic of Armenia (hereinafter – the RA CB). The Bank functions in compliance with the RA Legislation, regulatory statements of the RA Central Bank and other departmental authorities as well as its own Charter and internal statements. The Bank offers a large variety of financial and bank services, and operates through its Head Office located in the capital, and its 32 branches are located in Yerevan and in different regions, and 1 branch is located in NKR:

Addresses of “Converse Bank” CJSC Head Office & Branches:

HEAD OFFICE	26/1 V. Sargsyan, Republic Square, Yerevan, 0010, RA Tel.: 51 12 11, 51 12 00
CENTRAL Branch	49 Komitas, Yerevan, 0051, RA Tel.: 28 10 15, 23 09 96
AVAN Branch	161/2 Khudyakov, Avan, Yerevan, RA Tel.: 61 44 72, 61 44 23
ARARATIAN Branch	15 Bagratunyats, Garegin Nzhdeh square, Yerevan, 0006, RA Tel.: 46 50 06, 46 50 07
ZVARTNOTS AIRPORT Branch	42 Zvartnots, Yerevan Tel.: 49 31 97
AVIATION Branch	42 Zvartnots, Yerevan Tel.: 52 07 06
NOR HAJN Branch	8 Charents, Nor Hachn, 2412, RA Tel.: (0224) 4 38 40, 4 38 30
VANADZOR Branch	1G Khorenatsi, Vanadzor, 2021, RA Tel.: (0322) 4 29 10, 4 12 58
GYUMRI Branch	4b G. Nzhdeh, Gyumri, 3106, RA Tel.: (0312) 4 20 95, 4 17 94
ARTASHAT Branch	117a Ogostosi 23, Artashat, 0701, RA Tel.: (0235) 2 24 99, 2 24 78

ARMAVIR Branch	46 Shahumyan, Armavir, RA Tel.: (0237) 6 22 73, 6 07 42, (374 10) 28 14 33
METSAMOR Branch	City Hall, ground floor, Metsamor, 0910, RA Tel.: (0237) 3 20 70, 28 18 33
CHARENTSAVAN Branch	21 Khanjyan, Charentsavan, 2501, RA Tel.: (0226) 4 15 97
HRAZDAN Branch	Microdistrict 104, ground floor, Hrazdan, 2302, RA Tel: (0223) 3 47 09
SEVAN Branch	153 Nairyan, Sevan, 1501, RA Tel.: (0261) 2 54 52
LORI Branch	54 G. Lousavorich, Vanadzor, 2021, RA Tel.: (0322) 4 21 18, 4 29 12
SHIRAK Branch	Shirak Airport, Gyumri, RA Tel.: (0312) 3 72 38, 4 20 95
ETCHMIADZIN Branch	10 Mashtots, Etchmiadzin, RA Tel.: (0231) 40005, 40009
ABOVYAN Branch	Constitution Square, Abovyan, RA Tel.: (0222) 33080
NOR NORK Branch	12/10 Gay Ave., Yerevan, 0056, RA Tel.: 644660
IJEVAN Branch	6/1 Valans, Ijevan, 4001, RA Tel.: (0263) 40844, 40899
KUMAYRI Branch	46a Khrimyan Hayrik, Gyumri, RA Tel.: (0312) 35695, 35615
MOSKOVYAN Branch	39/12 Mashtots, Yerevan, RA Tel.: 521526
SAYAT-NOVA Branch	19 Sayat-Nova Ave., Yerevan, 0001, RA Tel.: 546049, 546053, 546056, 546057
KILIKIA Branch	4/1 Kajaznuni, Yerevan, RA Tel.: 551359

POSTBANK 19 Branch	23 Baghramyan Avenue, Yerevan, RA Tel.: (37410) 514619
KAPAN Branch	1/2 Tumanyan, Kapan, RA Tel. (374 285) 20058
STEPANAKERT Branch	25/2 V. Sargsyan, Stepanakert Tel. (374 47) 975277
AVAN-1 Branch	On the right side of the Yerevan-Sevan roadway "Global Motors" auto salon, Kotayk
EREBOUNI Branch	11 Erebouni, Yerevan, RA Tel. (374 10) 430457
ZEITUN Branch	14/7 Rubinyants, Qanaqer-Zeitun district, Yerevan, RA Tel. (374 10) 614472
DAVITASHEN Branch	18/6 section, 3rd district Davtashen, Yerevan, RA Tel. (374 10) 511 211
ASHTARAK Branch	1st Post Office, 1 Sisakyan str., Ashtarak city community, Aragatsotn region, RA Tel: (374 232) 36911, (374 232) 36922
DILIJAN Branch	Myasnikyan street, Dilijan city, Tavush region, RA Tel: (374 0268) 22386

Business environment of Armenia

The political and economical environments of Republic of Armenia undergo certain instability in the current stage of economic development. This may have impact on business activities of local enterprises. Consequently, any activities in the business environment of Armenia are connected with risks that are not typical for other markets. The present financial statements give the ongoing assessment of managers relating to possible impact of the current economic circumstances on the financial performance and operations of the Bank. Anyway, the condition of the business environment in the future may differ from the assessment of managers

Corporate Management:

1. Board structure & staff:

Board Chairman:	Armen Ter-Tachatyan,
Board Members:	Juan Pablo Gechidjian, Arsen Gamaghelyan, Matias Gainza Eurnekian, Jose Luis Persico, Daniel Guillermo Simonutti

2. Structure & staff of the Management Board:

Management Board Chairman	Tigran Davtyan
Management Board Member	Gohar Harutyunyan

Velikhan Muradyan
Vahe Dalyan
Sergey Shevchenko
Misak Davtyan
Arman Asatryan
Raffi Kassarian

3. Shareholders:

ADVANCED GLOBAL INVESTMENTS LLC – 95%

The Armenian Saint Apostolic Church represented by Mother See of Holy Etchmiadzin
Catholosate – 5%.

4. The Bank Management is remunerated pursuant to employment agreements and the Staff Members List approved by the Bank.

Notification 2. “Accounting Policy”

Performance basis

Declaration on adequacy

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS).

Measure basis

The financial statements have been prepared on the basis of the actual cost principle, for financial assets and liabilities recorded at their actual value and adjustable by the financial results, as well as for assets available for sale, except for those assets, the actual cost of which cannot be determined. Other financial assets and liabilities, as well as non-financial assets and liabilities are recorded with amortization or historical value.

Measure and submission currency

The national currency of the Republic of Armenia is the dram of RA. The management has specified AMD as the measure currency, since AMD reflects the economic essence of developments and circumstances that underlie the Bank’s activity. AMD is also the submission currency of these financial reports.

The financial information is stated in thousand drams.

Use of estimates and observations

In order to prepare these financial statements in accordance with the requirements of IFRS, the management has developed a number of estimates and assumptions related to presentation of assets and liabilities, as well as disclosure of conventional liabilities and assets. The actual results can be different from the estimates.

Accounting policy

The below specified accounting policy was applied for preparation of the financial statements. The accounting policy has been applied consistently.

Recognition of income and expenses

Income is recognized in case when it is likely that economic profits will flow to the Bank and the received income can be measured reasonably. Expense is recognized when it is likely that economic profits will flow out of the Bank and the expense can be measured reasonably.

Interest income and expense are recognized in the integral report on financial results, by means of application of the effective interest rate method. Interest income and expense comprise amortization of the difference between the discount, extra charge, or the original balance cost of the interest bearing instrument and the payable amount, calculated on the basis of the effective interest rate.

The discount interest and extra charge accrued to financial instruments recorded by their actual cost adjustable by the financial results are recognized in the financial results as net profit/loss from the financial instruments recorded by their actual cost reappraised on the basis of the financial results.

Loan disbursement, service and other fees, which constitute an integral part of the general profitability of the loan, are deferred together with other direct expenses and are amortized to the interest income within the estimated term of the financial instrument, by means of application of the effective interest rate method.

Other commission fees and other income and expense items are recognized when the relevant service is rendered.

Dividend income is recognized on the day of recording the dividend in the financial results.

Foreign currency transactions

Transactions with foreign currency are converted into AMD at the exchange rate set as of the transaction date. As of the accounting date, the monetary assets and liabilities in foreign currency are converted into AMD at the exchange rate specified for that day. Non-monetary assets and liabilities

presented at their original cost and expressed in foreign currency are converted into the measure currency at the exchange rate specified for that day. The foreign currency differences deriving from the conversion are recognized in the integral report on financial results.

As at the end of quarter, the exchange rate was 407.28 AMD = 1 USD (as of June 30, 2013 the rate was 409.9 AMD = 1 USD)

Taxation

In the line of profit, the profit tax is composed of current and deferred taxes.

The profit tax is recognized in the integral report on financial results, except for the part that refers to capital items directly recognized in the equity capital, in which case the profit tax is recognized in the equity capital.

The current tax is the estimated amount payable against the taxable profit of the year, calculated by means of application of those tax rates, which acted as of the accounting date and the adjustments made in the part of taxes paid during previous years.

Deferred taxes are calculated in accordance with the liabilities method of the report on financial situation, which takes into account all time differences between balance amounts of assets and liabilities recognized in the financial statements and amounts calculated for tax purposes.

Deferred tax assets are recognized only to the extent to which it is likely that taxable profit will be earned, against which temporary differences, unutilized tax losses and benefits can be used. Deferred tax assets are decreased to the extent to which it is not likely that the relevant tax profit will be earned.

The monetary funds and their equivalents

The Bank considers as monetary funds and their equivalent the cash funds, the funds kept at the CB RA (except amounts deposited for the purpose of mutual settlements made through ArCa payment system) and accounts held with correspondent banks, which can be converted into cash within a short period of time and are not exposed to any considerable risk of cost changes.

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

Financial instruments

Classification

Financial assets are classified by the bank into the following categories: financial assets recorded at the actual cost and adjustable by the financial results, loans and receivables, financial assets available for

sale. Such classification of investments is done at the time of purchase, based on the estimates made by the Bank management, taking into account the goals of purchase.

Financial assets and liabilities recorded at the actual cost and adjustable by the financial results are those, which:

- have been purchased or originated with the purpose of selling or purchase back in the near future,
- a part of the separate portfolio of financial instruments' managed together, in case of which there have been past cases of obtaining short-term profit,
- derivative financial instruments (except specified derivative financial instruments and effective hedging transactions), or
- at the time of initial recognition were recognized by the Bank as assets and liabilities recorded at the actual cost and adjustable by the financial results.

The profit and losses that originate after the adjustment are recognized in the integral report on financial results.

The Bank considers financial assets and liabilities as assets and liabilities recorded at the actual cost and adjustable by the financial results in case if:

- the assets or liabilities are managed and assessed by the actual cost principle,
- their definition as such excludes or considerably reduces the accounting discrepancy that would occur under other circumstances, or
- the asset or liability contains a derivative, which considerably changes those cash flows, which would otherwise arise under the agreement.

Commercial derivative instruments that imply potentially favorable conditions (positive actual cost), as well as purchased options, are represented as assets. Commercial derivative instruments that imply potentially unfavorable conditions (negative actual cost), as well as provided options, are represented as liabilities.

After the initial recognition, financial assets and liabilities recorded at the actual cost and adjustable by the financial results are not reclassified.

Disbursed loans and receivables are non-derivative financial assets with fixed or determinable payments, which do not have a quoted market price at the current market, except for those:

- which the Bank intends to sell immediately or soon afterwards,
- which the Bank, at the time of initial recognition, defines to be recorded at the actual cost and adjustable by the financial results,
- which the Bank, at the time of initial recognition, defines as available for sale, or
- with regard to which the Bank will not recover its investment completely through various reasons of loan aggravation.

Assets available for sale are those assets, which are intended for sale or are not classified as disbursed loans, receivables, or financial instruments measured by their actual cost.

Recognition

Financial assets and liabilities are recognized in the report on financial situation when the Bank becomes a party to the contract on the financial instrument.

Measuring

The financial asset or liability is initially recognized at its actual cost (which is normally its initial cost) plus expenses related to the transaction, except for the expenses related to those transactions, which have been classified as financial instruments recorded at the actual cost and adjustable by the financial results.

After initial recognition, the financial assets, including derivative instruments considered as assets, are measured at their actual cost, without deduction of the expenses related to the transaction, which might occur through sale or alienation in some other manner, except for the following:

- disbursed loans and receivables, measured at their amortization cost by means of application of the effective interest rate method;
- investments kept till maturity measured at their amortization cost by means of application of the effective interest rate method, and
- investments in equity capital instruments, which do not have any quoted market price at the current market and are measured at their original cost.

After initial recognition, the majority of the financial liabilities are measured at their amortization cost, except those financial liabilities, which are specified as financial instruments measured at the actual cost, the profit and losses deriving from adjustment of which are recognized in the integral report on financial results, as well as those financial instruments, which originate when transfer of a financial asset measured at its actual cost does not comply with the criteria of de-recognizing. Extra charges and discount amounts, including the initial expenses related to the transaction, are included in the balance cost of the instrument and are amortized at the effective interest rate of the instrument.

Principles of measuring the actual cost

The actual cost of financial instruments is based on the market price quoted as of the accounting date, without deduction of the expenses related to the transaction. If no quoted market price is available, the actual cost of the instrument is determined by means of cost definition models or the techniques of discounted cash flows.

In case of application of the techniques of discounted cash flows, the estimated future cash flows are based on the best estimates made by the management, and the discount rate is the relevant market interest rate applicable towards this instrument under similar conditions, as of the accounting date. In case of application of cost definition models, the market data of the accounting date are used in the model.

The actual cost of derivative instruments circulating at stock exchange is estimated at the amount, which the Bank will receive or pay as of the accounting date in case of termination of the agreement, taking into account the current market conditions and current solvency of the parties to the agreement.

Profit and loss deriving from further measuring

Profit or loss deriving from changes in the financial assets and liabilities are recognized in the following manner.

- profit or loss deriving from financial instruments recorded by their actual cost adjustable by the financial results are recognized in the financial results;
- profit or losses deriving from financial assets available from sale are recognized in other aggregate income (except for losses deriving from deterioration and profit and losses deriving from foreign currency differences) until de-recognizing of the asset, when the whole profit or loss previously recognized in other aggregate income is recognized in the financial results. The interest in line of the asset available for sale is recognized in the financial results, by means of application of the effective interest rate method.

Profit or losses deriving from financial assets recorded at their amortization cost are the integral report on financial results, when a financial asset or liability is de-recognized or depreciated, as well as through amortization.

De-recognizing

A financial asset is de-recognized, when the validity term of using the right to receive cash flows from the financial asset expires or when the Bank transfers almost all risks and profit related to asset ownership. All those rights or obligations, which occurred or were retained at the time of transfer, are recognized separately as assets or liabilities. A financial liability is de-recognized when it is repaid, invalidated or expired.

The Bank de-recognizes certain assets also in case when balances of non-collectible assets are written off.

Repo and reverse repo agreements

Securities sold through repo agreements are recorded as secured financial instruments, in case of which the securities remain recorded in the report on financial situation and the liability is included in the amounts payable under repo agreements. The difference between the repurchase prices is the interest expense, which is recognized in the financial results during the term of the repo agreement, by means of application of the effective interest rate method.

Securities purchased through repo agreements are recorded in the amounts receivable under repo agreements. The difference between the repurchase prices is the interest income, which is recognized in the financial results during the term of the repo agreement, by means of application of the effective interest rate method.

If the securities purchased through repo agreements are sold to a third party, the obligation to return the securities is recorded as a commercial liability and is measured at its actual cost

Fixed assets

Own assets

Fixed assets are presented at their original cost minus accumulated deterioration and losses from devaluation, except buildings reflected at the revaluated cost.

When an item of fixed assets is composed of different term large components of useful service, these components are recorded as separate items of fixed assets.

Leased assets

Such lease, under which almost all risks and profits related to the asset ownership are transferred to the Bank, is a financial leasing. Equipment purchased through financial leasing is recorded at the minimum of the actual cost and the current cost of the minimal lease payments at the beginning of the lease, minus accumulated deterioration and losses from devaluation.

Reappraisal

The Bank buildings are reappraised on regular basis. Regularity of reappraisal depends on the changes in the actual cost of reappraised buildings. When the balance cost of a building increases in the result of reappraisal, the increase is recognized directly in the equity capital. But when such increase covers the decrease resulted from the previous reappraisal and recognized in the integral report on financial results, it is recognized in the integral report on financial results. When the balance cost of a building decreases in the result of reappraisal, the decrease is recognized in the financial results. But when such decrease covers the increase resulted from the previous reappraisal and recognized in the equity capital of the same assets, it is recognized in the equity capital.

Depreciation

Depreciation is recognized in the integral report on financial results, by means of application of the linear method during the useful life of the fixed assets. Calculation of depreciation starts from the date of purchase of the fixed asset, and in case of in-house constructed assets – from the date of commissioning. No deterioration is calculated towards land. The estimated periods of useful life are as follows.

	Useful life (years)	Interest rate (%)
Buildings	20	5
Computers	1	100
Transport means	5	20
Equipment	5	20
Other fixed assets	5	20

Capital expenditures on leased fixed assets are capitalized and amortized on linear basis at the shortest of the following two terms: lease term or useful life of the asset.

Intangible assets

Intangible assets purchased by the Bank are presented at their original cost minus accumulated losses from amortization and depreciation.

Amortization is recognized in the integral report on financial results, by means of application of the linear method during the useful life of the intangible assets. The estimated periods of useful life are as follows:

	Useful life (years)	Interest rate (%)
Computer software and licenses	1-10	100-10

Deterioration

Financial assets recorded at amortization cost

Financial assets recorded at amortization cost comprise loans and other receivables (“loans and receivables”). The Bank regularly revises the loans and receivables for the purpose of appraising depreciation. A loan or receivable is depreciated and depreciation losses are recognized only in case when there is an impartial testimony about depreciation resulting from one or more occasions after initial recognition, and this case (or cases) affects the estimated future flows of the loan funds, which can be measured reasonably.

The impartial testimony about depreciation might comprise non-fulfillment of obligations or delay of payments on the part of the borrower, violation of the loan agreement terms and conditions by the borrower, such revision of the terms and conditions of the loan, which the Bank would not consider under other circumstances, evidence of bankruptcy of the borrower or issuer, abatement of the current market of securities, decrease of the collateral value, or other available data regarding the group of assets, such as impairment of solvency of the borrowers included in the group, or changes in the economic conditions related to non-fulfillment of obligations by the borrowers included in the group.

First of all, the Bank assesses separately whether there is an impartial testimony about depreciation with regard to such loans and receivables, which are significant when considered separately, and by groups with regard to such loans and receivables, which are not significant when considered separately. If the Bank concludes that there is no impartial testimony on a separately assessed loan or receivable, whether significant or not, such loan will be included in the group of loans and receivables with similar parameters and the Bank will make a group appraisal for the purpose of revealing signs of depreciation. Those loans and receivables, for which depreciation assessment was made separately and against which depreciation losses were or still are recognized, will not be included in the group assessment of depreciation.

If there is impartial testimony on losses resulting from depreciation of a loan or receivable, the size of loss is measured by the difference between the balance cost of the loan or receivable and the current cost of the estimated future cash flows, including the amounts discounted from guarantees and collateral

at the initial effective interest rate of the loan or receivable. Cash flows estimated under the agreement and losses based on the past experience, in the line of which adjustments were made on the basis of the available data that reflect the current economic conditions, are the basis for assessing the expected cash flows.

In certain cases, in order to assess the loss from depreciation in the line of the loan or receivables, the required information might be limited or not fully compliant with the present conditions. This can be in case when the borrower has financial difficulties and the Bank does not possess sufficient data regarding similar borrowers. In such cases, the Bank assesses the amount of loss from depreciation, based on its experience and assumptions.

Losses from depreciation in the line of loans or receivables are recognized in the financial results and are reversed only in case when further increase of the reimbursed amount can be objectively attributed to developments after recognition of the loss from depreciation.

In cases when it is impossible to collect the loan, it is written off at the expense of the depreciation provision. The Bank writes off the loan balance, when the Bank management decides that the loan is not subject to collection and all the necessary measures have been taken with regard to repayment of the loan.

Financial assets recorded at their original cost

The financial assets recorded at their original cost comprise non-quoted instruments of the equity capital included in the assets available for sale, which are not recorded at the actual cost, since the latter cannot be reasonably assessed. If there is an impartial testimony to evidence that such investments are depreciated, the loss from depreciation is the difference between the balance cost of the investment and the current cost of the future estimated cash flows discounted at the market interest rate of a similar financial asset.

Losses from depreciation of such investments are recognized in the financial assets and are not subject to reversion.

Non-financial assets

On each accounting date, other non-financial assets, except deferred taxes, are revised for the purpose of revealing signs of depreciation. The reimbursable amount of non-financial assets is determined as the actual cost minus the highest of the expenses from selling and the usage costs. When determining the usage cost, the estimated future cash flows are discounted, applying before taxation the provision, which reflects the current appraisal of the market of the time risk of money and the risk peculiar to the asset. In case of assets, which do not generate cash flows significantly independent of other assets, the reimbursable amount is determined for the money-yielding group, which comprises the particular asset. The loss from depreciation is recognized when the balance cost of the money-yielding unit exceeds its reimbursable amount.

The losses from depreciation of non-financial assets are recognized in the integral report on financial results, and are reversed only in case when the estimates applied for determination of the reimbursable amount have changed. The loss from depreciation is reversed only to the extent to which the balance cost of the asset does not exceed the balance cost, which would have been determined after deducting deterioration or amortization, if no loss from depreciation had been recognized.

Reconsidered loans

Revision of loans might result in extension of the loan maturity and establishment of new conditions of loan repayment. If the loan conditions are revised, the loan is no longer considered overdue. The managers constantly supervise the loans with revised conditions to make sure that all arrangements are observed and future payments will be made. The loans remain the subject of individual or group assessment of depreciation, by means of application of the initial effective interest rate of the loan.

Credit instruments

During its regular activity, the Bank applies credit instruments, which comprise outstanding credit lines, letters of credit, and guarantees, and provides other types of lending security.

Financial guarantees are agreements that oblige the Bank to make certain payments to reimburse those losses, which the guarantee owner would suffer, if the individual debtor had not been able to make payments within the term of the debt instrument.

A liability in the line of a financial guarantee is originally recognized at the actual cost, leaving out the expenses connected with the instrument, and afterwards it is measured by the higher of the two values: the originally recognized cost minus the accumulated amortization or the loss provision in the line of the guarantee. The loss provision in the line of financial guarantees and other credit instruments are recognized, when there is probability of loss and this loss cannot be reasonably measured.

Liabilities in the line of financial guarantees and provisions for other credit instruments are included in the structure of other liabilities.

Assets held for sale

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use. Such sale transaction shall be principally completed within one year from the date of classification of an asset as held for sale. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the income statement as loss from assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Grants

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

Reserves

Reserves are recognized in the report on the financial results when the Bank has an actual or constructive obligation resulting from past experience and it is probable that outflow of economic profit will be required for repayment of this obligation. If the impact is significant, the provision is determined by discounting the future expected cash flows before taxation, at a rate that reflects the current market estimate of the temporal cost of money and, if applicable, the risks inherent to the obligation.

Share capital

Dividends

The Bank's capability to announce and pay dividends is regulated by the relevant procedures specified by the legislation of the Republic of Armenia. Dividends on equities are reflected as allocation of outstanding dividends within the period of time, when they were announced.

Extra payment for shares

Any amount paid above the par value of shares is considered as extra payment for shares.

Offsetting

Financial assets and liabilities are offset by being reflected in the report on financial situation, if there is a legally fixed right to offset recognized amounts, as well as an intention to make the calculation by the net basis or sell the asset and simultaneously repay the liability.

Notification 6. « Interest and similar income »

	01.04.14- 30.06.14	01.01.14- 30.06.14	01.04.13- 30.06.13	01.01.13- 30.06.13
Interest and similar income	3,123,616	6,078,216	2,624,043	5,133,459
Loans and advances to customers	2,788,002	5,483,930	2,339,810	4,618,411
Available for sale	207,451	412,243	175,136	348,580
Amounts due from banks	93,896	121,831	84,428	120,738
Reverse repurchase agreements	32,988	53,025	24,563	45,522
Interest on impaired loans	0	0	0	0
Other interest incomes	1,279	7,187	106	208

Notification 6. "Interest and similar expense"

	01.04.14- 30.06.14	01.01.14- 30.06.14	01.04.13- 30.06.13	01.01.13- 30.06.13
Interest and similar expense	(1,556,116)	(3,083,020)	(1,373,336)	(2,639,154)
Amounts due to customers	(1,219,559)	(2,422,320)	(1,064,388)	(2,021,066)
Amounts due to credit institutions	(336,557)	(660,700)	(308,167)	(617,307)

Notes to, and forming part of, the financial interim statements for the period ended 30 June 2014

Debt securities issued	0	0	0	0
Repurchase agreements	0	0	(781)	(781)
Other interest expense	0	0	0	0
Net interest income	1,567,500	2,995,196	1,250,707	2,494,305

Notification 7. “Net commission fees”

	01.04.14- 30.06.14	01.01.14- 30.06.14	01.04.13- 30.06.13	01.01.13- 30.06.13
Fee and commission income	383,289	723,786	287,628	570,867
Cash collection	33,877	58,237	25,829	46,618
Wire transfer fees	88,700	163,477	57,022	114,719
From Loans	27,433	51,518	17,109	33,263
Transaction with payment cards	186,184	355,148	154,097	282,586
Guarantees and letters of credit	6,594	14,154	7,144	12,401
Other fees and commissions	40,501	81,252	26,427	81,280
Fee and commission expense	(118,217)	(247,662)	(103,730)	(215,698)
Wire transfer fees	(19,110)	(34,657)	(15,603)	(29,590)
Cash operations	(11,244)	(39,002)	(18,486)	(53,211)
Plastic cards	(79,111)	(159,776)	(64,308)	(124,149)
Guarantees and letters of credit	(2,710)	(4,153)	(1,134)	(1,134)
Other fees paid	(6,042)	(10,074)	(4,199)	(7,614)
Net commission fees	265,072	476,124	183,898	355,169

Notification 8. “Net trading income”

	01.04.14- 30.06.14	01.01.14- 30.06.14	01.04.13- 30.06.13	01.01.13- 30.06.13
Net trading income	148,258	384,327	60,633	217,412
Gains less losses from trading in foreign currencies	206,709	402,823	170,243	340,925
Gains less losses from revaluation of foreign currencies	(67,279)	(18,475)	(113,705)	(128,139)
Gains less losses from foreign exchange translation of trading assets	(1,605)	(8,740)	2,213	(1,129)
Gains less losses from swap	0	0	(239)	2,155
Gains less losses from trading in trading assets	28	96	20	20
Gains less losses from trading in assets available for sale	9,945	11,633	2,652	2,890
Net gains from operations of precious metals	460	(3,010)	(551)	690

Notification 9. “Income from dividends and other operational income”

	01.04.14- 30.06.14	01.01.14- 30.06.14	01.04.13- 30.06.13	01.01.13- 30.06.13
Income from dividends	653	1,307	557	1,106
Other operational income	116,849	196,022	233,260	344,551
Income from sale of fixed assets	3,949	4,373	(15,637)	(14,661)
Fines and penalties received	88,083	132,834	227,025	307,172
Income from grant	606	1,212	606	1,212
Income from ceded loan	0	0	0	0
Other income	24,211	57,603	21,266	50,828

Notes to, and forming part of, the financial interim statements for the period ended 30 June 2014

Notification 10. « Net provisions to reserves for possible losses of assets »

	01.04.14- 30.06.14	01.01.14- 30.06.14	01.04.13- 30.06.13	01.01.13- 30.06.13
Net provisions to reserves for possible losses of assets	232,692	2,417	(118,912)	333,966
Loans and advances to customers	242,862	37,812	(132,448)	331,677
Other assets	(16,298)	(39,588)	16,664	4,182
Other provisions	6,128	4,193	(3,128)	(1,893)

Notification 11,20,21. “Total administrative expenses”.

	01.04.14- 30.06.14	01.01.14- 30.06.14	01.04.13- 30.06.13	01.01.13- 30.06.13
Personnel expenses	(765,035)	(1,539,404)	(744,510)	(1,525,939)
Depreciation of PPE	(168,725)	(348,494)	(233,763)	(455,396)
Amortization of intangibles	(10,511)	(24,881)	(63,166)	(71,045)
Repair and maintenance of tangible and intangible assets	(18,948)	(40,148)	(38,412)	(90,025)
Advertising and representation	(60,610)	(121,265)	(115,100)	(198,941)
Business trip	(3,783)	(6,127)	(5,812)	(7,644)
Communication	(33,035)	(60,636)	(34,545)	(65,887)
Operating lease expenses	(103,035)	(204,297)	(91,384)	(188,160)
Taxes, other than income tax	(4,915)	(9,790)	(5,060)	(4,397)
Consulting and professional services	(11,504)	(22,784)	(14,103)	(34,662)
Security	(42,499)	(83,417)	(41,075)	(78,780)
Loss on impairment of fixed assets	0	(4,848)	0	0
Loss on sale of fixed assets	0	0	0	0
Office supply	(13,315)	(25,901)	(14,276)	(25,834)
Incasation expenses	(20,479)	(41,825)	(20,899)	(40,487)
AS system expenses	(34,030)	(68,342)	(30,239)	(58,901)
Expenses related to ArCa	(22,267)	(44,505)	(19,052)	(37,554)
Insurance	(23,891)	(47,716)	(28,743)	(56,625)
Other operating expenses	(45,685)	(106,180)	(34,971)	(55,118)
Total other expenses	(1,382,267)	(2,800,560)	(1,535,110)	(2,995,395)

Average number of employees in the second quarter of 2014 year comprised 725 (against 764 of the second quarter of 2013); in the second quarter of 2014 the average monthly salary of one employee comprised AMD 353.8 thousand (against AMD 332.8 thousand of the second quarter of 2013).

Notification 12. « Other operational expenses »

	01.04.14- 30.06.14	01.01.14- 30.06.14	01.04.13- 30.06.13	01.01.13- 30.06.13
Penalties paid	(2)	(194)	(200)	(300)
Insurance of deposits	(23,973)	(47,032)	(20,365)	(39,077)
Other operational expenses	(25,115)	(49,689)	(23,987)	(41,283)
Total other operational expenses	(49,090)	(96,915)	(44,552)	(80,660)

Notification 13. « Income tax expense »

Notes to, and forming part of, the financial interim statements for the period ended 30 June 2014

	01.04.14- 30.06.14	01.01.14- 30.06.14	01.04.13- 30.06.13	01.01.13- 30.06.13
Income tax expense				
Current tax	(135,067)	(135,067)	0	0
Deferred tax	(62,859)	(119,675)	(9,424)	(140,974)
Total	(197,926)	(254,742)	(9,424)	(140,974)

The profit tax rate in the Republic of Armenia comprises 20% (2013 - 20%). The deferred tax amount is calculate on account of the principal tax rate - 20%.

	Balance as at 31.12.13	Identified as per financial performance	Identified in own capital	Identified other account	Balance as at 30.06.14
Financial assets calculated with fair value and re-estimated by profit/loss	3,822				3,822
On securities available for sale					
On fixed assets	33,512				33,512
Other liabilities	24,931				24,931
Total deferred tax asset	62,265				62,265
On securities available for sale	(204,766)		30,182		(174,584)
Loans and advances to customers	(350,417)	(105,247)			(455,664)
On other assets	(27,340)	(14,428)		1,935	(39,832)
On fixed assets	(1,013,621)				(1,013,621)
Total deferred tax liabilities	(1,596,144)	(119,675)	30,182	1,935	(1,683,701)
Net deferred tax asset/liability/ note 13	(1,533,879)	(119,675)	30,182	1,935	(1,621,436)

Notes to, and forming part of, the financial interim statements for the period ended 30 June 2014

INTERIM FINANCIAL STATEMENT

"30" June, 2014

Converse Bank CSJC ,V. Sargsyan 26/1 st., Yerevan

(name and address of the bank)

(thous. drams)

	Item	Notes	Current period	Previous year
1	Assets			
1.1	Cash and balances with CBA	14	17,180,152	21,103,526
1.2	Trading securities	15	206,334	268,904
1.3	Amounts due from other financial institutions	16	11,524,405	2,883,839
1.4	Derivative instruments	17		
1.5	Loans and advances to customers	18	78,245,281	79,957,304
1.6	Investments available for sale	19	7,794,482	7,594,409
1.7	Securities pledged under repurchase agreements	28		
1.8	Property, plant and equipment	20	7,287,833	7,313,542
1.9	Intangible assets	21	190,200	191,883
1.10	Assets held for sale	22	2,732,834	1,012,014
1.11	Deferred tax assets	13		
1.12	Prepaid income taxes		12,196	46,763
1.13	Other assets	23	1,901,522	998,479
	Total assets		127,075,239	121,370,663
2	LIABILITIES AND EQUITY			
	Liabilities			
2.1	Amounts due to RA CB	24	4,926,760	4,043,242
2.2	Amounts due to financial institutions	25	11,586,881	11,951,850
2.3	Amounts due to customers	26	88,482,057	84,422,004
2.4	Derivative financial liabilities	17		
2.5	Debt securities issued			
2.6	Deferred tax liabilities	13	1,621,436	1,533,878
2.7	Other liabilities	27	742,727	486,759
	Total liabilities		107,359,861	102,437,733
3	Equity			
3.1	Share capital	31	4,860,033	4,860,033
3.2	Share premium		63,233	63,233
3.3	Statutory general reserve		780,365	780,365
3.3.1	Other reserves		698,344	819,073
3.3.2	Buildings		4,006,984	4,054,481
3.4	Retained earnings		9,306,419	8,355,745
	Total capital		19,715,378	18,932,930
	Total liabilities and capital		127,075,239	121,370,663

Notes to, and forming part of, the financial interim statements for the period ended 30 June 2014

Notification 14.” Cash and cash equivalents and balances with CBA”

	30.06.14	31.12.13
Cash and cash equivalents and balances with CBA	17,180,152	21,103,526
Cash in hand	7,829,594	6,630,166
Other money market placements	0	
Correspondent account with the CBA	7,561,109	9,930,206
Correspondent accounts with financial institutions	1,789,449	4,543,154

Notification 15. “Trading securities”

	30.06.14	31.12.13
Trading securities	206,334	268,904
Trading securities issued by the Ministry of Finance of RA unquoted	206,334	214,792
Corporate bonds	0	54,112

Notification 16. “Amounts due from other financial institutions”

	30.06.14	31.12.13
Amounts due from other financial institutions	11,524,405	2,883,839
Loans and deposits to financial institutions	8,232,701	881,062
Deposited funds with the CBA (ArCa)	170,000	520,000
Loans under repurchase accounts	2,312,255	1,040,365
Other amounts	809,449	442,412

Notification 17 “Derivative financial instruments”

In thousand Armenian drams

	Notional amount	Fair value of assets	As of	Notional amount	Fair value of assets	As of
			June 30, 2014			December 31, 2013
			Fair value of liabilities			Fair value of liabilities
Derivatives held for trading						
<i>Foreign exchange contracts</i>						
Swaps - domestic	0	0	-	0	0	
Total derivative financial instruments	0	0	-	0	0	

Notification 18. “Loans and advances to customers”

	30.06.14	31.12.13
<u>Loans and borrowings to customers</u>	78,245,281	79,957,304
Loans	72,103,612	73,877,370
Factoring	0	
Overdraft	8,645,302	9,161,337
Letters of credit and bank guarantees	2,014	5,486
Financial leasing	436,609	170,629
Allowance for impairment of loans and advances to customers	(2,942,256)	(3,257,518)

As of June 30 2014, the Bank had a concentration of loans represented by AMD 13,684,476 thousand due from the ten largest third party entities and parties related with them (16.86% of gross loan portfolio). (2013: AMD 18,925,171 thousand or 23%). An allowance for individual impairment in the amount of AMD 74,313 thousand (2013: AMD 1,575,601 thousand) was made against these loans.

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

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

In thousand Armenian drams	30.06.2014	31.12.2013
Manufacture	8,463,503	5,992,118
Agriculture	2,271,930	2,212,206
Construction	7,735,000	9,691,524
Trading	8,233,478	8,538,926
Transport	4,518,026	7,500,383
Services	1,200,903	1,319,189
Consumer	27,685,022	27,027,398
Mortgage	17,341,475	16,453,609
Other sectors	3,738,200	4,479,470
Less allowance for loan impairment	(2,942,256)	(3,257,518)
Total loans and advances to customers	78,245,281	79,957,305

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

In thousand .
drams

30.06.2014

	Manufac- ture	Agriculture	Construction	Trading	Transport	Services	Consumer	Mortgage	Other	Total
At 1 January 2014	191,031	301,154	1,528,998	541,880	87,776	58,766	129,796	375,963	42,154	3,257,518

Notes to, and forming part of, the financial interim statements for the period ended 30 June 2014

In thousand
drams

30.06.2014

	Manufac- ture	Agriculture	Construction	Trading	Transport	Services	Consumer	Mortgage	Other	Total
At 1 January 2014	191,031	301,154	1,528,998	541,880	87,776	58,766	129,796	375,963	42,154	3,257,518
Charge/(reversal) for the period	52,699	12,511	(110,958)	(135,682)	136,337	(35,316)	138,333	(122,941)	27,205	(37,812)
Amounts written off	(21,486)	(32,631)		(48,614)	(382,550)		(148,691)	(50,317)		(684,289)
Recoveries	6,569	47,332		43,006	164,787	15,783	75,721	53,641		406,839
At 30 June 2014	228,813	328,366	1,418,040	400,590	6,350	39,233	195,159	256,346	69,359	2,942,256
Individual impairment	220,151	302,418	1,415,753	362,768	6,350	17,794	12,802	111,262	30,311	2,479,609
Collective impairment	8,662	25,948	2,287	37,822	-	21,439	182,357	145,084	39,048	462,647
Gross amount of loans individually determined impaired, before deduction of individually assessed impairment allowance	433,396	447,000	1,426,425	853,552	171,177	53,214	12,879	167,549	117,895	3,683,087

In thousand
drams

31.12.2013

	Manufac- ture	Agriculture	Construction	Trading	Transport	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 period	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
Gross amount of loans individually determined impaired, before deduction of 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

Impairment on loans and advances is as follows:

Notes to, and forming part of, the financial interim statements for the period ended 30 June 2014

<u>On the part of loans and borrowings to customers</u>	01.01.14-30.06.14	01.01.13-30.06.13
Beginning balance	3,257,518	5,215,814
Net provisions to the reserve / (recovery) (Writing off)/ return	(37,812) (277,450)	(331,677) (209,968)
Ending balance	2,942,256	4,674,169

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

In thousand Armenian drams

	30.06.14	31.12.13
State owned enterprises	3,144,744	1,740,763
Privately held companies	29,290,072	33,677,440
Individuals	45,498,680	44,140,635
Sole proprietors	3,135,456	3,516,316
Non-commercial institutions	118,585	139,668
Total loans and advances to customers	81,187,537	83,214,822
Less allowance for loan impairment	(2,942,256)	(3,257,518)
Total loans and advances to customers	78,245,281	79,957,304

Loans to individuals comprise the following products:

In thousand Armenian drams

	30.06.14	31.12.13
Mortgage loans	17,341,475	16,453,609
Credit cards	19,739,396	14,128,198
Gold Loans	5,904,453	5,570,919
Consumer loans	922,870	6,087,633
Car loans	1,118,303	1,240,648
Other	472,183	659,628
Total loans and advances to individuals (gross)	45,498,680	44,140,635

The finance lease receivables may be analyzed as follows:

In thousand Armenian drams	30.06.14	31.12.13
Gross investment in finance leases, receivable:		
	43,900	9,652
Not later than 1 year		
Later than 1 year and not later than 5 years	497,506	207,369
	541,406	217,021
Unearned future finance income on finance leases	(104,797)	(46,392)
Net investment in finance leases	436,609	170,629

The allowance for uncollectable finance lease receivables included in the allowance for impairment amounted to AMD 1,750 thousand at 30 June 2014, and AMD 670 thousand at 31 December 2013.

Notification 19. « Investment securities »

	30.06.2014	31.12.2013
Investment securities	7,794,482	7,594,409
Corporate bonds	202,886	101,946
Securities issued by the Ministry of Finance	6,911,784	6,995,104
Shares of Armenian companies	326,335	126,223
Shares of OECD countries companies	353,477	371,136

All debt securities have fixed coupons.

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

Notification 20,21: “Fixed and intangible assets”

	Item	Land and buildings	Computer and communication	Transportation	Other fixed assets	Main capital investments	Main capital investments in leasing	Intangible assets	Total
<u>Initial value</u>									
As at 01.01.14		5,626,000	2,289,170	99,248	1,206,807	2,654	809,196	584,578	10,617,653
		171,203	64,202	-	477,640	225,878	12,374	23,328	974,625
Replenishment /internal flow									
Alienation /writing off/internal flow		-	(3,637)	(5,130)	(407,423)	(225,828)	(5,020)	(131)	(647,169)
As at 30.06.14		5,797,203	2,349,735	94,118	1,277,024	2,704	816,550	607,775	10,945,109
<u>Accumulated depreciation</u>									
As at 01.01.14		-	(1,575,395)	(52,352)	(874,270)		(217,516)	(392,694)	(3,112,227)
Replenishment		(62,320)	(161,736)	(7,311)	(58,665)		(58,463)	(24,880)	(373,375)
Alienation /writing off			3,607	2,759	7,142	-	5,019	(1)	18,526
As at 30.06.14		(62,320)	(1,733,524)	(56,904)	(925,793)		(270,960)	(417,575)	(3,467,076)
Balance value		5,734,883	616,211	37,214	351,231	2,704	545,590	190,200	7,478,033
<u>Initial value</u>									
As at 01.01.13		4,377,710	1,928,636	132,006	1,069,351	2,521	348,131	459,610	8,317,965
Replenishment /internal flow		25,217	403,456	18,393	256,067	497,801	478,959	124,968	1,804,861
Alienation /writing off/internal flow		(10,471)	(42,922)	(51,151)	(118,611)	(497,668)	(17,894)	-	(738,717)
Revaluation		2,414,982							2,414,982
Revaluation adjustments		(1,181,438)							(1,181,438)
As at 31.12.13		5,626,000	2,289,170	99,248	1,206,807	2,654	809,196	584,578	10,617,653
<u>Accumulated depreciation</u>									
As at 01.01.13		(784,983)	(1,276,382)	(43,468)	(816,108)		(126,105)	(281,246)	(3,328,292)
Replenishment		(396,455)	(316,443)	(17,072)	(101,827)		(92,805)	(111,448)	(1,036,050)
Alienation /writing off		0	17,430	8,188	43,665	-	1,394	-	70,677
Revaluation		1,181,438							1,181,438
As at 31.12.13		-	(1,575,395)	(52,352)	(874,270)		(217,516)	(392,694)	(3,112,227)
Balance value		5,626,000	713,775	46,896	332,537	2,654	591,680	191,884	7,505,425

Notification 22. “Repossessed assets”

Details of financial and non-financial assets obtained by the Bank during the quarter by taking possession of collateral held as security against loans and advances as at June 30 are shown below:

	30.06.14	31.12.13
Property	2,341,209	656,364
Vehicles	18,095	0
Other	373,530	355,660
Total	2,732,834	1,012,014

Notification 23. “Other assets”

	30.06.14	31.12.13
Prepayments and other debtors	313,731	426,438
Receivables on cash transfers	1,033,904	27,926
Total other financial assets	1,347,635	454,364
Less allowance for impairment in respect of financial assets	(55,122)	(74,501)
Total net other financial assets	1,292,513	379,863
Unamortized insurance premium	42,975	59,778
Settlements with employees	2,385	3,505
Prepayments to suppliers	193,899	273,136
Other prepaid taxes	18,660	5,547
Materials	186,543	222,323
Precious Metals	162,682	52,462
Other	1,865	1,865
Total non-financial assets	609,009	618,616
Total other assets	1,901,522	998,479

Impairment on other assets is as follows:

Other assets	01.01.14-30.06.14	01.01.13-30.06.13
Beginning balance	74,501	73,690
Net provisions to the reserve / (recovery)	39,588	(4,182)
(Writing off)/ return	(58,967)	(8,333)
Ending balance	55,122	61,175

Notes to, and forming part of, the financial interim statements for the period ended 30 June 2014

Notification 24. "Amounts due to RA CB"

	30.06.14	31.12.13
Amounts due to RA CB	4,926,760	4,043,242
Obligations of CBA	3,762,482	2,878,619
Subordinated debt	1,164,278	1,164,623

Notification 25. "Amounts due to financial institutions"

	30.06.14	31.12.13
Amounts due to financial institutions	11,586,881	11,951,850
Correspondent accounts with banks	509,668	146,835
Loans and deposits from other banks	0	
Current accounts of other financial organizations	1,375,474	1,861,601
Loans and deposits from other financial organizations	9,699,110	9,938,703
Other	2,629	4,711

Notification 26. "Amounts due to customers"

	30.06.14	31.12.13
Amounts due to customers	88,482,057	84,422,004
Government		
- Current/settlement accounts	2,001	0
loans received	346,668	639,484
Corporate customers:		
- Current/settlement accounts	16,135,024	12,982,670
- Term deposits	17,705,487	19,019,666
Subordinated debt	6,242,601	6,225,413
Retail customers:		
- Current/demand accounts	12,711,244	9,890,981
- Term deposits	35,339,032	35,663,790

Subordinated debt 30.06.14	Currency	in USD	in th. drams	Rate
		14,400,000	6,242,601	
09/01/12-09/01/17	USD	1,000,000	426,895	2%
09/01/12-09/01/17	USD	3,000,000	1,442,639	8%
31/08/12-31/08/17	USD	2,000,000	908,849	7%
04/03/13-05/03/18	USD	1,200,000	529,198	7%
27/06/13-27/06/18	USD	7,200,000	2,935,020	7%

Notification 27 . "Other liabilities"

Notes to, and forming part of, the financial interim statements for the period ended 30 June 2014

Accounts payable	30.06.14	31.12.13
Due to personnel	403,183	127,974
Total other financial liabilities	604,715	305,015
Other provisions	14,199	18,392
Tax payable, other than income tax	75,246	112,646
Reveunes of future periods	3,277	4,118
Grants related to assets	34,488	35,700
Due to on payment checks	6,903	8,137
Other	3,899	2,751
Total Other Non financial liabilities	138,012	181,744
Total other liabilities	742,727	486,759

Grants related to assets

In thousand Armenian drams	As of June 30, 2014	As of June 30, 2013
At January 1	35,700	38,122
Recognition of income (Note 9)	(1,212)	(1,212)
At the end of reporting period	34,488	36,910

The movement in other provisions was as follows:

Other provisions	01.01.14-30.06.14	01.01.13-30.06.13
Beginning balance	18,392	9,713
Net provisions to the reserve / (recovery) (Writing off)/ return	(4,193)	1,893
Ending balance	14,199	11,606

Provisions have been made in respect of costs arising from guarantees.

Notification 29. "Total equity"

As at 30 June 2014 the Bank's registered and paid-in share capital was AMD 4,860,033 thousand (2013: AMD 4,860,033 thousand).

In accordance with the Bank's statutes, 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 at 30 June 2014 and 31 December 2013 may be specified as follows:

Notes to, and forming part of, the financial interim statements for the period ended 30 June 2014

In thousand Armenian drams	30.06.2014		31.12.2013	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Advanced Global Investments LLC	4,617,000	95	4,617,000	95
Advanced Global Investments LLC (preference shares)	33	-	33	-
Saint Apostolic Church of Armenia	243,000	5	243,000	5
	4,860,033	100	4,860,033	100

As at 30 June 2014, 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.

Notification 30. « Liabilities »

The Bank constantly has to give loans such as approved loans, credit cards and overdrafts.

The Bank provides financial guarantees and letters of credit to guarantee liabilities of its customers to third persons. Usually these agreements are provided for fixed periods – up to one year.

In the table below are presented the unutilized parts of liabilities per types:

	30.06.2014	31.12.2013
Contract amount		
Guarantees and letters of credit	1,419,903	1,839,222
Loan line liabilities	205,274	202,390
Credit card liabilities	83,556	100,055
Unutilized parts of overdrafts	4,538,142	5,107,364
Letters of credit	1,098,968	139,868

	30.06.2014	31.12.2013
Total liabilities with credit risk	7,345,843	7,388,899
Allowance for impairment of credit related commitments	(14,199)	(18,392)
Total liabilities with credit risk	7,331,644	7,370,507

The above-stated total loan liabilities do not suppose any monetary claims in the future as these liabilities can be declared invalid or stopped before financing.

Conditional cases

Legal liabilities

The Bank management is not aware of any actual, incomplete or threatening cases instituted against the Bank.

Tax liabilities

The tax system of Armenia is comparatively new and is characterized with frequent amendments to laws, official interpretations and court decrees, which often are not quite clear, understanding, are contradicting and require explanations from tax bodies. The taxes are subject to check and examination by tax bodies, which are eligible to implement fines and penalties. In case of violation of tax legislation, the tax bodies are eligible to establish additional liabilities (tax, fines or penalties) only in three years after commitment date of violation.

These fact may provoke essential tax risk in Armenia as compared to other countries. The Bank management states that tax liabilities of the Bank are evaluated based on explanations, official declarations and court decrees provided by tax legislation of Armenia. Though, relevant authorized bodies may have other explanations, consequences can be essential for financial reports in any way.

Notification 31. « 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 quarter end, and related expense and income for the quarter are as follows:

In thousand Armenian drams	As of June 30, 2014		As of December 31, 2013	
	Shareholders	Key management personnel	Shareholders	Key management personnel
Loans and advances to customers				
Loans outstanding at January 1, gross	3,913,756	216,956	540,684	191,845
Loans issued during the period	771,819	138,690	7,910,722	374,764
Loan repayments during the period	(782,068)	(145,243)	(4,537,650)	(349,653)

Notes to, and forming part of, the financial interim statements for the period ended 30 June 2014

In thousand Armenian drams

	As of June 30, 2014		As of December 31, 2013	
	Shareholders	Key management personnel	Shareholders	Key management personnel
Loans outstanding at the end of period, gross	3,903,507	210,403	3,913,756	216,956
Less: allowance for loan impairment	(39,035)	(2,104)	(40,801)	(2,189)
Loans outstanding at at the end of period	3,864,022	208,299	3,872,955	214,767
Impairment charge for credit losses	1,766	85	(35,394)	(271)
Interest income on loans	177,066	8,222	193,987	19,254
Amounts due to customers				
Deposits at January 1	21,477,235	108,463	34,015,654	118,372
Deposits received during the period	352,207,261	254,159	1,042,815,012	539,165
Deposits repaid during the period	(351,017,988)	(214,787)	(1,055,353,431)	(549,074)
Deposits at the end of period	22,666,508	147,835	21,477,235	108,463
Interest expense on deposits	(577,534)	(2,843)	(1,087,247)	(6,689)
Accounts receivable				
At January 1	40	0	3,437	-
Increase	41	597	2,880	3,403
Decrease	(81)	(597)	(6,277)	(3,403)
At at the end of period	0	0	40	0
Items of comprehensive statement of Income				
Commission income	8,988	161	19,809	261
Other income	21,881	98	121,182	676
Advisory expenses		(14,184)	(3,651)	(33,552)
Lease payments	(25,278)		(72,407)	-
Other operating expenses	(2,291)	(3)	(5,841)	(5,127)

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	30.06.2014	31.12.2013
Salaries and other short-term benefits	141,571	293,813
Total key management compensation	141,571	293,813

Notification 32. « Fair value of financial instruments »

Financial instruments not measured at fair value

In thousand Armenian drams

	As of June 30, 2014		As of December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS				
Cash and balances with CBA	17,180,152	17,180,152	21,103,526	21,103,526
Amounts due from financial institutions	11,524,405	11,524,405	2,883,839	2,883,839
Loans and advances to customers	78,245,281	78,245,281	79,957,304	79,957,304

Notes to, and forming part of, the financial interim statements for the period ended 30 June 2014

In thousand Armenian drams	As of June 30, 2014		As of December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
Other financial assets	1,292,513	1,292,513	379,863	379,863
FINANCIAL LIABILITIES				
Amounts due to CB of RA	4,926,760	4,926,760	4,043,242	4,043,242
Amounts due to financial institutions	11,586,881	11,586,881	11,951,850	11,951,850
Amounts due to customers	88,482,057	88,482,057	84,422,004	84,422,004
Other financial liabilities	604,715	604,715	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. Fair value approximates carrying amounts as current interest rates for new instruments reflect interest rate for instruments originated previously.

Other borrowings

The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity. Fair value approximates carrying amounts as current interest rates for new instruments reflect interest rate for instruments originated previously.

32.1 Fair value Hierarchy

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).

In thousand Armenian drams	As of June 30, 2014			As of December 31, 2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
FINANCIAL ASSETS						
Trading securities	-	206,334	-	268,904	-	-
Investments available for sale	-	7,114,670	-	7,097,050	-	-
Unquoted equity investments of OECD countries	-	353,477	-	371,136	-	-
Derivative financial assets	-	0	-	0	-	-
Total	-	7,674,481	-	7,737,090	-	-

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.

Notification 33. « Minimum detections relating to financial risks »

Risk management is an essential factor for banking sector and an important element for the Bank operations. Main risks include interest rates and foreign currency market risks, as well as loan or liquidity 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 Company.

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 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.

33.1 Credit risk

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

Geographical concentrations

Notes to, and forming part of, the financial interim statements for the period ended 30 June 2014

A sample analysis of geographical concentration of the Bank's financial assets is illustrated below:

Reporting period

Item	RA	OECD countries	Non- OECD countries	Total
Assets				
Cash and balances with the CBA	15,390,904	1,270,374	518,874	17,180,152
Trading securities	206,334			206,334
Amounts due from other financial institutions	9,889,491	366,566	1,268,348	11,524,405
Derivative financial assets	0			0
Loans and advances to customers	74,907,311	31,295	3,306,675	78,245,281
Investments available for sale	7,794,482			7,794,482
Other financial assets	158,800	1,072,234	61,479	1,292,513
Total assets as of 30 June 2014	108,347,322	2,740,469	5,155,376	116,243,167
Total assets as of 31 December 2013	101,228,665	6,239,041	4,720,139	112,187,845

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 June 30 2014 and December 31 2013.

In thousand Armenian drams	Financial institutions	Manufacturing	Agriculture	Trading	Construction	State sector	Consumer sector (mortgage)	Services	Other	Total
Cash and balances with CBA	17,180,152									17,180,152
Trading securities						206,334				206,334
Amounts due from other financial institutions	11,524,405									11,524,405
Derivative financial assets	0									0
Loans and advances to customers		8,234,690	1,943,564	7,832,888	6,316,960		44,574,992	5,673,346	3,668,841	78,245,281
Investments available for sale	732,356	-	-	102,485	-	6,911,784	-		47,857	7,794,482
Other financial assets	1,023,565								268,948	1,292,513
As at 30 June 2014	30,460,478	8,234,690	1,943,564	7,935,373	6,316,960	7,118,118	44,574,992	5,673,346	3,985,646	116,243,167
As at 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	4,833,425	112,187,845

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 June 30, 2014	As of December 31, 2013
Loans collateralized by real estate	45,867,862	29,077,097
Loans collateralized by gold	11,054,193	9,219,011
Loans collateralized by guarantees of enterprises	3,865,722	24,859,710
Loans collateralized by vehicles	3,766,818	3,545,354
Loans collateralized by cash	5,373,792	6,055,746
Loans collateralized by inventories	241,961	1,478,819
Loans collateralized by equipment	1,567,124	300,078
Other collateral	5,616,066	4,817,760
Unsecured loans	3,833,999	3,861,248
Total loans and advances to customers (gross)	81,187,537	83,214,823

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.

33.1.1 Depreciation and reserve policy

Main characteristics for assessment of loan depreciation are: delay of payment of principal loan and interests over 90 days, difficulties connected with loan flows of borrowers, loan rating reductions, and

violation of provisional clauses of agreements. The Bank assesses depreciation either individually or by groups.

Individual assessment of depreciation

The Bank defines the size of relevant reserve of borrowing or loan on individual basis. While defining reserve amounts the following factors are taken into account – reliability of customer business plan, capacity of overcoming financial difficulties, planned earnings and payment of expected dividends in case of insolvency, possibility of other financial aid, and liquidity value of collateral, terms of expected cash flow. Losses from depreciation are assessed as of the day of the reporting period, if the unexpected circumstances don't take special attention.

Group assessment of depreciation

Group assessment is made for non-significant loans (credit cards, mortgages and non-secured consumer loans, inclusively), as well as for individually important loans and borrowings, which don't have evident characteristics of depreciation. Losses from depreciation are assessed each reporting period separately for each classified group.

Group assessment takes into account depreciation amount, which may occur in the portfolio, even if there is no objective evidence in the individual assessment. Losses from depreciation are assessed on account of the following data – history of losses in the portfolio, current economic situation, approximate date of the loss and individual disclosure, or payments expected in case of depreciation.

Valuation of depreciation assessment and reserve of financial guarantees and letters of credit is implemented in the same day as for loans.

The below table presents quality of loan portfolio assessed per depreciation coefficients based on the history of losses.

AMD thousand

	30.06.2014	31.12.2013
Loans and borrowings to customers	%	%
Industry	0.4	0.2
Agriculture	1.4	0.7
Building	0.0	1.3
Transport	0.0	1.1
Trade	0.6	0.4
Catering and service	1.4	2.3
Consumer	0.5	0.4
Mortgage	0.9	1.1
Other sectors	0.5	0.2

Notes to, and forming part of, the financial interim statements for the period ended 30 June 2014

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 30.06.2014

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacture	3598	0	0	9702	13,300
Agriculture	11743	2471	528	10033	24,775
Construction	497155	491981	177643	0	1,166,779
Trading	40093	931	25320	102007	168,350
Transportation & communication	10000	0	407	136015	146,422
Consumer	298642	80589	72956	197274	649,461
Mortgage	249354	39573	67330	876702	1,232,960
Services	6181	0	0	62241	68,422
Other sectors	17086	0	0	31139	48,225
Total	1,133,852	615,544	344,185	1,425,113	3,518,695

In thousand Armenian drams 31.12.2013

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacture	0	0	6164	14139	20,303
Agriculture	3208	0	6887	21215	31,310
Construction	519	0	0	0	519
Trading	13019	0	0	41494	54,513
Transportation & communication	10419	0	0	0	10,419
Consumer	190443	33604	41792	62640	328,479
Mortgage	49214	10689	0	54764	114,667
Services	0	0	0	0	0
Other sectors	0	0	0	33660	33,660
Total	266,822	44,293	54,843	227,912	593,870

33.2 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The 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.

Foreign 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 below table shows those foreign currencies, which can have impact on non-commercial monetary assets, liabilities and cash flow of the Bank as of June 30 2014. The analysis calculates the impact of possible fluctuations of foreign currency against AMD on condition of keeping stable other alterations, on the report on financial results (connected with change of real value non-commercial assets and liabilities against foreign currency) and on capital (connected with change of real value of capital tools). The negative value in the table reflects the potential net reduction in the consolidated financial balance-sheet or in the capital, while the positive value shown potential net growth:

AMD thousand		30.06.2014			31.12.2013	
Currency	Change in FX rate, interest	Influence on profit before taxation	Influence on capital	Change in FX rate, interest	Influence on profit before taxation	Influence on capital
USD	+5	(765)	(612)	+5	3,763	3,010
USD	-5	765	612	-5	(3,763)	(3,010)
EUR	+8	(130)	(104)	+8	(690)	(552)
EUR	-8	130	104	-8	690	552

The Bank has got assets and liabilities in a range of foreign currencies. The foreign currency risk appears, when actual or forecasted assets in foreign currency exceed or are less than liabilities in the same foreign currency.

The structure of the Bank assets and liabilities per currency as at June 30, 2014 is as follows:

	AMD	I group CCY*	II group CCY**	Total
Assets				
Cash and balances with the CBA	10,924,633	4,853,454	1,402,065	17,180,152
Trading securities	206,334	0	0	206,334
Amounts due from other financial institutions	6,189,544	4,908,908	425,953	11,524,405
Derivative financial instruments	0	0	0	0
Loans and advances to customers	22,770,574	55,473,124	1,583	78,245,281

Notes to, and forming part of, the financial interim statements for the period ended 30 June 2014

Investments available for sale	7,691,997	102,485	0	7,794,482
Other financial instruments	135,543	1,156,956	14	1,292,513
Total assets	47,918,625	66,494,927	1,829,615	116,243,167
Liabilities				
Amounts due to RA CB	4,926,760	0	0	4,926,760
Amounts due to financial institutions	7,790,695	3,417,488	378,698	11,586,881
Amounts due to customers	25,005,949	63,273,912	202,196	88,482,057
Other financial liabilities	586,299	18,416	0	604,715
Total liabilities	38,309,703	66,709,816	580,894	105,600,413
Net position as at June 30, 2014	9,608,922	-214,889	1,248,721	10,642,754
Net position as at December 31, 2013	10,080,733	417,366	967,635	11,465,734
Commitments and contingent liabilities as at 30 June 2014	2,995,706	4,335,938	0	7,331,644
Commitments and contingent liabilities as at 31 December 2013	3,570,369	3,800,138	0	7,370,507

* I group CCYs include the following ones: USD, EUR, GBP, CHF, SEK, CAD, JPY, AUD.

** II group CCYs includes the following ones: RUB, UAH, and BYB.

Interest rate risk

33.2.1 Interest rate risk – Commercial portfolio

In order to calculate the risk of financial assets registered by reassessed real value (with loss/profit/ the Bank implements methods and approaches of Basel 2 interest rate risk. According to the interest rate thereof the risk is established as consolidated sum of special interest rate and general risks.

With purpose of calculating interest rate risk the positions of debt securities are calculated by below principles against groups of debt securities. Debt securities used in the calculation of the same positions must:

- Must be issued by the same entity ; and
- Expressed with the same currency ; and
- Have same profitability, or difference between profitability earnings should not exceed 0.2 interest point.

The table below presents the interest rate risk of the Bank commercial portfolio.

AMD thousand	Special risk	General risk	Total commercial securities risk
As at June 30, 2014	7,833	23,415	31,248
As at December 31, 2013	18,991	28,644	47,635

33.2.2 Interest rate risk – Non-commercial

Notes to, and forming part of, the financial interim statements for the period ended 30 June 2014

Interest rate risk is the risk of changes in the Bank income and financial tools portfolio as a result of changes in interest rates.

The following table shows sensibility of the Report on the Bank consolidated financial results on condition of leaving the alternating quantity unchanged.

Sensibility of the report on financial results in interest rates is the influence of expected changes on the net interest income of the quarter on the part of non-commercial financial assets and liabilities with fluctuating interest rates in the balance as of 30.06.2014. Accounting of the capital sensibility is made by revaluation of the assets available for sale and with fixed interest rates as of 30.06.2014, assuming as basis expected changes in interest rates.

Sensibility of the capital is analyzed per liquidity term of the assets. Total sensibility of the capital is based on the supposition that there are parallel alternations in the arch of profitability.

AMD thousand 30.06.2014

Currency	Changes in principal interest rates	Net interest income sensitivity	Up to 6 month	Capital sensitivity			Total
				From 6 months to 1 year	From 1 to 5 years	More than 5 years	
AMD	+1%	2,063	2,666	4,562	35,414	27,480	72,185
USD	+1%	-	1,025	-	-	-	1,025
AMD	-1%	(2,063)	(2,666)	(4,562)	(35,414)	(27,480)	(72,185)
USD	-1%	-	(1,025)	-	-	-	(1,025)

AMD thousand 31.12.2013

Currency	Changes in principal interest rates	Net interest income sensitivity	Up to 6 month	Capital sensitivity			Total
				From 6 months to 1 year	From 1 to 5 years	More than 5 years	
AMD	+1%	2,148	1,473	2,540	38,254	27,684	69,951
USD	+1%	541	0	1,019	0	0	1,019
AMD	-1%	(2,148)	(1,473)	(2,540)	(38,254)	(27,684)	-69,951
USD	-1%	(541)	0	(1,019)	0	0	-1,019

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.

	Demand and less 1 month	From 1 to 3 month	From 3 to 12 month	Subtotal less than 12 month	From 1 to 5 years	More than 5 years	Subtotal over 12 month	Total
Assets								
Cash and balances with the CBA	17,180,152	-	-	17,180,152	-	-	0	17,180,152
Trading securities	-	-	-	0	21,015	185,319	206,334	206,334
Amounts due from other financial institutions	8,057,308	40,841	2,476,088	10,574,237	264,352	685,816	950,168	11,524,405
Derivative financial instruments	-	-	-	0	-	-	0	0
Loans and advances to customers	8,071,354	3,585,786	23,579,402	35,236,542	20,181,325	22,827,414	43,008,739	78,245,281
Investments available for sale	246,811	14,840	563,831	825,482	3,759,700	3,209,300	6,969,000	7,794,482
Other financial assets	1,292,513	-	-	1,292,513	-	-	0	1,292,513
				0			0	0
				0			0	0
Liabilities								
Amounts due to RA CB	100,481	-	986,900	1,087,381	3,839,379	-	3,839,379	4,926,760
Amounts due to financial institutions	3,965,803	72,825	3,866,910	7,905,538	2,641,044	1,040,299	3,681,343	11,586,881
Amounts due to customers	34,356,633	9,743,654	34,251,196	78,351,483	10,026,155	104,419	10,130,574	88,482,057
Other financial liabilities	604,715	-	-	604,715	-	-	0	604,715
Net position	-4,179,494	-6,175,012	-12,485,685	-22,840,191	7,719,814	25,763,131	33,482,945	
Cumulative Liquidity Gap		-10,354,506	-22,840,191		-15,120,377	10,642,754		

	Demand and less 1 month	From 1 to 3 month	From 3 to 12 month	Subtotal less than 12 month	From 1 to 5 years	More than 5 years	Subtotal over 12 month	Total
Assets								
Cash and balances with the CBA	21,103,526			21,103,526			0	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
Derivative financial instruments				0			0	0
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				0			0	0
	379,863			379,863			0	379,863
				0			0	0
Liabilities								
Amounts due to RA CB				0			0	0
Amounts due to financial institutions	13,610	612,515		626,125	3,417,117		3,417,117	4,043,242
Derivative financial instruments	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				0			0	0
Other financial liabilities	28,639,560	8,654,881	35,599,292	72,893,733	11,444,030	84,241	11,528,271	84,422,004
	305,015			305,015			0	305,015
				0			0	0
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
Cumulative Liquidity Gap	-3,999,263	-7,858,884	-27,024,358		-17,028,521	11,465,734		

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.

Notification 34. « Capital and 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 maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

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

Regulatory capital consists of Tier 1 capital, which comprises share capital, 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.

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.