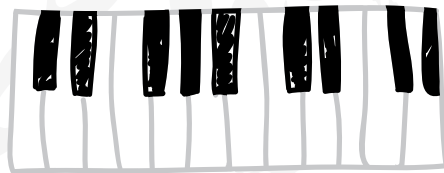


2013

ANNUAL REPORT

Տարեկան հաշվետվություն



Harmony of numbers

ConverseBank

ANNUAL REPORT 2013

Customers are our focus, and our intention is to offer up-to-date and technologically-advanced services...



Management Message

We offer more than a standard package of banking products and services. Once we start to work with our customers we become their companion in the financial world. This is a sustainable relationship because we understand the needs, problems and expectations of our customers. We have come a long way together, so not only can we perform financial transactions together, but also implement joint charity projects. In 2013, we focused our corporate social responsibility policy on the education and the bright future of our children. Together with our customers, we are willing to build a new and brighter future. Based on various projects in 2013, the bank-customer relationship is stronger than ever.

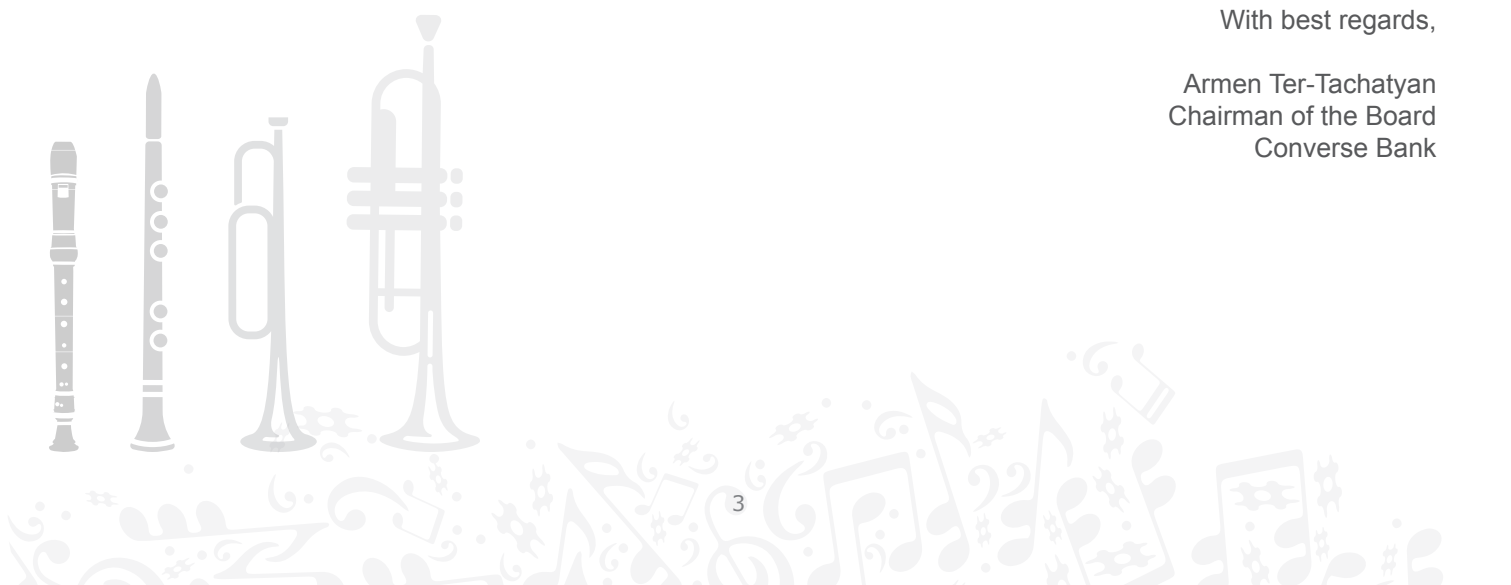
Our steady financial growth is the best evidence of our customers' trust toward Converse Bank. In 2013, our profit grew by 45% to AMD 471M. This growth will continue in the upcoming year, our expectations and projects for 2014 are ambitious and progressive.

Our activities and stability are highly appreciated by our partners as well, evidenced by their continuing cooperation with the Bank. This year we received the first tranche of an AMD credit equivalent of USD 2.5M from the European Bank for Reconstruction and Development (EBRD). This significant step indicates a positive reception of our recent results, and is yet another incentive for future productive performance.

The banking system is a continuously developing sector, and leading commercial banks throughout the world have implemented innovative information technology solutions to keep up with this change. With mass smart-phone adoption and global internet access, it is no longer possible to create practical and relevant products and offer quality services without relying on the latest technologies. Converse Bank has always stood apart based on innovative approaches, and we will therefore continue down the path of global digitalization next year. This path is particularly important for the Bank since retail banking is our main focus, and customer satisfaction is the pillar of our work. Customer confidence, our professional team and strong relations are key elements of our success.

With best regards,

Armen Ter-Tachatyan
Chairman of the Board
Converse Bank



Management Message

Converse Bank has always adhered to the principle of offering the best banking products and services to our customers. Year after year not only have we improved the quality of our services but also created a range of competent and relevant products.

Nonetheless, we place the highest priority and most appreciate the trust of our customers toward the Bank. The year 2013 demonstrated that we took steady steps toward our goals. The total amount of deposits increased by 39%, and net profit grew by 45%. We were inspired by this demonstration of the continued trust of our customers.

This year we further expanded our branch network to improve convenience for our customers. New branches were opened in Dilijan, Ashtarak and in the Davtashen district of Yerevan, and we renovated our Charentsavan and Sevan branches.

In 2013, we introduced several new products and services. The Bank launched an exclusive Healthy Lifestyle credit card, issued smart cards, and initiated the online sale of payment cards through the Bank's website and Facebook page, as well as a new and improved e-banking service. The banking services are now closer and more accessible to each of our customers, and money management is more secure and convenient. These novel products convinced us that any good project would no longer be feasible without the application of new technologies.

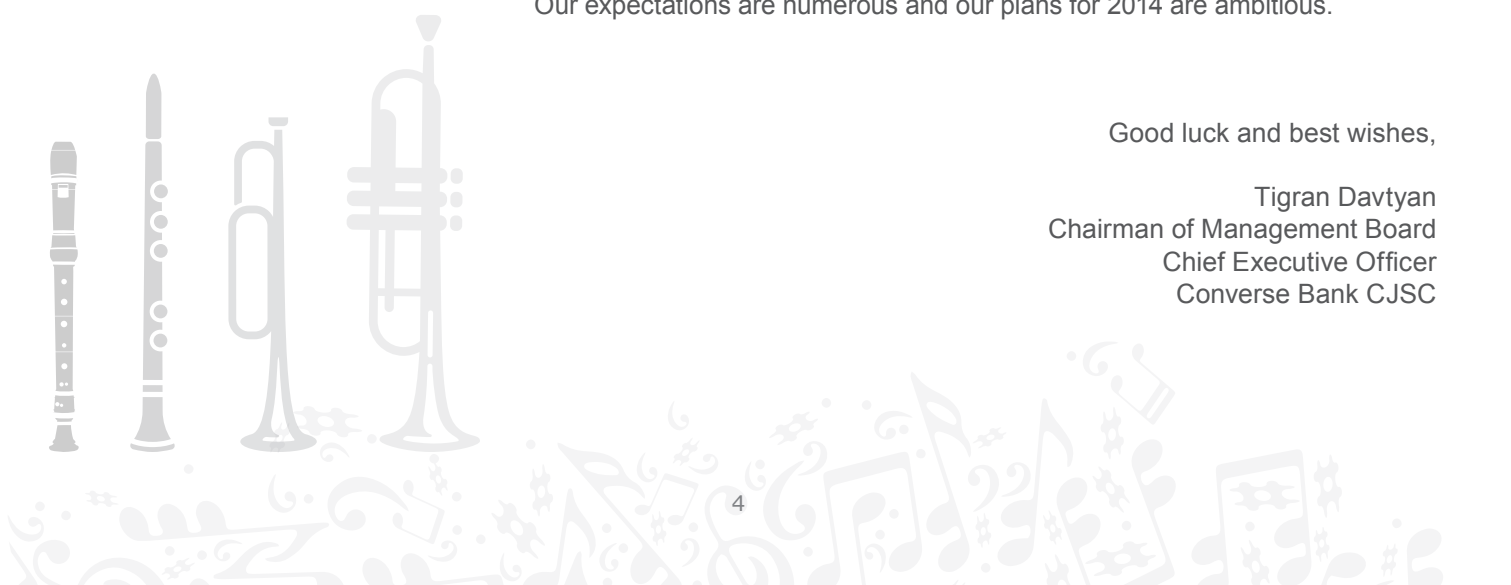
As a result, we made another important decision in 2013: take the road of high tech development and introduction of novel products. This year e-commerce is the core focus for Converse Bank, and we are positive that its expansion will help drive the overall economic development in Armenia.

This year we remained faithful to our policy of support to children. In 2013, Converse Bank implemented a broad charity program together with the Aram Khachaturian Trio and Classical Music Development Fund. Due to our support, master classes were held and classes for less-popular musical instruments were opened not only in Yerevan but also in the regions. Furthermore, we supported the ReAnimania festival, helped the children of frontier villages within the scope of Become a Santa Claus project, and organized an open chess tournament at TUMO Center for Creative Technologies... We do believe that corporate social responsibility projects help us share the same values with our customers and jointly build the best future.

Our expectations are numerous and our plans for 2014 are ambitious.

Good luck and best wishes,

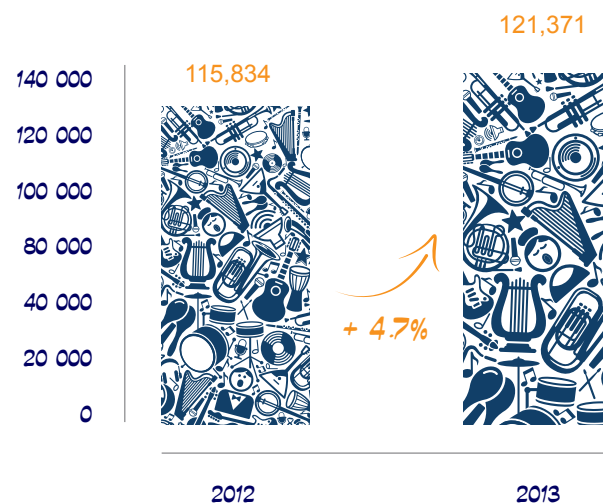
Tigran Davtyan
Chairman of Management Board
Chief Executive Officer
Converse Bank CJSC



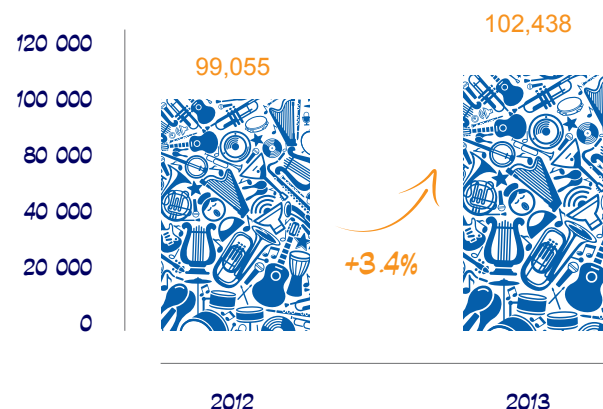
FINANCIAL RATIOS

Converse Bank is a dynamically developing bank and one of the leading banks in Armenia. During its 20-year history, while passing various stages of development, the Bank shaped its vision and approaches. We have made this journey together with our customers. Our audited financials show the Bank's after-tax profit reached AMD 471M as of December 31, 2013, recording 45% growth vs. the previous year. In 2013, the Bank's gross financial result amounted to AMD 2,441M.

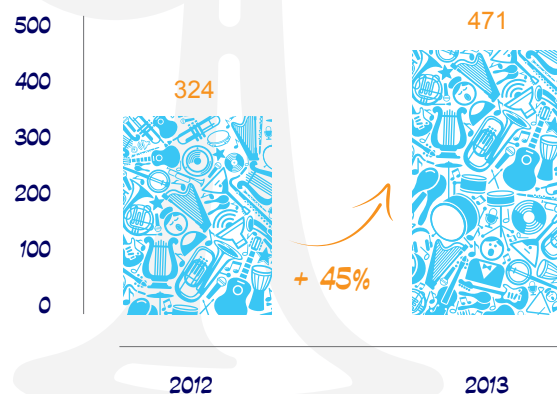
Increase of assets, AMD mln



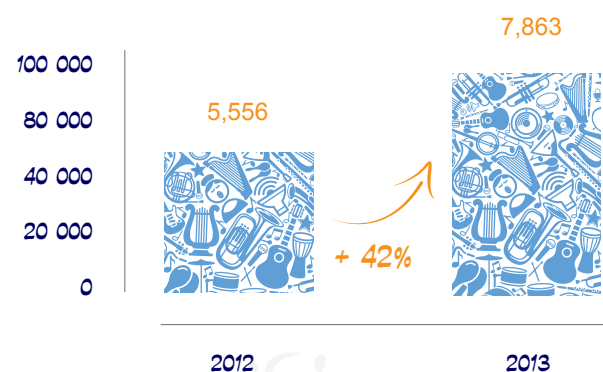
Increase of liabilities, AMD mln



Increase of revenue, AMD mln



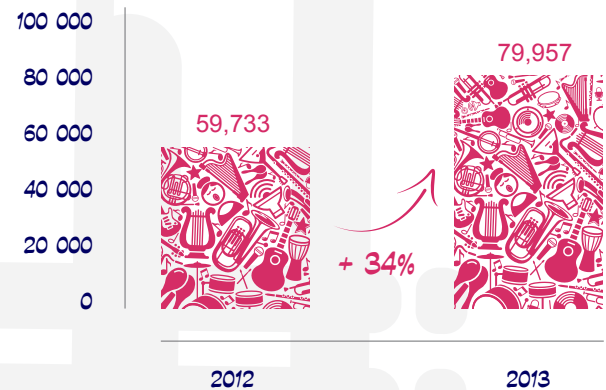
Increase of securities portfolio, AMD mln



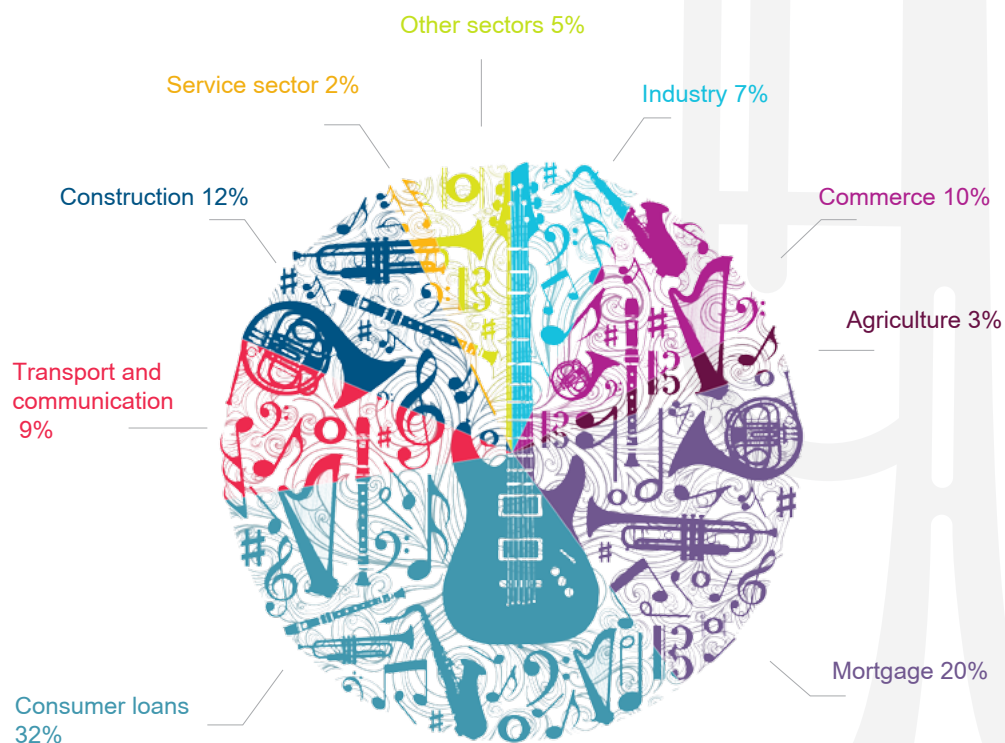
LOAN PORTFOLIO

We achieved significant growth of our loan portfolio in the reporting period. The Bank's total net loan portfolio increased by 34% and reached AMD 79.9B. The main sectors for investment in 2013 were mortgage (20%), construction (12%) and trade (10%).

Increase of loan portfolio, AMD mln



Վարկային ներդրումներն ըստ տնտեսության ճյուղերի, 31.12.2013թ.

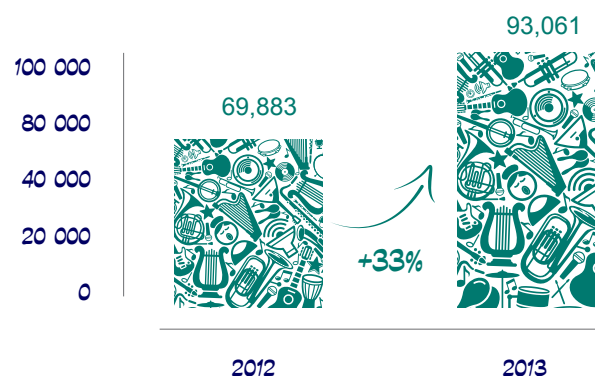


RETAIL BANKING SERVICES

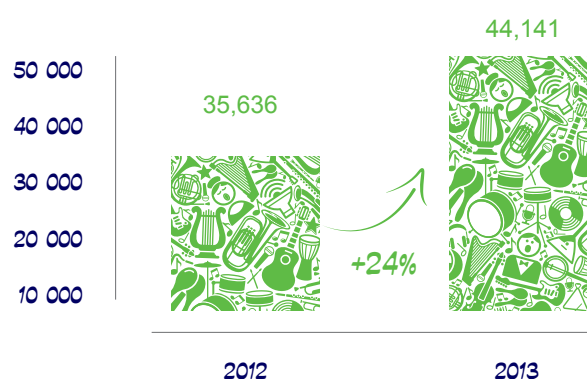
Since 2010, retail banking services, and specifically consumers, have been the main focus of our retail banking business. The enhancement of retail banking services resulted in the substantial growth (33%) in the number of individual customers. To offer the best service to our customers, we consistently improved the branch network. In 2013, 3 new branches were opened and 2 branches were renovated. We laid the foundation for cooperation with Haypost, the official national postal operator of the Republic of Armenia, within the scopes of the joint Postbank project.

In 2013, the aggregate retail loan portfolio grew by 24% and amounted to AMD 44.1B. Specifically, in the reporting period mortgage loans (37%) and credit cards (32%) had a major share in the retail loan portfolio.

Customers number dynamics



Increase in retail loan portfolio, AMD mln

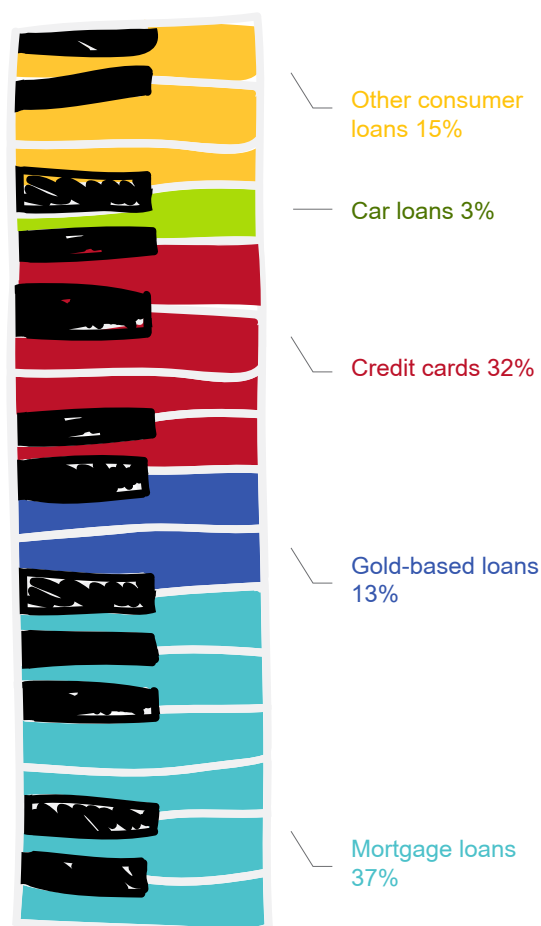


A number of new products were launched, such as a new updated Internet Banking service, the exclusive Healthy Lifestyle card loan co-branded with top Armenian medical centers, All-in-One loan package, CMTPL crediting, and the Loyal Customer loan. The Bank actively cooperated with government programs: e.g. in the period of January-December 2013, the number of new accounts opened under social packages reached 9,050; in addition, 36 local treasuries of the RA Ministry of Finance were serviced through our branches.

Our customers' trust grows year by year, the brightest demonstration of which was the increasing number of deposits in 2013. In the reporting period, 8,220 term deposits totaling AMD 45.6B were attracted from individuals.

One of the main directions of the Bank was the deployment of modern and quality remittance systems. We launched clearing services with the Tandem payment system. However, our biggest achievement was the Converse Transfer fast transfer system. It was licensed by the Central Bank of Armenia, the software was installed in all branches, and the first transfers were made during this year.

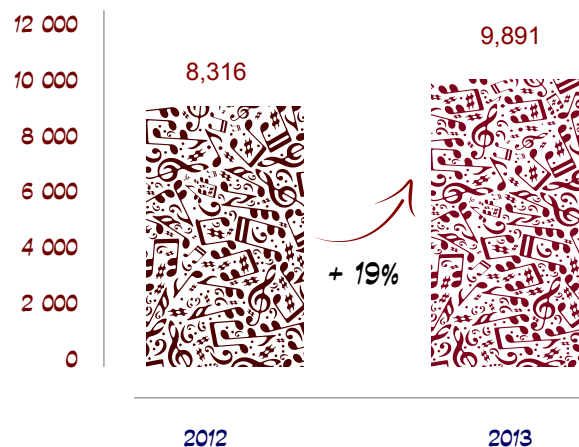
Retail Loan Portfolio Structure



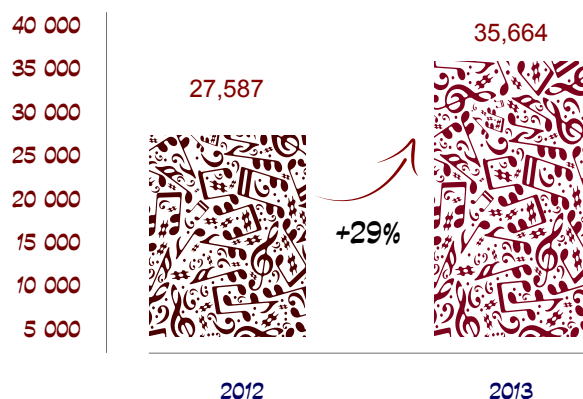
Payment cards are another essential part of our retail business. Here again our main focus was the customer. In 2013, we launched a convenient online application process for payment cards through our website (www.conversebank.am) and our Facebook page.

We also started the issuance of smart cards based on international security standards. Our partnership with Visa and MasterCard payment systems has intensified, and in 2013, we implemented a series of loyalty projects. All of these efforts caused 33.2% growth in the number of cards in 2013 vs. 2012.

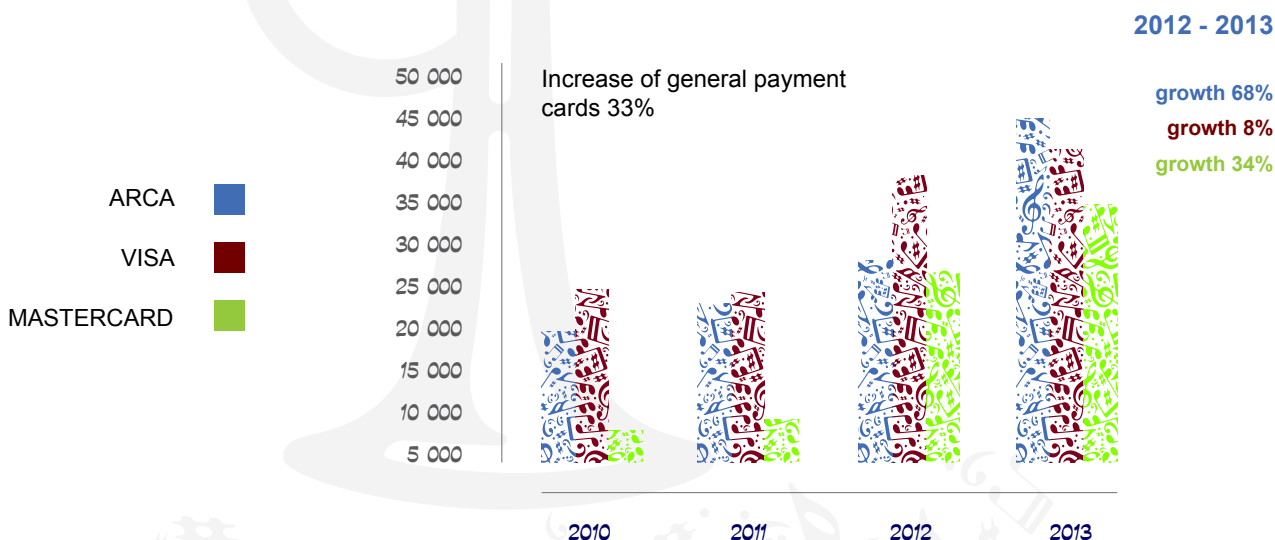
Individuals' demand deposits dynamics, AMD mln



Individuals' time deposits dynamics, AMD mln



Plastic cards dynamics

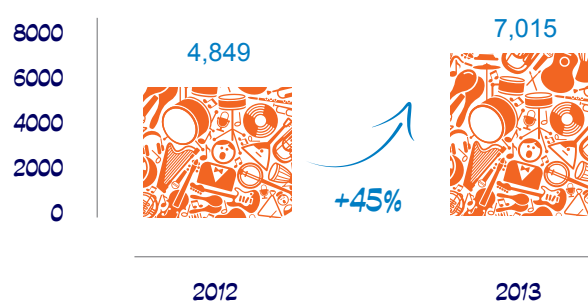


CORPORATE BANKING SERVICES

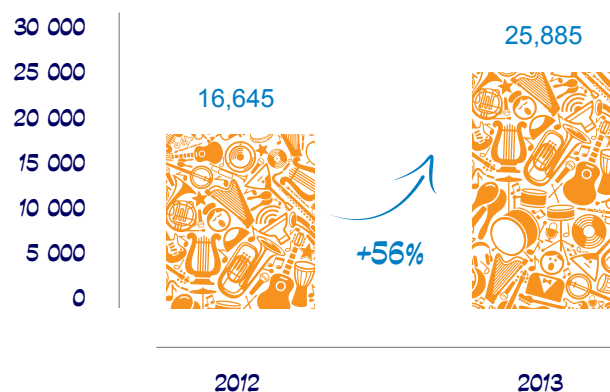
Corporate banking services constitute another essential strategic direction of Converse Bank. Our customers value the professional approach and flexibility of the Bank. The total number of corporate customers grew by 45% in the reporting period.

The corporate loan portfolio grew as well, by 33% and amounted to AMD 39.0B. Specifically, the corporate loans (76%) and SME loans (20%) took the major share in the business loan portfolio.

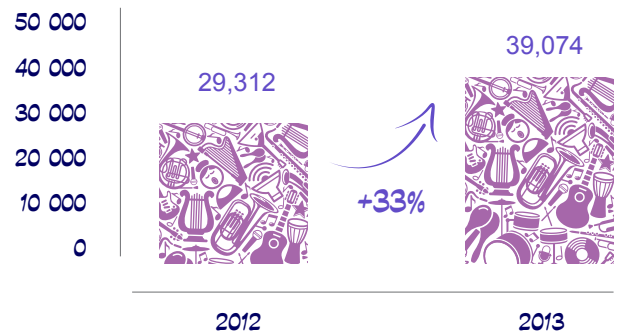
Corporate customers dynamics



Increase of time deposits of legal entities, AMD mln



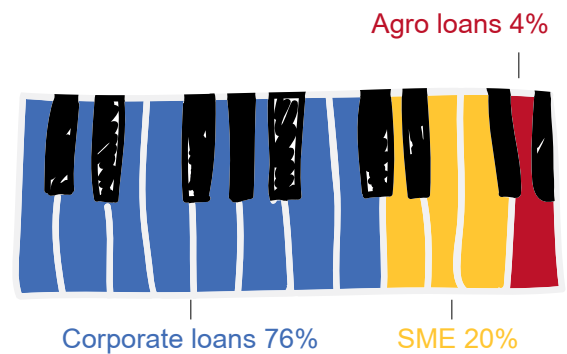
Increase of corporate loan portfolio, AMD mln



The total amount of corporate time deposits grew by 56% and reached AMD 25.8B.

Our partners greatly appreciate the high professionalism of the Bank. In 2013, we received the first tranche of an AMD credit (equivalent of USD 2.5M) from EBRD. It was completely used for SME lending. This is an essential achievement for us, since under the Bank's strategy SME lending will be one of our priorities in the coming years.

Corporate Loan Portfolio Structure, 2013



CORPORATE SOCIAL RESPONSIBILITY

In 2013, our corporate social responsibility projects were focused on support programs for children. Our main theme and objective was “The best education and future for our children”. We strongly believe that programs supporting children build the foundation of a prosperous future. Today’s child is tomorrow’s teacher, scientist, businessman and musician.

- With the joint efforts of Aram Khachaturian Trio and Classical Music Development Fund, musical master classes were held in Yerevan and the regions.
- With our support new classes were opened at musical schools.
- We became the main sponsor of ReAnimania animation festival.
- We implemented the Become a Santa Claus project and made New Year presents for the children of frontier villages.
- We organized an open chess tournament at TUMO Center for Creative Technologies.

Independent auditor's report

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

We have audited the accompanying financial statements of “Converse Bank” CJSC (the “Bank”), which comprise the statement of financial position as 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 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	Year ended December 31, 2013	Year ended December 31, 2012
Interest and similar income	10,896,817	8,409,933
Interest and similar expense	(5,757,518)	(4,228,162)
Net interest income	5,139,299	4,181,771
Fee and commission income	1,364,852	1,291,232
Fee and commission expense	(516,962)	(386,853)
Net fee and commission income	847,890	904,379
Net trading income	861,952	979,533
Gains less losses on investments available for sale	43,447	613
Other income	766,417	312,854
Impairment charge for credit losses	(300,139)	(297,229)
Foreign currency translation net loss of non-trading assets and liabilities	(252,289)	(199,780)
Staff costs	(2,958,244)	(2,659,365)
Depreciation of property plant and equipment	(924,603)	(793,484)
Amortization of intangible assets	(111,449)	(44,673)
Other expenses	(2,349,026)	(1,998,629)
Profit before income tax	763,255	385,990
Income tax expense	(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

TIGRAN DAVTYAN
Executive Director



GOHAR HARUTYUNYAN
Chief accountant

Statement of financial position

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
ASSETS		
Cash and cash equivalents	21,103,526	35,899,638
Trading securities	268,904	168,448
Amounts due from other financial institutions	2,883,839	5,966,433
Derivative financial assets	-	2,135
Loans and advances to customers	79,957,304	59,732,908
Investments available for sale	7,594,409	5,387,527
Property, plant and equipment	7,313,542	4,811,309
Intangible assets	191,883	178,364
Reposessed assets	1,012,014	2,758,321
Prepaid income taxes	46,763	56,750
Other assets	998,479	872,527
TOTAL ASSETS	121,370,663	115,834,360
LIABILITIES AND EQUITY		
Liabilities		
Amounts due to CB of RA	4,043,242	4,492,089
Amounts due to other financial institutions	11,951,850	10,070,868
Amounts due to customers	84,422,004	83,833,092
Deferred income tax liabilities	1,533,878	207,519
Other liabilities	486,759	451,232
TOTAL LIABILITIES	102,437,733	99,054,800
Equity		
Share capital	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

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 revaluation reserve on depreciation of PPE	-	-	-	-	(321,339)	321,339	-
Net unrealized gain from changes in fair value	-	-	-	282,527	-	-	282,527
Net gains realized to 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 revaluation reserve on depreciation of PPE	-	-	-	-	(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

TIGRAN DAVTYAN
Executive Director



GOHAR HARUTYUNYAN
Chief accountant

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)
<i>Increase/(decrease) in operating liabilities</i>		
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	21,103,526	35,899,638

TIGRAN DAVTYAN
Executive Director




GOHAR HARUTYUNYAN
Chief accountant

