

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
ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30.06.2015**

Notification 1. “Legal framework and corporate management”

Main Activities

“Converse Bank” CJSC (the “Bank”) is the parent company of the Group, which is comprised of the Bank and “Converse Collection” LLC (the “Group”).

“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 33 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
KOTAYQ Branch	Build 5, Yerevan-Abovyan roadway, village Verin Ptghni, RA

Subsidiaries of the Bank

“Converse Collection” CJSC is a closed joint-stock company, which was incorporated in the Republic of Armenia in 2000 and conducts its business under license number 52, granted by the RA Police.

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,

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

Jose Luis Persico,
Daniel Guillermo Simonutti
Jorge Alberto Del Aguila

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 Kassarjian

3. Shareholders:

ADVANCED GLOBAL INVESTMENTS LLC – 95%
The Armenian Saint Apostolic Church represented by Mother See of Holy Etchmiadzin
Catholosate – 5%.

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

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 Group'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.

Basis of consolidation

Subsidiaries, which are entities where the parent is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. All subsidiaries have a reporting date of 31 December.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Recognition of income and expenses

Income is recognized in case when it is likely that economic profits will flow to the Group and the received income can be measured reasonably. Expense is recognized when it is likely that economic profits will flow out of the Group 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 472.53AMD = 1 USD (as of June 30, 2014 the rate was 407.28 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 Group 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 Group 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 Group 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 Group 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.

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

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 Group intends to sell immediately or soon afterwards,
- which the Group, at the time of initial recognition, defines to be recorded at the actual cost and adjustable by the financial results,
- which the Group, at the time of initial recognition, defines as available for sale, or
- with regard to which the Group 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 Group 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 Group 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

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

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 Group 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 Group 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 Group, 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group does not possess sufficient data regarding similar borrowers. In such cases, the Group 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 Group writes off the loan balance, when the Group 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 Group 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 Group 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 Group 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 Group'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 »

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

	01.04.15- 30.06.15	01.01.15- 30.06.15	01.04.14- 30.06.14	01.01.14- 30.06.14
Interest and similar income	3,378,994	6,753,786	3,123,616	6,078,216
Loans and advances to customers	3,028,798	6,067,526	2,788,002	5,483,930
Available for sale	221,350	434,424	207,451	412,243
Amounts due from banks	119,852	216,952	93,896	121,831
Reverse repurchase agreements	7,513	31,939	32,988	53,025
Interest on impaired loans	0	0	0	0
Other interest incomes	1,481	2,945	1,279	7,187

Notification 6. "Interest and similar expense"

	01.04.15- 30.06.15	01.01.15- 30.06.15	01.04.14- 30.06.14	01.01.14- 30.06.14
Interest and similar expense	(1,758,303)	(3,525,489)	(1,553,049)	(3,077,258)
Amounts due to customers	(1,289,421)	(2,500,733)	(1,216,492)	(2,416,558)
Amounts due to credit institutions	(353,174)	(683,609)	(336,557)	(660,700)
Debt securities issued	-	-	-	-
Repurchase agreements	(115,708)	(341,147)	-	-
Other interest expense	-	-	-	-
Net interest income	1,620,691	3,228,297	1,570,567	3,000,958

Notification 7. "Net commission fees"

	01.04.15- 30.06.15	01.01.15- 30.06.15	01.04.14- 30.06.14	01.01.14- 30.06.14
Fee and commission income	466,622	854,898	383,305	723,802
Cash collection	30,081	57,270	33,893	58,253
Wire transfer fees	147,637	233,144	88,700	163,477
From Loans	25,636	47,925	27,433	51,518
Transaction with payment cards	204,563	407,362	186,184	355,148
Guarantees and letters of credit	9,760	18,322	6,594	14,154
Other fees and commissions	48,945	90,875	40,501	81,252
Fee and commission expense	(149,289)	(291,316)	(118,217)	(247,662)
Wire transfer fees	(21,772)	(40,880)	(19,110)	(34,657)
Cash operations	(16,104)	(26,858)	(11,244)	(39,002)
Plastic cards	(101,921)	(202,689)	(79,111)	(159,776)
Guarantees and letters of credit	(4,302)	(8,088)	(2,710)	(4,153)
Other fees paid	(5,190)	(12,801)	(6,042)	(10,074)
Net commission fees	317,333	563,582	265,088	476,140

Notification 8. "Net trading income"

	01.04.15- 30.06.15	01.01.15- 30.06.15	01.04.14- 30.06.14	01.01.14- 30.06.14
Net trading income	269,885	126,104	148,258	384,327
Gains less losses from trading in foreign currencies	266,596	528,830	206,709	402,823
Gains less losses from revaluation of foreign currencies	(4,202)	(510,942)	(67,279)	(18,475)
Gains less losses from foreign exchange translation of trading assets	(1,297)	(7,726)	(1,605)	(8,740)
Gains less losses from swap	7,423	61,937	0	0
Gains less losses from trading in trading assets	407	736	28	96
Gains less losses from trading in assets available for sale	320	44,729	9,945	11,633
Net gains from operations of precious metals	638	8,540	460	(3,010)

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

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

	01.04.15- 30.06.15	01.01.15- 30.06.15	01.04.14- 30.06.14	01.01.14- 30.06.14
Income from dividends	1,231	2,141	653	1,307
Other operational income	218,050	480,176	133,526	231,044
Income from sale of fixed assets	0	50	3,949	4,373
Fines and penalties received	153,804	343,434	88,083	132,834
Income from grant	606	1,212	606	1,212
Income from ceded loan	0	0	0	0
Other income	63,640	135,480	40,888	92,625

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

	01.04.15- 30.06.15	01.01.15- 30.06.15	01.04.14- 30.06.14	01.01.14- 30.06.14
Net provisions to reserves for possible losses of assets	(596,382)	(430,724)	232,692	2,417
Loans and advances to customers	(632,042)	(424,950)	242,862	37,812
Other assets	35,660	(5,774)	(16,298)	(39,588)
Other provisions	-	-	6,128	4,193

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

	01.04.15- 30.06.15	01.01.15- 30.06.15	01.04.14- 30.06.14	01.01.14- 30.06.14
Personnel expenses	(803,433)	(1,587,511)	(793,133)	(1,597,072)
Depreciation of PPE	(164,742)	(324,429)	(171,693)	(357,109)
Amortization of intangibles	(31,576)	(49,929)	(10,511)	(24,881)
Repair and maintenance of tangible and intangible assets	(18,890)	(40,997)	(24,825)	(50,985)
Advertising and representation	(52,403)	(94,514)	(60,610)	(121,265)
Business trip	(3,095)	(4,483)	(3,783)	(6,127)
Communication	(29,293)	(59,639)	(33,035)	(60,636)
Operating lease expenses	(114,955)	(245,262)	(103,035)	(204,297)
Taxes, other than income tax	(11,883)	(17,427)	(5,004)	(10,336)
Consulting and professional services	(17,503)	(36,069)	(11,504)	(22,784)
Security	(48,067)	(95,514)	(42,499)	(83,417)
Loss on impairment of fixed assets	-	-	-	(4,848)
Loss on sale of fixed assets	-	-	-	-
Office supply	(6,075)	(25,609)	(13,352)	(25,993)
Incasation expenses	(5,247)	(10,580)	(3,807)	(7,713)
AS system expenses	(36,987)	(74,572)	(34,030)	(68,342)
Expenses related to ArCa	(26,240)	(51,455)	(22,267)	(44,505)
Insurance	(27,027)	(53,885)	(26,150)	(51,943)
Other expenses	(50,739)	(122,648)	(49,235)	(113,511)
Total other expenses	(1,448,154)	(2,894,522)	(1,408,473)	(2,855,764)

Average number of employees in the second quarter of 2015 year comprised 741 (against 725 of the second quarter of 2014) ; in the second quarter of 2015 the average monthly salary of one employee comprised AMD 357.1 thousand (against AMD 367.1 thousand of the second quarter of 2014).

Notification 12. « Other operational expenses»

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

	01.04.15- 30.06.15	01.01.15- 30.06.15	01.04.14- 30.06.14	01.01.14- 30.06.14
Penalties paid	(5,043)	(5,564)	(2)	(194)
Insurance of deposits	(27,567)	(53,986)	(23,973)	(47,032)
Other operational expenses	(27,880)	(47,844)	(25,115)	(49,689)
Total other operational expenses	(60,490)	(107,394)	(49,090)	(96,915)

Notification 13. « Income tax expense»

	01.04.15- 30.06.15	01.01.15- 30.06.15	01.04.14- 30.06.14	01.01.14- 30.06.14
Income tax expense				
Current tax	216	-	(135,067)	(135,067)
Deferred tax	(69,413)	(211,184)	(62,859)	(119,675)
Total	(69,197)	(211,184)	(197,926)	(254,742)

The profit tax rate in the Republic of Armenia comprises 20% (2014 - 20%). The deferred tax amount is calculate on account of the principal tax rate - 20%.

Deferred tax calculation in respect of temporary difference:

	Balance as at 31.12.14	Identified as per financial performance	Identified in own capital	Balance as at 30.06.15
Trading securities	3,822			3,822
Property, Plant and Equipment	43,529			43,529
Reposseses assets	7,752			7,752
Other assets	22,613			22,613
Amounts due to customers	10,061			10,061
Other liabilities	27,760			27,760
Total deffered tax asset	115,537			115,537
Securities available for sale	(86,846)		22,061	(64,785)
Loans and advances to customers	(392,945)	(211,184)		(604,129)
Property, Plant and Equipment	(994,633)			(994,633)
Other assets	0			0
Total deffered tax liabilities	(1,594,473)	(211,184)	22,061	(1,663,547)
Net deferred tax asset/liability/ note 13	(1,528,345)	(211,184)	22,061	(1,548,010)

INTERIM FINANCIAL STATEMENT

"30" June, 2015

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	34,085,749	27,841,421

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

1.2	Trading securities	15	101,488	-
1.3	Amounts due from other financial institutions	16	6,211,744	7,412,250
1.4	Derivative instruments	17	-	-
1.5	Loans and advances to customers	18	88,815,726	92,888,015
1.6	Investments available for sale	19	1,572,938	1,943,118
1.7	Securities pledged under repurchase agreements	28	6,047,397	6,707,452
1.8	Property, plant and equipment	20	7,325,182	7,297,407
1.9	Intangible assets	21	237,178	253,290
1.10	Assets held for sale	22	2,579,751	2,329,501
1.11	Deferred tax assets	13	-	-
1.12	Prepaid income taxes		98,793	-
1.13	Other assets	23	853,170	961,455
	Total assets		147,929,116	147,633,910
2	LIABILITIES AND EQUITY			
	Liabilities			
2.1	Amounts due to RA CB	24	7,812,462	8,272,556
2.2	Amounts due to financial institutions	25	19,184,391	21,466,662
2.3	Amounts due to customers	26	95,247,345	92,435,546
2.4	Derivative financial liabilities	17	9,744	180,645
2.5	Trading liabilities	28	332,014	786,549
2.6	Income tax liabilities		-	125,931
2.7	Deferred tax liabilities	13	1,548,010	1,358,887
2.8	Other liabilities	27	765,385	502,851
	Total liabilities		124,899,352	125,129,627
3	Equity			
3.1	Share capital	31	7,002,033	7,002,033
3.2	Share premium		63,233	63,233
3.3	Statutory general reserve		844,898	844,898
3.3.1	Other reserves		259,147	347,391
3.3.2	Buildings		3,930,993	3,978,488
3.4	Retained earnings		10,929,461	10,268,240
	Total capital		23,029,765	22,504,283
	Total liabilities and capital		147,929,116	147,633,910

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

	30.06.15	31.12.14
Cash and cash equivalents and balances with CBA	34,085,749	27,841,421
Cash in hand	9,182,676	8,049,424
Other money market placements	0	
Correspondent account with the CBA	23,349,786	17,343,318
Correspondent accounts with financial institutions	1,553,287	2,448,679

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

Notification 15. “Trading securities”

	30.06.15	31.12.14
Trading securities	101,488	0
Trading securities issued by the Ministry of Finance of RAUnquoted	101,488	0
Corporate bonds	0	0

Notification 16. “Amounts due from other financial institutions”

	30.06.15	31.12.14
Amounts due from other financial institutions	6,211,744	7,412,250
Loans and deposits to financial institutions	5,422,078	5,496,197
Deposited funds with the CBA (ArCa)	170,000	520,000
Loans under repurchase accounts	332,446	842,390
Other amounts	287,220	553,663

Notification 17 “Derivative financial instruments”

In thousand Armenian drams

	Notional amount	As of June 30, 2015		Notional amount	As of December 31, 2014	
		Fair value of assets	Fair value of liabilities		Fair value of assets	Fair value of liabilities
Derivatives held for trading						
<i>Foreign exchange contracts</i>						
Swaps – foreign currency	462,689	0	9,744	3,251,100	0	180,645
Total derivative financial instruments	462,689	0	9,744	3,251,100	0	180,645

Notification 18. “Loans and advances to customers”

	30.06.15	31.12.14
Loans and borrowings to customers	88,815,726	92,888,015
Loans	80,192,766	85,874,816
Factoring	0	0
Overdraft	11,347,099	11,079,459
Letters of credit and bank guarantees	1,863	2,381
Financial leasing	332,003	408,627

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

Allowance for impairment of loans and advances to customers	(3,058,005)	(4,477,268)
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As of June 30 2015, the Bank had a concentration of loans represented by AMD 18,064,401 thousand due from the ten largest third party entities and parties related with them (19.66% of gross loan portfolio). (2014: AMD 21,533,450 thousand or 22%). An allowance for individual impairment in the amount of AMD 52,111 thousand (2014: AMD 215,334 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	30.06.2015	31.12.2014
Manufacture	9,126,432	3,910,335
Agriculture	2,719,805	2,626,474
Construction	7,879,440	9,210,701
Trading	10,961,108	11,363,683
Transport	4,111,171	5,019,507
Services	792,502	7,499,481
Consumer	29,772,515	31,643,619
Mortgage	20,348,364	20,681,879
Other sectors	6,162,395	5,409,704
Less allowance for loan impairment	(3,058,005)	(4,477,268)
Total loans and advances to customers	88,815,726	92,888,015

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

In thousand Armenian

30.06.2015

	Manufac- ture	Agriculture	Construction	Trading	Transport	Services	Consumer	Mortgage	Other	Total
At 1 January 2015	417,018	424,734	1,816,376	416,020	71,937	102,045	324,902	506,462	397,774	4,477,268
Charge/(reversal) for the period	3,830	(11,200)	69,191	3,568	58,351	(80,353)	29,009	268,325	84,229	424,950
Amounts written off		(40,852)	(1,764,127)	(82,820)	(30)		(58,066)	(230,727)	(42,165)	(2,218,787)

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

In thousand Armenian

30.06.2015

	Manufac- ture	Agriculture	Construction	Trading	Transport	Services	Consumer	Mortgage	Other	Total
At 1 January 2015	417,018	424,734	1,816,376	416,020	71,937	102,045	324,902	506,462	397,774	4,477,268
Recoveries	14	69,414	198	11,887	15,005	7,356	190,673	70,528	9,499	374,574
At 30 June 2015	420,862	442,096	121,638	348,655	145,263	29,048	486,518	614,588	449,337	3,058,005
Individual impairment	388,456	402,113	116,012	262,584	125,923	28,118	37,455	342,462	420,799	2,123,922
Collective impairment	32,406	39,983	5,626	86,071	19,340	930	449,063	272,126	28,538	934,083
Gross amount of loans individually determined impaired, before deduc individually assessed ir allowance	502,829	497,000	974,335	533,051	410,340	60,887	159,380	999,770	844,320	4,981,912

In thousand Armenian

31.12.2014

	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 tr	235,523	479,310	437,698	(22,779)	(14,861)	35,417	413,499	115,494	(33,120)	1,646,181
Amounts written off	(10,983)	(410,632)	(150,320)	(709,192)	(20,149)	(8,777)	(344,118)	(255,871)	(635,163)	(2,545,205)
Recoveries	1,447	54,902		606,111	19,171	16,639	125,725	270,876	1,023,903	2,118,774
At 31 December 2014	417,018	424,734	1,816,376	416,020	71,936	102,045	324,901	506,462	397,775	4,477,268
Individual impairment	383,856	404,184	1,751,415	308,031	25,873	27,659	9,242	308,064	352,346	3,570,673
Collective impairment	33,161	20,550	64,961	107,989	46,063	74,386	315,659	198,398	45,429	906,596
Gross amount of loans individually determined impaired, before deduc individually assessed ir allowance	594,235	571,391	2,714,622	740,777	237,229	60,887	54,815	864,976	866,762	6,705,694

Impairment on loans and advances is as follows:

<u>On the part of loans and borrowings to customers</u>	01.01.15-30.06.15	01.01.14-30.06.14
Beginning balance	4,477,268	3,257,518

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

Net provisions to the reserve / (recovery)	424,950	(37,812)
(Writing off)/ return	(1,844,213)	(277,450)
Ending balance	3,058,005	2,942,256

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

In thousand Armenian drams

	30.06.15	31.12.14
State owned enterprises	4,799,482	4,297,769
Privately held companies	34,225,526	36,203,390
Individuals	50,002,123	53,460,989
Sole proprietors	2,844,803	3,337,603
Non-commercial institutions	1,797	65,534
Total loans and advances to customers	91,873,731	97,365,283
Less allowance for loan impairment	(3,058,005)	(4,477,268)
Total loans and advances to customers	88,815,726	92,888,015

Loans to individuals comprise the following products:

In thousand Armenian drams

	30.06.15	31.12.14
Consumer loans	627,951	8,271,456
Credit cards	21,295,024	15,691,502
Mortgage loans	20,348,364	20,684,359
Gold loans	6,323,270	6,563,742
Car loans	720,476	916,392
Other	687,038	1,333,538
Total loans and advances to individuals (gross)	50,002,123	53,460,989

The finance lease receivables may be analyzed as follows:

In thousand Armenian drams

	30.06.15	31.12.14
Gross investment in finance leases, receivable:		

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

Not later than 1 year	0	10,637
Later than 1 year and not later than 5 years	392,122	483,732
	392,122	494,369
Unearned future finance income on finance leases	(60,109)	(85,742)
Net investment in finance leases	332,013	408,627

The allowance for uncollectable finance lease receivables included in the allowance for impairment amounted to AMD 3,320 thousand at 30 June 2015, and AMD 4,086 thousand at 31 December 2014.

Notification 19. « Investment securities»

	30.06.2015	31.12.2014
Investment securities	1,572,938	1,943,118
Corporate bonds	92,928	97,161
Securities issued by the Ministry of Finance	673,495	1,047,935
Shares of Armenian companies	57,795	57,794
Investments in funds	228,499	223,408
Shares of OECD countries companies	520,221	516,820

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.

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

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
Initial value								
As at 01.01.15	5,826,965	2,462,133	204,820	1,321,822	2,704	911,456	735,344	11,465,244
	55,871	86,419	1,000	60,447	110,393	92,861	27,289	434,280
Replenishment /internal flow								
Alienation /writing off/internal flow	-	(28)	12,013	(10,614)	(57,032)	-	(827)	(56,488)
As at 30.06.15	5,882,836	2,548,524	217,833	1,371,655	56,065	1,004,317	761,806	11,843,036
Accumulated depreciation								
As at 01.01.15	(128,895)	(1,851,926)	(145,820)	(979,180)		(326,672)	(482,054)	(3,914,546)
Replenishment	(67,627)	(119,712)	(12,210)	(63,845)		(61,038)	(49,928)	(374,360)
Alienation /writing off	-	14	(8,267)	9,130	-	-	7,354	8,231
As at 30.06.15	(196,522)	(1,971,624)	(166,297)	(1,033,895)	-	(387,710)	(524,628)	(4,280,676)
Balance value	5,686,314	576,900	51,536	337,760	56,065	616,607	237,178	7,562,360

Item	Land and buildings	Computer and communication	Transportation	Other fixed assets	Main capital investments	Main capital investments in leasing	Intangible assets	Total
Initial value								
As at 01.01.14	5,626,000	2,289,170	222,646	1,215,639	2,654	809,196	585,404	10,750,709
	200,965	177,927	0	127,459	50	107,280	149,940	763,621
Replenishment /internal flow								
Alienation /writing off/internal flow	-	(4,964)	(17,827)	(21,276)	0	(5,020)	0	(49,087)
As at 31.12.14	5,826,965	2,462,133	204,820	1,321,822	2,704	911,456	735,344	11,465,244
Accumulated depreciation								
As at 01.01.14	-	(1,575,395)	(134,276)	(880,960)		(217,516)	(393,521)	(3,201,668)
Replenishment	(128,895)	(281,496)	(26,997)	(119,475)		(113,938)	(88,533)	(759,334)
Alienation /writing off		4,965	15,453	21,255	-	4,783	-	46,456
As at 31.12.14	(128,895)	(1,851,926)	(145,820)	(979,180)	-	(326,672)	(482,054)	(3,914,546)
Balance value	5,698,070	610,206	59,000	342,642	2,704	584,785	253,290	7,550,696

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

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:

	30.06.15	31.12.14
Property	2,205,867	1,898,184
Vehicles	15,000	16,857
Other	358,884	414,460
Total	2,579,751	2,329,501

Notification 23. “Other assets”

	30.06.15	31.12.14
Prepayments and other debtors	324,823	317,136
Receivables on cash transfers	12,992	46,730
Total other financial assets	337,815	363,866
Less allowance for impairment in respect of financial assets	(32,451)	(48,317)
Total net other financial assets	246,493	315,549
Unamortized insurance premium	32,688	40,625
Settlements with employees	2,169	2,057
Prepayments to suppliers	139,146	76,720
Other prepaid taxes	57,160	53,743
Materials	166,133	182,973
Precious Metals	96,216	235,226
Other	54,294	54,563
Total non-financial assets	547,806	645,906
Total other assets	853,170	961,455

Impairment on other assets is as follows:

<u>Other assets</u>	01.01.15-30.06.15	01.01.14-30.06.14
Beginning balance	48,317	74,501
Net provisions to the reserve / (recovery)	5,774	39,588
(Writing off)/ return	(21,640)	(58,967)
Ending balance	32,451	55,122

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

Notification 24. “Subordinated loans”

	30.06.15	31.12.14
Subordinated debt from CBA	7,812,462	8,272,556
Subordinated debt provided by legal entity	776,348	1,185,553
	7,036,114	7,087,003

Subordinated debt other	Currency	in USD	in th. drams	Rate
		14,400,000	7,036,114	
09/01/12-09/01/17	USD	1,000,000	481,285	2%
09/01/12-09/01/17	USD	3,000,000	1,535,488	8%
31/08/12-31/08/17	USD	2,000,000	999,165	7%
04/03/13-05/03/18	USD	1,200,000	606,561	7%
27/06/13-27/06/18	USD	7,200,000	3,413,613	7%

Notification 25. “Amounts due to financial institutions”

	30.06.15	31.12.14
Amounts due to financial institutions	19,184,391	21,466,662
Amounts due to RA CB	3,567,223	3,718,236
Correspondent accounts with banks	365,428	204,385
Loans and deposits from other banks	1,200,313	1,425,783
Current accounts of other financial organizations	399,315	757,941
Loans and deposits from other financial organizations	7,761,417	8,795,661
Repo agreements	5,890,695	6,507,102
Other	0	57,554

Notification 26. “Amounts due to customers”

	30.06.15	31.12.14
Amounts due to customers	95,247,345	92,435,546
Government		
- Current/settlement accounts	0	0
loans received	121,283	185,234
Corporate customers:		
- Current/settlement accounts	23,664,601	19,702,317
- Term deposits	16,778,257	19,685,138
Retail customers:		
- Current/demand accounts	15,621,403	11,584,161
- Term deposits	39,061,801	41,278,696

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

Notification 27 . "Other liabilities"

	30.06.15	31.12.14
Accounts payable	382,565	150,663
Due to personnel	210,599	165,251
Total other financial liabilities	593,164	315,914
Other provisions	0	0
Tax payable, other than income tax	135,158	147,278
Revenues of future periods	3,852	4,644
Grants related to assets	32,066	33,278
Other	1,145	1,737
Total Other Non financial liabilities	172,221	186,937
Total other liabilities	765,385	502,851

Grants related to assets

In thousand Armenian drams	As of June 30, 2015	As of June 30, 2014
At January 1	33,278	35,700
Recognition of income (Note 9)	(1,212)	(1,212)
At the end of reporting period	32,066	34,488

The movement in other provisions was as follows:

Other provisions	01.01.15-30.06.15	01.01.14-30.06.14
Beginning balance	0	18,392
Net provisions to the reserve / (recovery) (Writing off)/ return	0	(4,193)
Ending balance	0	14,199

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

Notification 28. "Securities pledged under repurchase agreements"

In thousand Armenian drams	Asset		Liability	
	As of June 30,2015	As of December 31,2014	As of June 30,2015	As of December 31,2014
Securities pledged under repurchase agreements	6,047,397	6,707,452	332,014	786,549

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

In thousand Armenian drams	Asset		Liability	
	As of June 30,2015	As of December 31,2014	As of June 30,2015	As of December 31,2014
Total	6,047,397	6,707,452	332,014	786,549

The pledged securities are those financial assets pledged under repurchase agreements with other banks, with the right to sell or re-pledge by the counterparty. These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

Notification 29. “Total equity”

As at 30 June 2015 the Bank’s registered and paid-in share capital was AMD 7,002,033 thousand (2014: AMD 7,002,033 thousand).

In accordance with the Bank’s statutes, the share capital consists of 23,340 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 2015 and 31 December 2014 may be specified as follows:

In thousand Armenian drams	30.06.2015		31.12.2014	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Advanced Global Investments LLC	6,651,900	95	6,651,900	95
Advanced Global Investments LLC (preference shares)	33	-	33	-
Saint Apostolic Church of Armenia	350,100	5	350,100	5
	7,002,033	100	7,002,033	100

As at 30 June 2015, 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

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

Bank's statutes that provide for the creation of a reserve for these purposes of not less than 20% 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:

	30.06.2015	31.12.2014
Contract amount		
Guarantees	2,059,582	1,615,421
Loan line liabilities	270,090	215,910
Credit card liabilities	39,062	39,216
Unutilized parts of overdrafts	4,832,088	5,194,090
Letters of credit	1,879,699	466,572
Total liabilities with credit risk	9,080,521	7,531,209

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

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

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, 2015		As of December 31, 2014	
	Shareholders	Key management personnel	Shareholders	Key management personnel
Loans and advances to customers				
Loans outstanding at January 1, gross	4,183,084	230,850	3,913,756	216,956
Loans issued during the period	1,401,120	205,892	3,607,362	565,533
Loan repayments during the period	(1,438,980)	(215,802)	(3,338,034)	(551,639)
Loans outstanding at the end of period, gross	4,145,224	220,941	4,183,084	230,850
Less: allowance for loan impairment	(41,452)	(2,209)	(41,831)	(2,308)
Loans outstanding at at the end of period	4,103,772	218,731	4,141,253	228,542
Impairment charge for credit losses	(379)	(99)	(1,030)	(119)
Interest income on loans	191,307	7,693	366,698	17,434
Amounts due to customers				
Deposits at January 1	27,519,448	146,256	21,477,235	108,463
Deposits received during the period	304,579,591	923,387	620,799,115	1,657,822
Deposits repaid during the period	(302,119,071)	(849,038)	(614,756,902)	(1,619,029)
Deposits at the end of period	29,979,968	220,605	27,519,448	146,256
Interest expense on deposits	(701,727)	(3,889)	(1,400,256)	(6,632)
Accounts receivable				
At January 1	27,169	0	40	0
Increase	277,638	308	310,991	1,240
Decrease	(277,290)	(308)	(283,862)	(1,240)
At at the end of period	27,517	0	27,169	0
Items of comprehensive statement of Income				
Commission income	11,781	247	20,322	415
Other income	41,105	448	85,519	471
Advisory expenses		(14,184)	-	0
Lease payments	(26,178)		(58,596)	-
Other operating expenses	(10,470)	(20)	(7,542)	(2,051)

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	30.06.2015	31.12.2014
Salaries and other short-term benefits	200,905	368,062
Total key management compensation	200,905	368,062

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

In thousand Armenian drams	30.06.2015	31.12.2014
Salaries and other short-term benefits	200,905	368,062

Notification 32. « Fair value measurement»

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

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

At each reporting date, the Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group’s accounting policies. For this analysis, the major inputs applied in the latest valuation are verified by agreeing the information in the valuation computation to contracts and other relevant documents. The Management, in conjunction with the Group’s external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Financial and non-financial assets and liabilities measured at fair value in the statement of financial position are presented below. This hierarchy groups financial and non-financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

32.1 Financial instruments that are not measured at fair value

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

Financial instruments not measured at fair value /Level 2

In thousand Armenian drams	As of June 30, 2015		As of December 31, 2014	
	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS				
Cash and balances with CBA	34,085,749	34,085,749	27,841,421	27,841,421
Amounts due from financial institutions	6,211,744	6,211,744	7,412,250	7,412,250
Loans and advances to customers	88,815,726	88,815,726	92,888,015	92,888,015
Other financial assets	305,364	305,364	315,549	315,549
FINANCIAL LIABILITIES				
Subordinated loans	7,812,462	7,812,462	8,272,556	8,272,556

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

In thousand Armenian drams	As of June 30, 2015		As of December 31, 2014	
	Carrying value	Fair value	Carrying value	Fair value
Amounts due to financial institutions	19,184,391	19,184,391	21,466,662	21,466,662
Amounts due to customers	95,247,345	95,247,345	92,435,546	92,435,546
Other financial liabilities	593,164	593,164	315,914	315,914

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.

32.2 Financial instruments that are measured at fair value

In thousand Armenian drams	As of June 30, 2015				As of December 31, 2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	
FINANCIAL ASSETS							
Trading securities	-	101,488			0	-	
Investments available for sale	-	1,515,143			1,885,325	-	
Securities pledged under repurchase agreements	-	6,047,397			6,707,452	-	
FINANCIAL LIABILITIES							
Derivative Financial liabilities		9,744			180,645		
Trading liabilities		332,014			786,549		
Net actual cost		7,322,270			7,625,583		

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.

32.3 Fair value measurement of non-financial assets and liabilities

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

In thousand Armenian drams	As of June30, 2015			As of December 31, 2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
NON FINANCIAL ASSETS						
Buildings	-	-	2,728,681		- 2,672,811	
Land	-	-	3,154,154		- 3,154,154	
Net fair value			5,882,835		5,826,965	

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 consolidated financial interim statements for the period ended 30 June 2015

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	32,534,861	1,129,852	421,036	34,085,749
Trading securities	101,488			101,488
Amounts due from other financial institutions	5,441,984	550,498	219,262	6,211,744
Derivative financial assets				0
Loans and advances to customers	85,337,131	21,046	3,457,549	88,815,726
Investments available for sale	1,052,717	520,221		1,572,938
Securities pledged under repurchase agreements	6,047,397			6,047,397
Other financial assets	56,757	187,716	60,891	305,364
Total assets as of 30 June 2015	130,572,335	2,409,333	4,158,738	137,140,406
Total assets as of 31 December 2014	129,419,244	5,134,412	2,554,148	137,107,805

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 2015 and December 31 2014.

In thousand Armenian drams	Financial institutions	Manufacturing	Agriculture	Trading	Construction	State sector	Consumer sector (mortgage)	Services	Other	Total
Cash and balances with CBA	34,085,749									34,085,749
Trading securities					-	101,488				101,488
Amounts due from other financial institutions	6,211,744									6,211,744
Derivative financial assets	0									0
Loans and advances to customers		8,705,570	2,277,709	10,612,453	7,757,802		49,019,773	4,729,362	5,713,058	88,815,726
Investments available for sale	899,443	-	-		-	673,495	-		0	1,572,938
Securities pledged under repurchase agreements						6,047,397				6,047,397
Other financial assets	12,992								292,372	305,364
As at 30 June 2015	41,209,928	8,705,570	2,277,709	10,612,453	7,757,802	6,822,380	49,019,773	4,729,362	6,005,430	137,140,406

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

In thousand Armenian drams	Financial institutions	Manufact uring	Agricultur e	Trading	Constructi on	State sector	Consumer sector (mortgage)	Services	Other	Total
As at 31										
December 2014	36,187,871	3,730,521	2,505,602	10,841,126	8,787,154	7,755,387	49,919,351	11,943,312	5,437,480	137,107,805

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, 2015	As of December 31, 2014
Loans collateralized by real estate	51,456,833	55,692,182
Loans collateralized by gold	9,289,292	10,092,218
Loans collateralized by guarantees of enterprises	2,598,825	4,006,529
Loans collateralized by vehicles	3,259,587	4,353,145
Loans collateralized by cash	6,153,417	6,511,505
Loans collateralized by inventories	655,253	2,309,944
Loans collateralized by equipment	898,985	633,732
Loans collateralized by state bonds	0	0
Other collateral	5,871,241	8,112,833
Unsecured loans	11,690,298	5,653,195
Total loans and advances to customers (gross)	91,873,731	97,365,283

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.

	30.06.2015	31.12..2014
Loans and borrowings to customers	%	%
Industry	0.4	0.2
Agriculture	1.9	0.0
Building	0.1	0.0
Transport	9.9	0.4
Trade	0.8	0.0
Catering and service	0.1	0.0
Consumer	1.5	0.7

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

	30.06.2015	31.12..2014
Mortgage	1.4	0.1
Other sectors	0.7	0.0

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

30.06.2015

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacture	76254	0	11782	11493	99,529
Agriculture	7734	461	14251	217434	239,879
Construction	7997	89757	99077	6869	203,700
Trading	34387	48185	198588	116873	398,033
Transportation & communication					0
Consumer	409468	154336	149554	431460	1,144,818
Mortgage	210636	131760	35437	531992	909,825
Services	0	547	0	0	547
Other sectors	63113	63667	219916	156249	502,945
Total	809,590	488,711	728,606	1,472,370	3,499,278

31.12.2014

In thousand Armenian drams

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacture	10,867	4,646	0	4,476	19,989
Agriculture	29,947	21,358	7,857	41,707	100,869
Construction	8,219	0	0	287	8,506
Trading	19,822	23,820	4,975	75,270	123,887
Transportation & communication					0
Consumer	276,218	152,475	134,395	342,436	905,524
Mortgage	199,203	109,857	4,446	603,159	916,665
Services					0
Other sectors	30,446	145,182	0	35,751	211,379
Total	574,722	457,338	151,673	1,103,086	2,286,819

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 2015. 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	30.06.2015			31.12.2014		
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	(8,216)	(6,573)	+5	92,352	117,567
USD	-5	8,216	6,573	-5	(92,352)	(117,567)
EUR	+8	(9)	(7)	+8	(16,905)	(16,905)
EUR	-8	9	7	-8	16,905	16,905

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, 2015 is as follows:

	AMD	I group CCY*	II group CCY**	Total
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Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

Assets				
Cash and balances with the CBA	21,357,024	11,488,460	1,240,265	34,085,749
Trading securities	101,488	0	0	101,488
Amounts due from other financial institutions	567,928	5,461,431	182,385	6,211,744
Derivative financial instruments	0	0	0	0
Loans and advances to customers	22,272,912	66,542,814	0	88,815,726
Investments available for sale	1,572,938	0	0	1,572,938
Securities pledged under repurchase agreements	6,047,397			6,047,397
Other financial instruments	75,458	229,870	36	305,364
Total assets	51,995,145	83,722,575	1,422,686	137,140,406
Liabilities				
Subordinated debts	776,348	7,036,114	0	7,812,462
Amounts due to financial institutions	16,829,196	2,213,003	142,192	19,184,391
Amounts due to customers	22,459,352	72,245,628	542,365	95,247,345
Derivative financial liabilities	9,744	0		9,744
Trading liabilities	332,014	0	0	332,014
Other financial liabilities	565,551	27,613	0	593,164
Total liabilities	40,972,205	81,522,358	684,557	123,179,120
Net position as at June 30, 2015	11,022,940	2,200,217	738,129	13,961,286
Net position as at December 31, 2014	11,206,000	1,756,906	687,026	13,649,933
Commitments and contingent liabilities as at 30 June 2015	4,055,249	4,982,722	42,550	9,080,521
Commitments and contingent liabilities as at 31 December 2014	3,399,129	4,091,377	40,703	7,531,209

* 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 Bazel 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.

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

<u>AMD thousand</u>	Special risk	General risk	Total commercial securities risk
As at June 30, 2015	17,791	53,414	71,205
As at December 31, 2014	26,230	75,244	101,474

33.2.2 Interest rate risk – Non-commercial

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 30.06.2015. Accounting of the capital sensibility is made by revaluation of the assets available for sale and with fixed interest rates as of 30.06.2015, 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 30.06.2015

Capital sensitivity

Currency	Changes in principal interest rates	Net interest income sensitivity	Up to 6 month	From 6 months to 1 year	From 1 to 5 years	More than 5 years	Total
AMD	+1%	1,015	5,073	-	1,345	1,246	8,679
USD	+1%	-	-	-	-	-	0
AMD	-1%	(1,015)	(5,073)	-	(1,345)	(1,246)	(8,679)
USD	-1%	-	-	-	-	-	0

AMD thousand 31.12.2014

Capital sensitivity

Currency	Changes in principal interest rates	Net interest income sensitivity	Up to 6 month	From 6 months to 1 year	From 1 to 5 years	More than 5 years	Total
AMD	+1%	-	10,479	-	972	-	11,451
USD	+1%	-	-	-	-	-	0

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

AMD thousand

31.12.2014

Capital sensitivity

Currency	Changes in principal interest rates	Net interest income sensitivity	Up to 6 month	From 6 months to 1 year	From 1 to 5 years	More than 5 years	Total
AMD	-1%	-	(10,479)	-	(972)	-	(11,451)
USD	-1%	-	-	-	-	-	0

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.

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

30.06.2015

	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	34,085,749	-	-	34,085,749	-	-	0	34,085,749
Trading securities			17,034	17,034	37,221	47,233	84,454	101,488
Amounts due from other financial institutions	3,761,047		1,758,000	5,519,047		692,697	692,697	6,211,744
Derivative financial instruments	-	-	-	0	-	-	0	0
Loans and advances to customers	8,807,092	8,570,809	27,418,983	44,796,884	21,166,760	22,852,082	44,018,842	88,815,726
Investments available for sale			507,294	507,294	134,539	931,105	1,065,644	1,572,938
Securities pledged under repurchase agreements			1,050,557	1,050,557	2,965,047	2,031,793	4,996,840	6,047,397
Other financial assets	305,364		-	305,364		-	0	305,364
	46,959,252	8,570,809	30,751,868	86,281,929	24,303,567	26,554,910	50,858,477	137,140,406
				0			0	0
Liabilities								
Subordinated debts	195,998	386,900	193,450	776,348	2,142,050	4,894,063	7,036,114	7,812,462
Amounts due to financial institutions	95,938	300,000		395,938	3,171,285	-	3,171,285	3,567,223
Amounts due to customers	9,463,112	350,067	1,290,082	11,103,261	3,599,186	914,721	4,513,907	15,617,168
Derivative financial liabilities	45,375,299	11,974,146	34,315,431	91,664,876	3,156,735	425,735	3,582,469	95,247,345
Trading liabilities			9,744	9,744			0	9,744
Other financial liabilities	262,144			262,144			0	262,144
	195,998	386,900	193,450	776,348	2,142,050	4,894,063	7,036,114	7,812,462
Net position	(9,026,404)	(4,440,304)	(5,056,839)	(18,523,546)	12,234,311	20,320,391	32,554,702	
Cumulative Liquidity Gap		(13,466,708)	(18,523,546)		(6,289,235)	14,031,156		

Notes to, and forming part of, the consolidated financial interim statements for the period ended 30 June 2015

31.12.2014

	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	27,841,421	-	-	27,841,421	-	-	0	27,841,421
Trading securities				0			0	0
Amounts due from other financial institutions	1,851,165	1,166,819	3,172,417	6,190,401	109,424	1,112,425	1,221,849	7,412,250
Derivative financial instruments				0			0	0
Loans and advances to customers	5,801,943	5,619,742	26,014,800	37,436,485	25,119,835	30,331,695	55,451,530	92,888,015
Investments available for sale	0	442,007	599,273	1,041,280	97,130	804,708	901,838	1,943,118
Securities pledged under repurchase agreements			186,572	186,572	6,520,880		6,520,880	6,707,452
Other financial assets	315,548		-	315,548		-	0	315,548
	35,810,077	7,228,568	29,973,062	73,011,707	31,847,269	32,248,828	64,096,097	137,107,804
Liabilities								
Subordinated debts	4,055		1,160,700	1,164,755	7,107,801		7,107,801	8,272,556
Amounts due to financial institutions	8,662,976	2,709,156	2,449,617	13,821,749	6,609,213	1,035,700	7,644,913	21,466,662
Derivative financial instruments	40,218,575	9,517,973	38,280,332	88,016,880	4,315,761	102,905	4,418,666	92,435,546
Amounts due to customers	180,645			180,645			0	180,645
Trading liabilities	786,549			786,549				786,549
Other financial liabilities	315,914			315,914				315,914
Net position	(14,358,636)	(4,998,561)	(11,917,587)	(31,274,784)	13,814,494	31,110,223	44,924,717	
Cumulative Liquidity Gap		(19,357,197)	(31,274,784)		(17,460,290)	13,649,933		

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.