

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

A handwritten signature in blue ink is written over a red circular stamp. The stamp contains the text "ՀԱՅԱՍՏԱՆԻ ՀԱՆՐԱՊԵՏՈՒԹՅԱՆ ԿԵՆՏՐԱԿԱՆ ԲԱՆԿ" (Central Bank of the Republic of Armenia) and "ՀԱՅԱՍՏԱՆԻ ՀԱՆՐԱՊԵՏՈՒԹՅԱՆ ԿԵՆՏՐԱԿԱՆ ԲԱՆԿ" (Central Bank of the Republic of Armenia) in Armenian and "CENTRAL BANK OF THE REPUBLIC OF ARMENIA" in English. The stamp also features a central emblem.

**CONVERSE BANK CJSC
NOTIFICATIONS ENCLOSED WITH FINANCIAL STATEMENTS
AS OF 30.06.2012**

Notification 1. “Legal framework and corporate management”

Main Activities

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

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 Hrazdan Gorge, Yerevan, 0082, RA Tel.: 519265, 519266, 519267, 519268
Postbank 19 Branch	23 Baghramyan Avenue, Yerevan, RA Tel.: (37410) 514619
Postbank Kapan 01 Branch	1/2 Tumanyan, Kapan, RA Tel. (374 285) 28100

Kapan Branch	1/2 Tumanyan, Kapan, RA Tel. (374 285) 20058
Stepanakert Branch	25/2 V. Sargsyan, Stepanakert Tel. (374 47) 975277

Business environment of Armenia

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

Corporate Management:

1. Board structure & staff:

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

2. Structure & staff of the Management Board:

Management Board Chairman Tigran Davtyan
Management Board Member Gohar Harutyunyan
Velikhan Muradyan
Vahe Dalyan
Arthur Hakobyan
Misak Davtyan

3. Shareholders:

ADVANCED GLOBAL INVESTMENTS LLC – 95%

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

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

Notification 2. “Accounting Policy”

Performance basis

Declaration on adequacy

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

Measure basis

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

Measure and submission currency

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

The financial information is stated in thousand drams.

Use of estimates and observations

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

Accounting policy

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

Recognition of income and expenses

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

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

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

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

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

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

Foreign currency transactions

Transactions with foreign currency are converted into AMD at the exchange rate set as of the transaction date. As of the accounting date, the monetary assets and liabilities in foreign currency are converted into AMD at the exchange rate specified for that day. Non-monetary assets and liabilities presented at their original cost and expressed in foreign currency are converted into the measure currency at the exchange rate specified for that day. The foreign currency differences deriving from the conversion are recognized in the integral report on financial results.

As at the end of the quarter, the exchange rate was 418.01 AMD = 1 USD (as of June 30, 2011 the rate was 368.86 AMD = 1 USD)

Taxation

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

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

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

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

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

The monetary funds and their equivalents

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

Financial instruments

Classification

Financial assets are classified by the bank into the following categories: financial assets recorded at the actual cost and adjustable by the financial results, investments kept till maturity, loans and receivables, financial assets available for sale. Such classification of investments is done at the time of purchase, based on the estimates made by the Bank management, taking into account the goals of purchase.

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

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

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

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

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

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

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

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

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

Investments kept till maturity are non-derivative financial assets with fixed or determinable payments and fixed repayment term, which the Bank intends and has the opportunity to keep till their maturity.

Investments kept till maturity are recorded at their amortization cost, by means of application of the effective interest rate method minus the provision for their deterioration.

If the Bank's intention or opportunities change and it is no longer possible to record the investments kept till maturity at their amortization cost, or if it becomes possible to measure reasonably the actual cost of the financial asset, which was impossible before, then the bank records the asset at its actual cost and recognizes the profit and loss resulting from the cost changes in the integral report on financial results, if the assets have been reclassified as income recorded at the actual cost adjustable by the financial results and other comprehensive income, if the asset was reclassified as available for sale.

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

Recognition

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

Measuring

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

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

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

After initial recognition, the majority of the financial liabilities are measured at their amortization cost, except those financial liabilities, which are specified as financial instruments measured at the actual cost, the profit and losses deriving from adjustment of which are recognized in the integral report on

financial results, as well as those financial instruments, which originate when transfer of a financial asset measured at its actual cost does not comply with the criteria of de-recognizing. Extra charges and discount amounts, including the initial expenses related to the transaction, are included in the balance cost of the instrument and are amortized at the effective interest rate of the instrument.

Principles of measuring the actual cost

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

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

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

Profit and loss deriving from further measuring

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

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

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

De-recognizing

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

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

Repo and reverse repo agreements

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

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

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

Fixed assets

Equity

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

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

Leased assets

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

Reappraisal

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

Deterioration

Deterioration is recognized in the integral report on financial results, by means of application of the linear method during the useful life of the fixed assets. Calculation of depreciation starts from the date of purchase of the fixed asset, and in case of in-house constructed assets – from the date of

commissioning. No deterioration is calculated towards land. The estimated periods of useful life are as follows.

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

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

Intangible assets

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

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

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

Depreciation

Financial assets recorded at amortization cost

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

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

First of all, the Bank assesses separately whether there is an impartial testimony about depreciation with regard to such loans and receivables, which are significant when considered separately, and by groups with regard to such loans and receivables, which are not significant when considered separately. If the

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

If there is impartial testimony on losses resulting from depreciation of a loan or receivable, the size of loss is measured by the difference between the balance cost of the loan or receivable and the current cost of the estimated future cash flows, including the amounts discounted from guarantees and collateral at the initial effective interest rate of the loan or receivable. Cash flows estimated under the agreement and losses based on the past experience, in the line of which adjustments were made on the basis of the available data that reflect the current economic conditions, are the basis for assessing the expected cash flows.

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

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

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

Financial assets recorded at their original cost

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

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

Non-financial assets

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

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

Reconsidered loans

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

Credit instruments

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

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

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

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

Reserves

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

Share capital

Dividends

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

Extra payment for shares

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

Offsetting

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

Notification 6. « Interest and similar income »

	01.04.12- 30.06.12	01.01.12- 30.06.12	01.04.11- 30.06.11	01.01.11- 30.06.11
Interest and similar income	1,985,695	3,816,586	1,796,056	3,527,545
Loans and advances to customers	1,774,171	3,419,412	1,643,740	3,250,001
Debt securities	135,793	268,446	114,088	215,759
Amounts due from banks	44,652	69,642	11,000	18,761
Reverse repurchase agreements	30,977	58,885	27,027	42,813
Interest on impaired loans	0	0	0	0
Other interest incomes	102	201	201	211

Notification 6. “Interest and similar expense”

	01.04.12- 30.06.12	01.01.12- 30.06.12	01.04.11- 30.06.11	01.01.11- 30.06.11
Interest and similar expense	950,013	1,945,174	887,624	1,758,340
Amounts due to customers	657,961	1,328,625	612,293	1,234,122
Amounts due to credit institutions	288,230	609,630	267,372	505,356
Debt securities issued	0	0	7,959	15,831
Repurchase agreements	3,822	6,919	0	3,031
Other interest expense	0	0	0	0

Notification 7. “Net commission fees”

	01.04.12- 30.06.12	01.01.12- 30.06.12	01.04.11- 30.06.11	01.01.11- 30.06.11
Fee and commission income	363,166	693,216	352,949	657,411
Cash collection	31,490	45,167	19,715	34,954

Wire transfer fees	101,009	177,497	116,080	205,232
From Loans	67,482	148,402	76,461	145,741
Service fee for account maintenance of Municipal and State budgets	0	0	0	0
Transaction with payment cards	139,292	258,702	113,558	206,889
Guarantees and letters of credit	18,036	36,644	13,471	24,417
Other fees and commissions	5,857	26,804	13,664	40,178
Fee and commission expense	77,893	153,370	80,419	174,446
Wire transfer fees	16,112	28,502	12,322	23,295
Cash operations	7,887	26,009	24,342	65,665
Plastic cards	53,503	96,025	41,762	81,662
Guarantees and letters of credit	0	0	0	0
Other fees paid	392	2,835	1,993	3,824
Net commission fees	285,273	539,846	272,530	482,965

Notification 8. "Net trading income"

	01.04.12- 30.06.12	01.01.12- 30.06.12	01.04.11- 30.06.11	01.01.11- 30.06.11
Net trading income	497,587	750,381	212,034	590,698
Gains less losses from trading in foreign currencies	230,669	422,142	222,222	429,914
Gains less losses from foreign exchange translation of trading assets	-5,541	8,771	7,446	12,832
Gains less losses from swap	2,291	-26,700	242	-1,535
Gains less losses from trading in trading assets	-214	-169	71	117

Notification 9. "Other income"

	01.04.12- 30.06.12	01.01.12- 30.06.12	01.04.11- 30.06.11	01.01.11- 30.06.11
Other income	52,537	137,020	29,594	97,590
Income from sale of fixed assets	0	1,658	-29	-29
Fines and penalties received	32,341	83,409	7,549	37,496
Net gains from operations of precious metals	2,713	8,125	1,581	3,636
Dividends received	1,212	1,547	1,065	1,461
Income from grant	606	1,212	0	0
Other income	15,665	41,069	19,428	55,026

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

On the part of loans and borrowings to customers	01.01.12-30.06.12	01.01.11-30.06.11
Beginning balance	4,366,887	3,056,051
Net provisions to the reserve / (recovery)	(271,055)	403,124
(Writing off)/ return	86,982	(150,583)
Ending balance	4,182,814	3,308,592

Against other assets	01.01.12-30.06.12	01.01.11-30.06.11
Beginning balance	103,556	54,184

Net provisions to the reserve / (recovery)		21,826	21,826
(Writing off)/ return		(52,222)	-52,222
Ending balance		73,160	69,373

<u>Against investments</u>		01.01.12-30.06.12	01.01.11-30.06.11
Beginning balance		0	4,543
Net provisions to the reserve / (recovery)			
(Writing off)/ return			
Ending balance		0	4,543

<u>Against off-balance sheets with credit risk</u>		01.01.12-30.06.12	01.01.11-30.06.11
Beginning balance		40,699	16,183
Net provisions to the reserve / (recovery)		1,420	874
(Writing off)/ return			
Ending balance		42119	17,057
<u>Total net provisions to the reserves</u>		(247,809)	423,299

Notification 11. "Staff costs".

	01.04.12-30.06.12	01.01.12-30.06.12	01.04.11-30.06.11	01.01.11-30.06.11
Staff costs	591,426	1,154,256	413,847	851,596
Personnel expenses	49,880	97,502	42,147	84,539
Social security payments	641,306	1,251,758	455,994	936,135

Average number of employees in the second quarter of 2012 year comprised 642 (against 566 of the second quarter of 2011) ; in the second quarter of 2012 the average monthly salary of one employee comprised AMD 307.1thousand (against AMD 243.7 thousand of the second quarter of 2011).

Notification 12. « Other expenses»

	01.04.12-30.06.12	01.01.12-30.06.12	01.04.11-30.06.11	01.01.11-30.06.11
Repair and maintenance of tangible and intangible assets	38,443	71,867	28,372	59,955
Advertising and representation	92,981	188,975	26,355	45,913
Business trip	6,863	10,424	10,675	11,671
Communication	26,871	54,372	31,428	59,080
Operating lease expenses	68,399	137,405	53,495	106,206
Taxes, other than income tax				
	54,890	109,925	60,208	105,812
Consulting and professional services	18,452	55,738	101,635	171,293
Security	33,746	60,851	25,321	50,235
Loss on sale of fixed assets	0	0	0	0
Office supply	16,672	17,888	5,736	11,804
Penalties paid	0	37	151	713
Incasation expenses			7,404	24,873

		17,503	33,897		
Insurance		47,736	96,975	44,792	87,050
Other operating expenses		37,067	103,252	71,346	124,641
Total other expenses		459,623	941,606	466,918	859,246

Notification 13. « Income tax expense»

Income tax expense		01.01.12-30.06.12		01.01.11-30.06.11	
Current tax		0		75,903	
Deferred tax					
		0		0	
Total		202,472		75,903	

The profit tax rate in the Republic of Armenia comprises 20% (2011 - 20%). The deferred tax amount is calculate on account of the principal tax rate - 20%.

	Balance as at 31.12.11	Other	Identified as per financial performance	Identified in own capital	Balance as at 30.06.12
<i>Deferred tax assets, including:</i>	484,515				617,738
Financial assets calculated with fair value and re-estimated by profit/loss	3,822				3,822
On securities available for sale	8,868				8,868
On fixed assets	2,852				2,852
Transferred tax loss	529,039				529,039
Other liabilities	12,968				12,968
Influence of unrecognized tax loss	(73,034)	133,223			60,189
<i>Deferred tax liabilities, including:</i>	(845,609)				(1,048,080)
On commercial securities	(792,859)		(200,943)		(993,802)
On other assets	(52,750)		(1,529)		(54,278)
Net deferred tax asset/liability	-361,094	133,224	-202,472		-430,342

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

		30.06.12	31.12.11(Audited)
Cash and cash equivalents and balances with CBA		18,686,610	69,136,771
Cash in hand		6,754,813	5,892,642

Other money market placements		627	7,138
Correspondent account with the CBA		11,696,892	62,802,522
Deposited funds with the CBA (ArCa)		234,278	434,469

Notification 14-1. "cash and cash equivalents"

<u>Cash and cash equivalents</u>	01.01.12-30.06.12	01.01.11-30.06.11
Cash in hand	6,754,813	3,922,227
Other money market placements	627	1,656,325
Correspondent account with the CBA	11,696,892	14,672,673
Deposit accounts with CBA	0	0
Correspondent accounts with financial institutions	3,917,068	3,270,741
<u>Total cash and cash equivalents</u>	22,369,400	23,521,966

Notification 15. "Precious Metals"

<u>Precious Metals</u>	30.06.12	31.12.11(Audited)
Gold	250,295	146,308
<u>Total</u>	250,295	146,308

Notification 17. "Amounts due from other financial institutions"

	30.06.12	31.12.11(Audited)
<u>Amounts due from other financial institutions</u>	9,537,992	11,578,753
Correspondent accounts with financial institutions	3,917,068	3,699,453
Loans and deposits to financial institutions	4,604,077	6,865,651
Loans under repurchase accounts	926,331	532,434
Other amounts	90,516	481,215
Derivatives		

Notification 18. "Loans and advances to customers"

	30.06.12	31.12.11
<u>Loans and borrowings to customers</u>	52,990,513	46,190,254
Loans	52,916,801	46,706,224
Factoring	70,832	108,596
Overdraft	3,982,102	3,532,582
Letters of credit and bank guarantees	93,235	123,538

Financial leasing		110,357	86,201
Allowance for impairment of loans and advances to customers		(4,182,814)	(4,366,887)

As of June 30, 2012, the Bank had a concentration of loans represented by AMD 13,062,003 thousand due from the ten largest third party entities and parties related with them (22.85% of gross loan portfolio). (2011: AMD 11,174,962 thousand or 21.64%). An allowance for individual impairment in the amount of AMD 3,078,090 thousand (2011: AMD 1,918,881 thousand) was made against these loans.

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

In thousand Armenian drams	30.06.2012	31.12.2011
Manufacture	6,438,168.00	4,740,950
Agriculture	1,912,845.00	1,534,135
Construction	4,407,900.00	5,041,161
Trading	8,801,829.00	5,058,820
Transport	1,350,063.00	393,406
Services	756,717.00	589,241
Consumer	19,849,527.00	17,708,604
Mortgage	11,082,473.00	9,699,720
Other sectors	2,573,805.00	5,791,104
Less allowance for loan impairment	(4,182,814.00)	(4,366,887.00)
Total loans and advances to customers	52,990,513.00	46,190,254

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

In thousand Armenian drams	30.06.12	31.12.11 (Audited)
State owned enterprises	1,627,747	1,521,648
Privately held companies	20,095,840	18,978,518
Individuals	30,715,466	27,061,106
Sole proprietors	3,397,101	2,751,007
Non-commercial institutions	4,869	4,929
Accured interest	1,332,304	239,933
Total loans and advances to customers	57,173,327	50,557,141
Less allowance for loan impairment	(4,182,814)	(4,366,887)
Total loans and advances to customers	52,990,513	46,190,254

Loans to individuals comprise the following products:

In thousand Armenian drams	30.06.12	31.12.11 (Audited)
Mortgage loans	11,082,473	9,699,720
Consumer loans	17,853,752	15,070,620

In thousand Armenian drams

	30.06.12	31.12.11 (Audited)
Mortgage loans	11,082,473	9,699,720
Car loans	1,779,241	2,290,766
Total loans and advances to individuals (gross)	30,715,466	27,061,106

The finance lease receivables may be analyzed as follows:

In thousand Armenian drams

	30.06.12	31.12.11 (Audited)
Gross investment in finance leases, receivable:		
Not later than 1 year		4,723
Later than 1 year and not later than 5 years	143,294	106,647
	143,294	111,370
Unearned future finance income on finance leases	(32,937)	(25,169)
Net investment in finance leases	110,357	86,201

The allowance for uncollectable finance lease receivables included in the allowance for impairment amounted to AMD 852 thousand at 30 June 2012.

Notification 19. « Investment securities»

	30.06.12	31.12.11 (Audited)
Investment securities	2,102,512	3,610,849
Corporate bonds	0	9,603
Securities issued by the Ministry of Finance	1,922,377	3,427,798
Shares of Armenian companies	114,481	107,794
Shares of OECD countries companies	65,654	65,654

Notification 20,21: “Fixed and intangible assets”

Item	Land and buildings	Computer and communication	Transportation	Other fixed assets	Main capital investments	Main capital investments in leasing	Intangible assets	Total
<u>Initial value</u>								
As at 01.01.12	4,364,730	1,608,617	94,807	916,904	20,457	134,687	455,353	7,595,555
Replenishment /internal flow	21,099	252,655	227	127,164	133,162	90,017	75,940	700,264
Alienation /writing off/internal flow	(10,500)	(93,917)	(22,576)	(43,653)	(151,098)	(4,526)	(69,691)	(395,961)
As at 30.06.12	4,375,329	1,767,355	72,458	1,000,415	2,521	220,178	461,602	7,899,858
<u>Accumulated depreciation</u>								
As at 01.01.12	(391,611)	(1,065,377)	(51,401)	(747,415)		(82,613)	(236,573)	(2,574,990)
Replenishment	(196,278)	(100,633)	(6,810)	(32,880)		(16,404)	(22,744)	(375,749)
Alienation /writing off	-	(5,997)	22,576	4,757	-	-	-	21,336
As at 30.06.12	(587,889)	(1,172,007)	(35,635)	(775,538)		(99,017)	(259,317)	(2,929,403)
<u>Balance value</u>	3,787,440	595,348	36,823	224,877	2,521	121,161	202,285	4,970,455

Item	Land and buildings	Computer and communication	Transportation	Other fixed assets	Main capital investments	Main capital investments in leasing	Intangible assets	Total
<u>Initial value</u>								
As at 01.01.11	4,360,100	1,316,198	60,578	853,213	1,026	112,496	385,983	7,089,594
Replenishment /internal flow	4,630	305,225	34,229	67,438	277,569	22,191	69,370	780,652
Alienation /writing off/internal flow	-	(12,806)	-	(3,747)	(258,138)	-	-	(274,691)
As at 31.12.11	4,364,730	1,608,617	94,807	916,904	20,457	134,687	455,353	7,595,555
<u>Accumulated depreciation</u>								
As at 01.01.11	-	(920,562)	(44,807)	(694,950)		(63,012)	(159,697)	(1,883,028)
Replenishment	(391,611)	(148,029)	(6,594)	(55,380)		(19,601)	(76,876)	(698,091)
Alienation /writing off	-	3,214	-	2,915	-	-	-	6,129
As at 31.12.11	(391,611)	(1,065,377)	(51,401)	(747,415)	-	(82,613)	(236,573)	(2,574,990)

<u>Balance value</u>	3,973,119	543,240	43,406	169,489	20,457	52,074	218,780	5,020,565
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Notification 23. "Other assets"

	30.06.12	31.12.11 (Audited)
Other assets	1,331,733	454,022
Prepayments and other debtors	292,347	372,045
Prepayments to budget	36,510	13,310
Settlements with employees	352	54
Other assets	31,517	44,292
Allowance for impairment of other assets	(73,160)	(103,556)
Other prepaid taxes	1,469	2,909
Materials	144,556	122,832
Other	898,142	2,136

Notification 24. "Amounts due to financial institutions"

	30.06.12	31.12.11 (Audited)
Amounts due to financial institutions	18,021,122	18,000,213
Obligations of CBA	6,229,244	4,370,431
Subordinated debt	1,164,516	1,164,755
Correspondent accounts with banks	313,336	94,431
Loans and deposits from other banks	321,347	2,304,726
Current accounts of other financial organizations	2,349,475	2,691,053
Loans and deposits from other financial organizations	7,229,476	7,374,817
Other	413,728	0

Notification 25. "Amounts due to customers"

	30.06.12	31.12.11 (Audited)
Amounts due to customers	59,250,813	102,374,094
Government		
- Current/settlement accounts	631	23
loans received	2,439,253	2,883,428
Corporate customers:		
- Current/settlement accounts	15,112,696	62,092,558
- Term deposits	8,630,123	9,153,374
Retail customers:		
- Current/demand accounts	8,640,101	6,524,312
- Term deposits	24,428,009	21,720,399

Notification 27. "Other liabilities"

	30.06.12	31.12.11 (Audited)
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Other liabilities		482,490	337,568
Accounts payable		132,052	112,554
Tax payable, other than income tax		43,971	106,255
Revenues of future periods		2,960	2,826
Grants related to assets		41,477	40,544
Due to personnel		165,190	61,470
Due to on payment checks		7,127	6,452
Other		89,713	7,467

Notification 30. "Total equity"

As at 30 June 2012 the Bank's registered and paid-in share capital was AMD 4,860,033 thousand (2011: AMD 4,860,033 thousand).

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

The respective shareholdings as at 30 June 2012 and 31 December 2011 may be specified as follows:

In thousand Armenian drams	30.06.2012		31.12.2011	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Advanced Global Investments LLC	4,617,000	95	4,617,000	95
Advanced Global Investments LLC (preference shares)	33	-	33	-
Saint Apostolic Church of Armenia	243,000	5	243,000	5
	4,860,033	100	4,860,033	100

As at 30 June 2011, the Bank did not repurchase any of its own shares. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank.

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

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

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 50% of the Bank's share capital reported in statutory books.

Notification 31. « 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:

	30.06.12	31.12.11 (Audited)
Contract amount		
Guarantees and letters of credit	4,211,914	4,069,879
Loan line liabilities	429,279	1,702,118
Credit card liabilities	143,084	80,603
Unutilized parts of overdrafts	4,192,712	3,352,717
Letters of credit	0	0
Total liabilities with credit risk	8,976,989	9,205,317
Allowance for impairment of credit related commitments	(42,119)	(40,699)
Total liabilities with credit risk	8,934,870	9,164,618

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 32. « 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 goal of the Bank risk management policy is to detect, analyze and manage risks attacking the Bank, specify relevant limits for risks and control mechanisms, as well as continually control risk levels and their adequacy to specified limits. Risk management policy and procedures are regularly reviewed to reflect changes in market conditions, services offered and best approaches.

Risk management policy, general principles and approaches are specified by the Bank Board. The main responsible for risk management is the Bank Management Board. The Management Board follows Risk management policy. Daily risk management is controlled by Risk Management Unit.

32.1 Credit risk

Credit Risk is the risk that the Bank will incur losses because of the borrower failing to perform his liabilities as per agreement. In order to minimize the credit risk the Bank Executive body should develop internal procedures and instructions, which should conform with other policies approved by the Board (Lending, Financial Markets Activity).

The Bank measures, assesses and, controls Credit Risk pursuant to the current “Instruction on internal standards of banking risk management and control”. The Instruction specifies limits and zones for the following standards:

- Sectoral diversification standard,
- Loan portfolio quality standard,
- Standard for total non-performing loan portfolio and maximum loan limit as per loan classification types,
- Loan investments volume restriction coefficient,
- Limits for non-blank or non-secured loan portfolio,
- Standard for maximum risk of non-performing loan investments as per loan types,
- Standard for maximum loan limit of non-performing loan investments as per branches,
- Maximum size of non-performing SME loan investments,
- Maximum size of non-performing corporate loan investments,
- Agreement with EBRD.

For each standard 3 zones of risk are specified :

1. low risk zone,
2. high risk zone,
3. Marginal risk zone.

Risks are mitigated and neutralized basing on regular monitoring.

Geographical concentrations

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

Reporting period 30/06/12

Item	RA	OECD countries	Non-OECD countries	Total
Assets				
Cash and balances with the CBA	18,686,610			18,686,610
Precious Metals	250,295			250,295
Amounts due from other financial institutions	4,710,004	3998703	829,285	9,537,992
Trading securities	19,171			19,171
Loans and advances to customers	52923358		67,155	52,990,513
Investments available for sale	5,241,501	65,654		5,307,155
Total assets	81,830,939	4,064,357	896,440	86,791,736

Previous period 31.12.11

Item	RA	OECD countries	Non-OECD countries	Total
Assets				
Cash and balances with the CBA	69,136,771			69,136,771
Precious Metals	146,308			146,308
Amounts due from other financial institutions	5,216,524	5,422,090	940,139	11,578,753
Derivatives	28,749			28,749
Trading securities	120,617			120,617
Loans and advances to customers	45,973,456	0	216,798	46,190,254
Investments available for sale	4,577,676	65,654		4,643,330
Total assets	125,200,101	5,487,744	1,156,937	131,844,782

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 2012 and December 31 2011.

In thousand Armenian drams	Financial institutions	Manufacturing	Agriculture	Trading	Construction	State sector	Consumer sector (mortgage)	Services	Other	Total
Cash and balances with the CBA	18,686,610									18,686,610
Precious metals	250,295									250,295
Trading securities						19,171				19,171
Amounts due from other financial institutions	9,537,992									9,537,992
Loans and advances to customers		4,711,832	1,620,591	8,585,959	2,923,330		30,587,190	2,085,987	2,475,624	52,990,513
Investments available for sale	130,135	-	-	-	-	5,127,020	-		50,000	5,307,155
As at 30 June 2012	28,605,032	4,711,832	1,620,591	8,585,959	2,923,330	5,146,191	30,587,190	2,085,987	2,525,624	86,791,736

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 2011	82,056,249	3,367,276	1,372,975	4,984,163	3,267,907	3,548,415	26,669,368	906,611	5,671,818	131,844,782

32.1.1 Depreciation and reserve policy

Main characteristics for assessment of loan depreciation are: delay of payment of principal loan and interests over 90 days, difficulties connected with loan flows of borrowers, loan rating reductions, and violation of provisional clauses of agreements. The Bank assesses depreciation either individually or by groups.

Individual assessment of depreciation

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

Group assessment of depreciation

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

Group assessment takes into account depreciation amount, which may occur in the portfolio, even if there is no objective evidence in the individual assessment. Losses from depreciation are assessed on account of the following data – history of losses in the portfolio, current economic situation, approximate date of the loss and individual disclosure, or payments expected in case of depreciation. Valuation of depreciation assessment and reserve of financial guarantees and letters of credit is implemented in the same day as for loans.

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

AMD thousand

	30.06.12	31.12.11 (Audited)
Loans and borrowings to customers		
Industry	0.1	-
Agriculture	0.4	0.9
Building	0.5	-

AMD thousand

	30.06.12	31.12.11 (Audited)
Transport	-	3.0
Trade	1.2	0.7
Catering and service	0.3	0.7
Consumer	-	2.3
Mortgage	0.4	2.2
Other sectors	0.3	2.9

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.

	30.06.2012				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacture		401,290		17,603	418,892
Agriculture	5,838	12,170	6,404	17,112	41,524
Construction					0
Trading	12,580	33,467	12,149	19,132	77,328
Transportation & communication	96	372	0	2,201	2,669
Consumer	108,648	42,713	61,680	90,531	303,572
Mortgage	61,852	111,819	46,936	35,740	256,347
Services				11,532	11,532
Other sectors	3,827			616	4,443
Total	192,841	601,830	127,169	194,467	1,116,307

	31.12.2011				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total

	30.06.2012				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacture		4,960		37,311	42,271
Agriculture	7,568	5,506		23,503	36,577
Construction	0	0	0	0	0

In thousand Armenian drams

31.12.2011

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Trading	45,769	20,082	7,324	37,602	110,777
Consumer	141,584	25,567	43,041	93,397	303,589
Mortgage	93,254	22,763	23,389	38,407	177,813
Services	3,681			15,146	18,827
Other sectors				111,667	111,667
Total	291,856	78,878	73,754	357,033	801,521

Loans and advances individually impaired

Renegotiated loans

The carrying amount for renegotiated financial assets by class is presented below:

In thousand Armenian drams

	30.06.12	31.12.11 (Audited)
Manufacture	1,806,505	2,036,576
Agriculture	0	0
Construction	2,080,469	1,994,116
Trading	1,167,149	1,087,842
Transportation & communication	158,304	170,334
Consumer		15,245
Mortgage	0	0
Other	14,802	181,854
Total renegotiated loans	5,227,229	5,485,966

32.2 Market Risk

Market Risk is the risk that the Bank will incur losses through market fluctuations, particularly in exchange rates and financial instruments.

The market risk includes foreign currency, interest rate and other price risks.

Market risk occurs in case, when market situations or expectations of the Bank are changed on the reverse side on the contrary of Bank suppositions, including changes of foreign currency position, interest rates for attraction and provision of funds, in the result of which the Bank incurs losses.

The goal of the market risk management is control and supervision and keeping of the risk level within the adoptable limits, at the same time ensuring optimization of profitability against risk.

The Bank measures, assesses and controls Market Risk pursuant to the current “Instruction on internal standards of banking risk management and control”. The Instruction specifies limits and zones for several standards, including:

- ✓ Maximum limit of non-secured financial operations,
- ✓ Standard for securities portfolio maximum risk,
- ✓ Minimum volume of securities issued by the RA Government and RA CB,
- ✓ Maximum volume of investments in shares or bonds issued by the RA companies,

- ✓ Maximum volume of investments in shares and bonds issued by foreign companies,
- ✓ Maximum volume of investments in other securities,
- ✓ Maximum size of risk from securities of foreign countries,
- ✓ Maximum size of risk from derivative tools (forward, futures, option),
- ✓ Maximum size of risk per securities of one economic sector,
- ✓ Maximum size of risk from securities issued by entities interrelated with the Bank,
- ✓ Maximum size of risk from securities of one issuer,
- ✓ Norm for limitation of inventory of the Bank assets.

For each standard 3 zones of risk are specified:

1. low risk zone,
2. high risk zone,
3. marginal risk zone.

Risks are constantly mitigated and neutralized basing on regular monitoring.

Foreign currency risk

Foreign currency risk – is the risk under impact of which will fluctuate the value of financial tools. The Board established limits for foreign currency positions. The positions are controlled daily.

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 2012. 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	30.06.2012			31.12.2011		
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	(1,914)	(1,531)	+5	3,857	3,086
USD	-5	1,914	1,531	-5	(3,857)	(3,086)
EUR	+8	182	145	+8	(612)	(490)
EUR	-8	(182)	(145)	-8	612	490

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, 2012 is as follows:

	AMD	I group CCY*	II group CCY**	Total
Assets				
Cash and balances with the CBA	11,540,774	6,247,630	898,206	18,686,610
Precious metals	0	250,295	0	250,295
Amounts due from other financial institutions	931,587	8,448,296	158,109	9,537,992
Trading securities	19,171	0	0	19,171
Loans and advances to customers	15,898,437	37,092,076	0	52,990,513
Investments available for sale	5,307,155	0	0	5,307,155
Total assets	33,697,124	52,038,297	1,056,315	86,791,736
Liabilities				
Amounts due to financial institutions	10,104,973	7,915,274	875	18,021,122
Amounts due to customers	18,546,960	40,444,062	259,791	59,250,813
Debt securities issued	0	0	0	0
Total liabilities	28,651,933	48,359,336	260,666	77,271,935
Net position as at June 30, 2012	5,045,191	3,678,961	795,649	9,519,801
Net position as at December 31, 2011	11,540,774	6,247,630	898,206	18,686,610
Commitments and contingent liabilities as at 30 June 2012	2,584,135	6,392,854	0	8,976,989
Commitments and contingent liabilities as at 31 December 2011	2,170,699	7,034,618	0	9,205,317

* 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

32.2.1 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.

<u>AMD thousand</u>	Special risk	General risk	Total commercial securities risk
As at June 30, 2012	9,040	35,080	44,120
As at December 31, 2011	11,998	35,501	47,499

32.2.2 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 30.06.2012. Accounting of the capital sensibility is made by revaluation of the assets available for sale and with fixed interest rates as of 30.06.2012, 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 30.06.2012

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%	192	3224	5671	19526	14677	43289
USD	+1%		0	0	0	0	-
AMD	-1%	-192	-3224	-5671	-19526	-14677	-43289
USD	-1%	0	0	0	0	0	-

AMD thousand 31.12.11

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
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AMD thousand

31.12.11

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%	1206	2732	3196	22119	6327	35580
USD	+1%	-	-	-	-	-	-
AMD	-1%	-1206	-2732	-3196	-22119	-6327	-35580
USD	-1%	-	-	-	-	-	-

Liquidity Risk

Liquidity Risk is the risk of adverse impact on the interests of owners, customers and other beneficiaries of financial organization. It arises out of being unable to perform current liabilities on a timely basis through economically justified expenses.

Liquidity risk is the risk, when the Bank has difficulties in attraction of funds to repay liabilities. Liquidity risk occurs in case of inadequacy of terms of assets and liabilities. Compliance of terms of assets and liabilities with interest rates and/or controlled inadequacy is the significant management factor of financial organizations or the Bank. Partial inadequacy of terms of assets and liabilities is common for financial institutions due to indefinite term or variety of some transactions. It enables to increase profitability, but the risk of loss growth as well.

The Bank measures, assesses and controls Liquidity Risk pursuant to the current “Instruction on internal standards of banking risk management and control”. The Instruction specifies limits and zones for the following standards:

1. Standard for overall cumulative GAP,
2. Standard for high liquidity assets diversification (standard reducing physical risk),
3. Maximum risk on part of the Bank corporate debtors,
4. Maximum risk on part of the Bank one debtor.

For each standard 3 zones of risk are specified:

1. low risk zone,
2. high risk zone,
3. marginal risk zone.

Risks are mitigated and neutralized basing on regular monitoring. See the table below for details:

32.3. Liquidity

Risk

**Reporting
period**

30/06/12

Article	Non-working		Period before due date						non-term	Total
	Overdue	Time	Demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years		
On maturity of assets										
Cash and cash-equivalents, balances in the RA CB			19,046,724						229,010	19,275,734
Standardized bank bullions of precious metals, and souvenir coins			178,611							178,611
Claims to banks and other financial organizations			3,941,077	6,133,017		128,594	60,529		314,268	10,577,485
Financial assets through profit and loss				27,929		251,376	40,443	150,505		470,253
Customer loans & borrowings	249,297	3,804,984	-	4,738,863	4,187,151	7,839,268	13,779,494	12,263,173		46,862,230
Available for sale				71,197	197,749	674,788	1,985,669	1,207,971	180,135	4,317,508
Bonds under repo agreements										-
Other claims			1,877	1,606,187	244,676				5,037,873	6,890,613
TOTAL	249,297	3,804,984	23,168,289	12,577,193	4,629,576	8,894,026	15,866,135	13,621,649	5,761,286	88,572,434
										-
On due dates of liabilities										

Liabilities to banks and other financial organizations			179,764	2,404,854	499,365	1,690,330	6,534,729	4,108,659	58,596	15,476,297
Accounts payable for Repo agreements										-
Liabilities to customers, including:	-	-	20,528,692	8,515,821	7,078,981	14,300,351	2,395,409	2,713,302	-	55,532,555
- Demand deposits			20,528,692							20,528,692
- Time deposits				8,515,821	7,078,981	14,300,351	2,395,409	2,713,302		35,003,863
- Other										-
Liabilities regarding securities issued by banks						376,578				376,578
Other liabilities	-	-	581,160						6,511	587,671
TOTAL	-	-	21,289,616	10,920,675	7,578,346	16,367,259	8,930,138	6,821,961	65,107	71,973,101
"Large" liabilities*	-	-	3,305,594	790,440	316,349	556,662	6,394,504	3,690,094		15,053,643
Net liquidity gap										
Cumulative liquidity gap	249,297	4,054,281	5,932,954	7,589,472	4,640,702	(2,832,531)	4,103,466	10,903,154	16,599,333	
Contingent off-balance-sheet liabilities	-		5,124,157	2,466,020	86,050	1,574,802	386,014	11,000		9,648,043

Previous reporting period

31/12/11

Article	Non-working		Period before due date						non-term	Total
	Overdue	Time	Demand	up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	over 5 years		
On maturity of assets										
Cash and cash-equivalents, balances in the RA CB			68,702,302						434,469	69,136,771
Standardized bank bullions of precious metals, and souvenir coins			146,308							146,308
Claims to banks and other financial organizations			4,291,595	5,742,045			30,782		1,543,080	11,607,502
Financial assets through profit and loss					27,050		90,902	2,665		120,617
Customer loans & borrowings	258,889	2,070,176	-	4,190,262	4,989,089	7,213,127	15,319,626	12,149,085		46,190,254
Available for sale				3,955	27,019		2,376,875	1,029,552	177,991	3,615,392
Held before due date				1,032,481						1,032,481
Other claims			1,877	667,445	59,228				5,020,565	5,749,115
TOTAL	258,889	2,070,176	73,142,082	11,636,188	5,102,386	7,213,127	17,818,185	13,181,302	7,176,105	137,598,440
On due dates of liabilities										
Liabilities to banks and other financial organizations			2,174,217	1,247,635	758,824	1,632,142	9,032,768	3,099,438	57,866	18,002,890
Accounts										

payable for Repo agreements										
Liabilities to customers, including:	-	-	68,616,893	7,680,313	6,378,354	14,743,726	3,626,944	1,327,864	-	102,374,094
- Demand deposits			68,616,893							68,616,893
- Time deposits				7,680,313	6,378,354	14,743,726	3,626,944	1,327,864		33,757,201
- Other										-
Liabilities regarding securities issued by banks						361,093				361,093
Other liabilities	-	-	265,560			106,255			6,452	378,267
TOTAL	-	-	71,056,670	8,927,948	7,137,178	16,843,216	12,659,712	4,427,302	64,318	121,116,344
"Large" liabilities*			47,603,946	409,564		771,540		1,164,412		49,949,462
Net liquidity gap										
Cumulative liquidity gap	258,889	2,329,065	4,414,477	7,122,717	5,087,925	(4,542,164)	616,309	9,370,309	16,482,096	-
Contingent off-balance-sheet liabilities	-		5,135,438	2,016,945	559,535	1,006,499	486,900			9,205,317

Notification 33. « 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.