Declaration of the Management of "Converse Bank" CJSC

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

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

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

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

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

Executive Director	Tigran Davtyan
Chief Accountant	Gohar Harutyunyan

CONVERSE BANK CJSC
NOTIFICATIONS ENCLOSED WITH FINANCIAL STATEMENTS
AS OF 31.12.2012

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 31 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
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

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
	Arman Asatryan

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 403.58 AMD = 1 USD (as of December 31, 2011 the rate was 385.77 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 »

	01.10.12-31.12.12	01.01.12-31.12.12	01.10.11-31.12.11	01.01.11-31.12.11
Interest and similar income	*2,363,943*	*8,362,662*	*2,329,233*	*7,387,700*
Loans and advances to customers	2,158,752	7,546,527	1,604,271	6,138,018
Debt securities	161,273	578,569	81,244	424,021
Amounts due from banks	21,778	129,004	42,242	75,154
Reverse repurchase agreements	22,035	108,151	13,644	81,213
Interest on impaired loans	0	0	587,732	668,890
Other interest incomes	105	411	100	404

Notification 6. "Interest and similar expense"

	01.10.12-31.12.12	01.01.12-31.12.12	01.10.11-31.12.11	01.01.11-31.12.11
Interest and similar expense	*(1,133,669)*	*(4,129,880)*	*(936,652)*	*(3,584,957)*
Amounts due to customers	(846,697)	(2,933,707)	(590,257)	(2,408,829)
Amounts due to credit institutions	(286,972)	(1,188,335)	(330,889)	(1,132,094)
Debt securities issued	0	0	(6,646)	(30,523)
Repurchase agreements	0	(7,838)	(8,860)	(13,511)
Other interest expense	0	0	0	0

Notification 7. "Net commission fees"

	01.10.12-31.12.12	01.01.12-31.12.12	01.10.11-31.12.11	01.01.11-31.12.11
Fee and commission income	*403,224*	*1,472,776*	*368,560*	*1,391,611*
Cash collection	18,536	89,234	54,314	112,611
Wire transfer fees	118,842	407,867	108,322	425,090
From Loans	74,070	285,349	83,572	305,305
Service fee for account maintenance of Municipal and State budgets	0	0	0	0
Transaction with payment cards	160,183	576,597	88,201	448,324
Guarantees and letters of credit	5,848	49,236	18,201	59,265
Other fees and commissions	25,745	64,493	15,950	41,016
Fee and commission expense	*(120,409)*	*(386,853)*	*(93,661)*	*(341,782)*
Wire transfer fees	(15,092)	(58,277)	(12,789)	(48,004)
Cash operations	(43,003)	(109,294)	(29,912)	(111,071)
Plastic cards	(51,710)	(204,156)	(48,561)	(174,420)
Guarantees and letters of credit	(751)	(751)	0	0
Other fees paid	(9,853)	(14,375)	(2,399)	(8,287)
Net commission fees	*282,815*	*1,085,923*	*274,899*	*1,049,829*

Notification 8. "Net trading income"

	01.10.12-31.12.12	01.01.12-31.12.12	01.10.11-31.12.11	01.01.11-31.12.11
Net trading income	*101,849*	*1,150,842*	*502,844*	*1,263,131*
Gains less losses from trading in foreign currencies	287,948	996,663	228,455	882,800
Gains less losses from revaluation of foreign currencies	(194,813)	158,142	303,108	320,816
Gains less losses from foreign exchange translation of trading assets	(3,955)	8,433	25,540	23,386
Gains less losses from swap	(407)	(29,629)	(57,701)	(62,319)
Gains less losses from trading in trading assets	293	4,066	0	117
Gains less losses from trading in assets available for	229	613	(11)	90,737

sale					
Net gains from operations of percious metals		12,554	12,554	3,453	7,594

Notification 9. "Other operational income"

		01.10.12-31.12.12	01.01.12-31.12.12	01.10.11-31.12.11	01.01.11-31.12.11
Other operational income		*117,213*	*329,381*	*124,714*	*311,794*
Income from sale of fixed assets		2,262	4,785	(7)	2,400
Fines and penalties received		97,348	248,915	108,808	152,978
income from ceded loan		0	0	0	69,227
Income from grant		606	2,424	2,422	2,422
Other income		16,997	73,257	13,491	84,767

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

On the part of loans and borrowings to customers		01.01.12-31.12.12	01.01.11-31.12.11
Beginning balance		4,366,887	3,056,051
Net provisions to the reserve / (recovery)		**226,223**	**1,586,723**
(Writing off)/ return		151,858	(275,887)
Ending balance		4,744,968	4,366,887

Against other assets		01.01.12-31.12.12	01.01.11-31.12.11
Beginning balance		103,556	54,184
Net provisions to the reserve / (recovery)		**(54,734)**	**78,113**
(Writing off)/ return		(29,371)	(28,741)
Ending balance		19,451	103,556

Against investments		01.01.12-31.12.12	01.01.11-31.12.11
Beginning balance		0	4,543
Net provisions to the reserve / (recovery)			**0**
(Writing off)/ return			**(4543)**
Ending balance		0	0

Against off-balance sheets with credit risk		01.01.12-31.12.12	01.01.11-31.12.11
Beginning balance		40,699	16,183
Net provisions to the reserve / (recovery)		**(19,286)**	**24,516**
(Writing off)/ return			
Ending balance		21,413	40,699
Total net provisions to the reserves		**152,203**	**1,689,352**

Notification 11,20,21. "Total administrative expenses".

	01.10.12-31.12.12	01.01.12-31.12.12	01.10.11-31.12.11	01.01.11-31.12.11
Personnel expenses	(668,983)	(2,442,474)	(625,670)	(1,881,738)
Social security payments	(63,999)	(216,891)	(52,104)	(179,634)
Depreciation of PPE	(248,559)	(793,484)	(160,007)	(621,215)
Amortization of intangibles	(10,645)	(44,672)	(50,384)	(76,876)
Repair and maintenance of tangible and intangible assets	(35,632)	(139,737)	(34,017)	(122,361)
Advertising and representation	(116,906)	(396,337)	(98,695)	(215,107)
Business trip	(6,759)	(18,569)	(10,373)	(27,777)
Communication	(27,227)	(109,336)	(24,966)	(115,311)
Operating lease expenses	(77,798)	(281,321)	(59,316)	(221,420)
Taxes, other than income tax	(60,086)	(226,979)	(63,435)	(215,878)
Consulting and professional services	(14,841)	(80,297)	(58,740)	(291,359)
Security	(36,016)	(129,082)	(25,647)	(101,474)
Loss on sale of fixed assets	0	0	0	0
Office supply	(13,519)	(42,847)	(14,334)	(29,071)
Incasation expenses	(18,161)	(70,593)	(18,379)	(69,798)
Insurance	(51,944)	(200,730)	(86,800)	(191,432)
Other operating expenses	(83,158)	(203,823)	(27,890)	(191,981)
Total other expenses	**(1,534,233)**	**(5,397,172)**	**(1,410,757)**	**(4,552,432)**

Average number of employees in the forth quarter of 2012 year comprised 684 (against 581 of the forth quarter of 2011) ; in the forth quarter of 2012 the average monthly salary of one employee comprised AMD 297.6 thousand (against AMD 269.9 thousand of the forth quarter of 2011).

Notification 12. « Other operational expenses»

Income tax expense	01.10.12-31.12.12	01.01.12-31.12.12	01.10.11-31.12.11	01.01.11-31.12.11
Penalties paid	(99)	(99)	(810)	(2,482)
Other operational expenses	(40,385)	(98,887)	(19,473)	(58,267)
Total other operational expenses	**(40,484)**	**(98,986)**	**(20,283)**	**(60,749)**

Notification 13. « Income tax expense»

Income tax expense	01.10.12-31.12.12	01.01.12-31.12.12	01.10.11-31.12.11	01.01.11-31.12.11
Current tax	(27,090)	(27,090)		
Deferred tax	(46,019)	(182,411)	195,529	(50,509)
Total	**(73,109)**	**(209,501)**	**195,529**	**(50,509)**

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 31.12.12

Deferred tax assets, including:	484,515		(428,915)	(40,353)	15,247
Financial assets calculated with fair value and re-estimated by profit/loss	3,822				3,822
On securities available for sale	8,868			(40,353)	(31,485)
On fixed assets	2,852		15,553		18,405
Transferred tax loss	529,039		(529,039)		0
Other liabilities	12,968		11,538		24,506
Influence of unrecognized tax loss	(73,034)		73,034		0
Deferred tax liabilities, including:	(845,609)	270,549	219,414		(355,646)
On commercial securities	(792,859)		467,391		(325,468)
On other assets	(52,750)		(4,518)		(57,268)
Tax preference deduction		270,549	(243,459)		27,090
Net deferred tax asset/liability	**(361,094)**	**270,549**	**(209,501)**	**(40,353)**	**(340,399)**

INTERIM FINANCIAL STATEMENT

"31" December, 2012

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

(name and address of the bank)

(thous. drams)

	Item	Notes	Current period	Previous year
1	**Assets**			
1.1	Cash and balances with CBA	14	24,422,298	69,136,771

1.2	Precious metals	15	118,037	146,308
1.3	Trading securities	16	168,448	120,617
1.4	Amounts due from other financial institutions	17	17,811,757	11,607,502
1.5	Loans and advances to customers	18	60,371,483	46,190,254
1.6	Investments available for sale	19	5,404,400	3,610,849
1.7	Securities pledged under repurchase agreements	29	-	1,032,481
1.8	Property, plant and equipment	20	4,811,309	4,801,785
1.9	Intangible assets	21	178,364	218,780
1.10	Assets held for sale	22	2,922,821	59,228
1.11	Deferred tax assets	13	-	-
1.12	Prepaid income taxes		56,750	215,300
1.13	Other assets	23	1,092,811	454,022
	Total assets		**117,358,478**	**137,593,897**
2	LIABILITIES AND EQUITY			
	Liabilities			
2.1	Amounts due to financial institutions	24	14,276,217	18,002,890
2.2	Amounts due to customers	25	84,811,444	102,374,094
2.4	Debt securities issued	26	-	-
2.5	Deferred tax liabilities	13	340,399	361,094
2.6	Other liabilities	27	485,105	337,568
2.7	Other provisions	28	21,413	40,699
	Total liabilities		**99,934,578**	**121,116,345**
3	**Equity**			
3.1	Share capital	30	**4,860,033**	**4,860,033**
3.2	Share premium		**63,233**	**63,233**
3.3	Statutory general reserve		**715,505**	**715,505**
3.3.1	Other reserves		210,791	(35,468)
3.3.2	Buildings		2,974,458	3,295,797
3.4	Retained earnings		**8,599,880**	**7,578,452**
	Total capital			16,477,552

			17,423,900	
	Total liabilities and capital		117,358,478	137,593,897

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

		31.12.12	31.12.11(Audited)
Cash and cash equivalents and balances with CBA		**24,422,298**	**69,136,771**
Cash in hand		7,048,992	5,892,642
Other money market placements		605	7,138
Correspondent account with the CBA		16,952,701	62,802,522
Deposited funds with the CBA (ArCa)		420,000	434,469

Notification 14-1. "cash and cash equivalents"

Cash and cash equivalents	**01.01.12-31.12.12**	**01.01.11-31.12.11**
Cash in hand	7,048,992	5,892,642
Other money market placements	605	7,138
Correspondent account with the CBA	16,952,701	62,802,522
Deposit accounts with CBA	*0*	0
Correspondent accounts with financial institutions	12,737,590	3,699,453
Total cash and cash equivalents	**36,739,887**	**72,401,755**

Notification 15. "Precious Metals"

Precious Metals		31.12.12	31.12.11(Audited)
Gold		**118,037**	**146,308**
Total		118,037	146,308

Notification 17. "Amounts due from other financial institutions"

		31.12.12	31.12.11(Audited)
Amounts due from other financial institutions		**17,811,757**	**11,607,502**
Correspondent accounts with financial institutions		12,737,590	3,699,453
Loans and deposits to financial institutions		3,636,433	6,865,651

Loans under repurchase accounts		842,910	532,434
Other amounts		594,824	509,964
Derivatives			

Notification 18. "Loans and advances to customers"

		31.12.12	31.12.11
Loans and borrowings to customers		**60,371,483**	**46,190,254**
Loans		59,553,574	46,706,224
Factoring		23,293	108,596
Overdraft		5,248,922	3,532,582
Letters of credit and bank guarantees		136,255	123,538
Financial leasing		154,407	86,201
Allowance for impairment of loans and advances to customers		(4,744,968)	(4,366,887)

As of December 31 2012, the Bank had a concentration of loans represented by AMD 11,434,187 thousand due from the ten largest third party entities and parties related with them (18.94%of gross loan portfolio). (2011: AMD 11,174,962 thousand or 22.1%:). An allowance for individual impairment in the amount of AMD 230,576 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	**31.12.2012**	**31.12.2011**
Manufacture	5,882,357	4,740,950
Agriculture	2,143,239	1,534,135
Construction	7,737,287	5,041,161
Trading	8,560,469	5,058,820
Transport	2,042,209	393,406
Services	880,256	589,241
Consumer	22,209,548	17,708,604
Mortgage	12,613,852	9,699,720
Other sectors	3,047,234	5,791,104
Less allowance for loan impairment	(4,744,968)	(4,366,887.00)
Total loans and advances to customers	**60,371,483.00**	**46,190,254**

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

In thousand Armenian drams

	31.12.2012	31.12.11 (Audited)
State owned enterprises	1,406,223	1,521,648
Privately held companies	23,175,498	18,978,518
Individuals	35,239,261	27,061,106
Sole proprietors	3,674,964	2,751,007
Non-commercial institutions	7,280	4,929
Accured interest	1,613,225	239,933
Total loans and advances to customers	**65,116,451**	**50,557,141**
Less allowance for loan impairment	(4,744,968)	(4,366,887)
Total loans and advances to customers	**60,371,483**	**46,190,254**

Loans to individuals comprise the following products:

In thousand Armenian drams

	31.12.12	31.12.11 (Audited)
Mortgage loans	12,613,852	9,699,720
Consumer loans	21,053,906	15,070,620
Car loans	1,571,503	2,290,766
Total loans and advances to individuals (gross)	**35,239,261**	**27,061,106**

The finance lease receivables may be analyzed as follows:

In thousand Armenian drams

	31.12.12	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	198,068	106,647
	198,068	**111,370**
Unearned future finance income on finance leases	(43,661)	(25,169)
Net investment in finance leases	**154,407**	**86,201**

In thousand Armenian drams	31.12.12	31.12.11 (Audited)
Gross investment in finance leases, receivable:		
Not later than 1 year		4,723

The allowance for uncollectable finance lease receivables included in the allowance for impairment amounted to AMD 1,544 thousand at 31 December 2012.

Notification 19. « Investment securities»

	31.12.12	31.12.11 (Audited)
Investment securities	**5,404,400**	**3,610,849**
Corporate bonds	95,945	9,603
Securities issued by the Ministry of Finance	4,926,555	3,427,798
Shares of Armenian companies	114,481	107,794
Shares of OECD countries companies	267,419	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
Initial value								
As at 01.01.12	4,364,730	1,608,617	94,807	916,904	20,457	134,689	455,353	7,595,557
Replenishment /internal flow	12,980	786,693	107,596	251,978	207,049	215,874	154,686	1,736,856
Alienation /writing off/internal flow	-	(466,674)	(70,397)	(99,531)	(224,985)	(2,432)	(150,430)	(1,014,449)
As at 31.12.12	**4,377,710**	**1,928,636**	**132,006**	**1,069,351**	**2,521**	**348,131**	**459,609**	**8,317,964**
Accumulated depreciation								
As at 01.01.12	(391,611)	(1,065,377)	(51,401)	(747,415)		(82,615)	(236,573)	(2,574,992)
Replenishment	(393,372)	(258,977)	(14,643)	(80,567)		(45,924)	(44,672)	(838,155)
Alienation /writing off		47,972	22,576	11,874		2,434	-	84,856
As at 31.12.12	(784,983)	(1,276,382)	(43,468)	(816,108)	-	(126,105)	(281,245)	(3,328,291)
Balance value	3,592,727	652,254	88,538	253,243	2,521	222,026	178,364	4,989,673

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 01.01.11	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	7,595,557
Accumulated depreciation								
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)	(2,574,992)
Balance value	3,973,119	543,240	43,406	169,489	20,457	52,074	218,780	5,020,565

Notification 23. "Other assets"

		31.12.12	31.12.11 (Audited)
Other assets		**1,092,811**	**454,022**
Prepayments and other debtors		375,202	375,473
Prepayments to budget		17,738	13,310
Settlements with employees		20	54
Other assets		102,513	40,263
Allowance for impairment of other assets		(19,451)	(103,556)
Accounts receivable		340	600
Other prepaid taxes		3,239	260
Materials		165,349	2,909
Other		447,861	122,832

Notification 24. "Amounts due to financial institutions"

		31.12.12	31.12.11 (Audited)
Amounts due to financial institutions		**14,276,217**	**18,002,890**
Obligations of CBA		3,327,811	4,370,431
Subordinated debt		1,164,278	1,164,755
Correspondent accounts with banks		305,109	94,431
Loans and deposits from other banks		0	2,307,403
Current accounts of other financial organizations		3,627,354	2,691,053
Loans and deposits from other financial organizations		5,850,765	7,374,817
Other		900	0

Notification 25. "Amounts due to customers"

		31.12.12	31.12.11 (Audited)
Amounts due to customers		**84,811,443**	**102,374,094**
Government			
- Current/settlement accounts		0	23
loans received		2,203,846	2,883,428
Corporate customers:			
- Current/settlement accounts		31,355,872	62,092,558
- Term deposits		14,440,907*	9,153,374
Retail customers:			
- Current/demand accounts		9,223,525	6,524,312
- Term deposits		27,587,293	21,720,399

**Notification 25a . "Amounts due to customers"*

		31.12.12	31.12.11 (Audited)
Corporate customers:			
Subordinated debt		**2,421,480**	

	Currensy	in USD	in th. drams	
Subordinated debt 31.12.12		**6,000,000**	**2,421,480**	
09/01/12-09/01/17	USD	1,000,000	403580	2%
09/01/2012-09/01/17	USD	3,000,000	1210740	8%
31/08/2012-31/08/17	USD	2,000,000	807160	2%

Notification 27."Other liabilities"

		31.12.12	31.12.11 (Audited)
Other liabilities		**485,104**	**337,568**
Accounts payable		163,030	112,554
Tax payable, other than income tax		141,331	106,255
Reveunes of future periods		3,801	2,826
Grants related to assets		40,266	40,544
Due to personnel		88,205	61,470
Due to on payment checks		6,976	6,452
Other		41,495	7,467

Notification 30. "Total equity"

As at 31 December 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 statues, the share capital consists of 16,200 ordinary shares, all of which have a par value of AMD 300,000 each and of 333 privileged shares, all of which have a par value of AMD 100 each.

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

In thousand Armenian drams	**31.12.2012**	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 31 December 2012, 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:

	31.12.12	31.12.11 (Audited)

	31.12.12	31.12.11 (Audited)
Contract amount		
Guarantees and letters of credit	971,322	4,069,879
Loan line liabilities	195,011	1,702,118
Credit card liabilities	173,864	80,603
Unutilized parts of overdrafts	4,955,238	3,352,717
Letters of credit	0	0
Total liabilities with credit risk	**6,295,435**	**9,205,317**
Allowance for impairment of credit related commitments	**(21,413)**	**(40,699)**
Total liabilities with credit risk	**6,274,022**	**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 31/12/12

Item	RA	OECD countries	Non-OECD countries	Total
Assets				
Cash and balances with the CBA	24,422,298			24,422,298

Precious Metals	118,037			118,037
Amounts due from other financial institutions	3,356,646	12,531,056	1,924,055	17,811,757
Trading securities	168,448			168,448
Loans and advances to customers	60,283,099	37,434	50,950	60,371,483
Investments available for sale	5,136,981	267,419		5,404,400
Total assets	**93,485,509**	**12,835,909**	**1,975,005**	**108,296,423**

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 December 31 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	24,422,298									**24,422,298**
Precious metals	**118,037**									**118,037**
Trading securities						**168,448**				**168,448**
Amounts due from other financial institutions	**17,811,757**									**17,811,757**
Loans and advances to customers		**3,936,419**	**1,856,613**	**8,113,367**	**6,230,795**		**34,408,257**	**2,879,998**	**2,946,034**	**60,371,483**
Investments available for sale	**427,845**	**-**	**-**	**-**	**-**	**4,926,555**	**-**		**50,000**	**5,404,400**
As at 31 December 2012	**42,779,937**	**3,936,419**	**1,856,613**	**8,113,367**	**6,230,795**	**5,095,003**	**34,408,257**	**2,879,998**	**2,996,034**	**108,296,423**
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 deprecation 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

	31.12.12	31.12.11 (Audited)
Loans and borrowings to customers		
Industry	-	-
Agriculture	2.3	0.9
Building	-	-
Transport	-	3.0
Trade	0.8	0.7
Catering and service	2.0	0.7
Consumer	0.7	2.3
Mortgage	1.2	2.2
Other sectors	0.2	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.

In thousand Armenian drams

31.12.2012	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacture	6364	4367			**10,731**
Agriculture	4901	13135		7397	**25,433**
Construction					**0**
Trading	9186	8465	25525	1340	**44,516**
Transportation & communication				1308	**1,308**
Consumer					**0**
Mortgage	60654	35287	23791	648424	**768,156**
Services	66287	39690	11387	65324	**182,687**
Other sectors				196360	**196,360**
Total	**147,392**	**100,944**	**60,703**	**920,153**	**1,229,192**

In thousand Armenian drams

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

In thousand Armenian drams

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

In thousand Armenian drams	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	31.12.2011 Total
Loans and advances to customers					
Manufacture		**4,960**		**37,311**	**42,271**
Agriculture	**7,568**	**5,506**		**23,503**	**36,577**
Construction					
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	31.12.12	31.12.11 (Audited)
Manufacture	1,749,343	2,036,576
Agriculture	6279	0
Construction	1,324,003	1,994,116
Trading	771,485	1,087,842
Transportation & communication	166,748	170,334
Consumer	18,461	15,245
Mortgage	0	0
Other		181,854
Total renegotiated loans	**4,036,319**	**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 December 31 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	**31.12.2012**			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	(1,151)	(921)	+5	3,857	3,086
USD	-5	1,151	921	-5	(3,857)	(3,086)
EUR	+8	307	245	+8	(612)	(490)
EUR	-8	(307)	(245)	-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 December 31, 2012 is as follows:

	AMD	I group CCY*	II group CCY**	Total
Assets				
Cash and balances with the CBA	12,673,258	11,449,712	299,328	24,422,298
Precious metals	0	118,037	0	118,037
Amounts due from other financial institutions	853,546	15,837,882	1,120,329	17,811,757
Trading securities	168,448	0	0	168,448
Loans and advances to customers	15,540,546	44,830,937	0	60,371,483
Investments available for sale	5,404,400	0	0	5,404,400
Total assets	34,640,198	72,236,568	1,419,657	108,296,423
Liabilities				
Amounts due to financial institutions	8,078,209	6,195,151	2,857	14,276,217
Amounts due to customers	21,945,083	62,703,399	162,962	84,811,444
Debt securities issued	0	0	0	0
Total liabilities	30,023,292	68,898,550	165,819	99,087,661
Net position as at December 31, 2012	4,616,906	3,338,018	1,253,838	9,208,762
Net position as at December 31, 2011	**11,540,774**	**6,247,630**	**898,206**	**18,686,610**

Commitments and contingent liabilities as at 31 December 2012	2,764,347	3,531,088	0	6,295,435
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.

AMD thousand	Special risk	General risk	Total commercial securities risk
As at December 31, 2012	6,401	22,517	28,918
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 31.12.2012. Accounting of the capital sensibility is made by revaluation of the assets available for sale and with fixed interest rates as of 31.12.2012, 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 **31.12.2012**

			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%	1684	1026	6252	23711	19236	51909
USD	+1%		0	0	0	0	-
AMD	-1%	-1684	-1026	-6252	-23711	-19236	-51909
USD	-1%	0	0	0	0	0	-

AMD thousand							31.12.2012
			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 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							
USD	+1%	1206	2732	3196	22119	6327	35580
	+1%	-	-	-	-	-	-
AMD							
USD	-1%	-1206	-2732	-3196	-22119	-6327	-35580

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:

<u>32.3. Liquidity Risk</u>

Reporting period 31/12/12

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			24,002,298						420,000	**24,422,298**
Standardized bank bullions of precious metals, and souvenir coins			118,037							**118,037**
Claims to banks and other financial organizations			13,524,543	3,901,896	60,537				324,781	**17,811,757**
Financial assets through profit and loss							16,834	151,614		**168,448**
Customer loans & borrowings	495,625	2,947,663	-	5,374,094	4,866,754	9,605,277	19,939,505	17,142,565		**60,371,483**
Available for sale					102,575	625,225	2,371,119	1,923,582	381,900	**5,404,400**
Bonds under repo agreements				-						**-**
Other claims	6,368	4,725	-	1,138,468	2,922,821				4,989,673	**9,062,055**
TOTAL	**501,993**	**2,952,388**	**37,644,878**	**10,414,458**	**7,952,687**	**10,230,502**	**22,327,458**	**19,217,761**	**6,116,354**	**117,358,478**
										-

										On due dates of liabilities
Liabilities to banks and other financial organizations			284,646	2,008,288	706,178	2,665,519	7,476,942	1,074,107	60,537	**14,276,217**
Accounts payable for Repo agreements										**-**
Liabilities to customers, including:	-	-	40,579,397	10,126,345	7,657,174	20,894,440	2,000,045	3,554,042	-	**84,811,443**
- Demand deposits			40,579,397							**40,579,397**
- Time deposits				10,126,345	7,657,174	20,894,440	2,000,045	3,554,042		**44,232,046**
- Other										**-**
Liabilities regarding securities issued by banks						340,399				**340,399**
Other liabilities	-	-	499,541						6,976	**506,517**
TOTAL	**-**	**-**	**41,363,584**	**12,134,633**	**8,363,352**	**23,900,358**	**9,476,987**	**4,628,149**	**67,513**	**99,934,576**
"Large" liabilities*	**-**	**-**								
										Net liquidity gap
Cumulative liquidity gap	**501,993**	**3,454,381**	**(264,325)**	**(1,984,500)**	**(2,395,165)**	**(16,065,021)**	**(3,214,551)**	**11,375,061**	**17,423,902**	
Contingent off-balance-sheet liabilities	-		5,324,112	268,374	263,015	95,131	344,802			**6,295,434**

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	173,448	**3,610,849**
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**	**7,171,562**	**137,593,897**
										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**	**16,477,553**	
										-
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, polices and processes from the previous years.

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

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

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.