Grant Thornton

Consolidated Financial Statements and Independent Auditor's Report

"ACBA-CREDIT AGRICOLE BANK" closed joint stock company

31 December 2012

Contents

Consolidated statement of comprehensive income

In thousand Armenian drams	Notes	**Year ended December 31, 2012**	Year ended December 31, 2011
Interest and similar income	6	**25,195,719**	22,423,189
Interest and similar expense	6	**(11,024,844)**	(8,069,688)
Net interest income		**14,170,875**	14,353,501
Fee and commission income	7	**2,453,940**	2,156,398
Fee and commission expense	7	**(856,978)**	(708,869)
Net fee and commission income		**1,596,962**	1,447,529
Net trading income	8	**1,135,847**	897,057
Gains less losses on investments available for sale		**-**	126,406
Other income	9	**882,253**	1,028,306
Impairment charge for asset losses	10	**(1,720,509)**	(387,419)
Staff costs	11	**(5,929,840)**	(5,241,045)
Depreciation of property and equipment	19	**(1,105,379)**	(1,019,801)
Amortization of intangible assets	20	**(217,825)**	(206,350)
Other expenses	12	**(3,335,777)**	(3,142,807)
Profit before income tax		**5,476,607**	7,855,377
Income tax expense	13	**(1,362,299)**	(1,716,584)
Profit for the year		**4,114,308**	6,138,793
Other comprehensive income:			
Net unrealized gains from changes in fair value		**200,705**	155,454
Net gains realized to comprehensive income statement on disposal of available-for-sale instruments		**-**	(149,105)
Income tax relating to components of other comprehensive income		**(790,381)**	(1,270)
Other comprehensive income for the year, net of tax		**(589,676)**	5,079
Total comprehensive income for the year		**3,524,632**	6,143,872

Profit for the year		
Equity holders of parent entity	**4,032,485**	6,067,529
Non-controlling interests	**81,823**	71,264

Comprehensive income for the year		
Equity holders of parent entity	**3,442,809**	6,072,608
Non-controlling interests	**81,823**	71,264

The accompanying notes on pages 7 to 54 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2012	As of December 31, 2011
ASSETS			
Cash and balances with CBA	14	**30,833,022**	29,770,986
Amounts due from other financial institutions	15	**28,904,706**	19,568,764
Derivative financial assets	16	**557,882**	207,415
Loans and advances to customers	17	**159,296,332**	146,131,383
Investments available for sale	18	**8,816,365**	4,380,443
Property, plant and equipment	19	**15,203,528**	14,918,747
Goodwill and other intangible assets	20	**855,169**	1,049,538
Other assets	21	**2,944,716**	2,204,562
TOTAL ASSETS		**247,411,720**	218,231,838
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to CBA	22	**10,531,374**	9,791,564
Amounts due to other financial institutions	23	**93,788,667**	87,211,429
Amounts due to customers	24	**91,648,683**	73,077,704
Derivative financial liabilities	16	**25,129**	160,316
Current income tax liabilities		**179,267**	907,791
Deferred income tax liabilities	13	**743,347**	66,087
Other liabilities	25	**1,633,698**	1,680,024
Total liabilities		**198,550,165**	172,894,915
Equity			
Share capital	26	**30,000,000**	30,000,000
Statutory general reserve		**2,595,192**	2,595,192
Other reserves		**4,391,568**	4,998,799
Retained earnings		**10,533,349**	6,483,309
Total equity attributable to shareholders of parent entity		**47,520,109**	44,077,300
Non-controlling interests in equity		**1,341,446**	1,259,623
Total equity		**48,861,555**	45,336,923
TOTAL LIABILITIES AND EQUITY		**247,411,720**	218,231,838

The consolidated financial statements from pages 3 to 54 were signed by the Bank's General Director and Chief Accountant on 22 March 2013.

The accompanying notes on pages 7 to 54 are an integral part of these consolidated financial statements.

Stepan Gishyan
General Director

Sedrak Javadyan
Chief accountant

Consolidated statement of changes in equity

	Attributable to equity holders of the Bank								
In thousand Armenian drams	**Share capital**	**Share premium**	**Statutory general reserve**	**Revaluation reserve of securities available for sale**	**Revalua-tion reserve of PPE**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
Balance as of January 1, 2011	10,000,000	4,567,170	1,595,192	284,768	4,732,842	16,824,720	38,004,692	1,188,359	39,193,051
Increase in share capital	20,000,000	(4,567,170)	-	-	-	(15,432,830)	-	-	-
Transfer to reserves	-	-	1,000,000	-	-	(1,000,000)	-	-	-
Transactions with owners	20,000,000	(4,567,170)	1,000,000	-	-	(16,432,830)	-	-	-
Profit for the year	-	-	-	-	-	6,067,529	6,067,529	71,264	6,138,793
Other comprehensive income:									
Adjustment of reserve from disposal of fixed assets	-	-	-	-	(23,890)	23,890	-	-	-
Net unrealized gains from changes in fair value	-	-	-	155,454	-	-	155,454	-	155,454
Net gains realized to comprehensive income statement on disposal of available-for-sale instruments	-	-	-	(149,105)	-	-	(149,105)	-	(149,105)
Income tax relating to components of other comprehensive income	-	-	-	(1,270)	-	-	(1,270)	-	(1,270)
Total comprehensive income for the year	-	-	-	5,079	(23,890)	6,091,419	6,072,608	71,264	6,143,872
Balance as of December 31, 2011	30,000,000	-	2,595,192	289,847	4,708,952	6,483,309	44,077,300	1,259,623	45,336,923
Profit for the year	**-**	**-**	**-**	**-**	**-**	**4,032,485**	**4,032,485**	**81,823**	**4,114,308**
Other comprehensive income:		**-**							
Adjustment of reserve from disposal of fixed assets	**-**	**-**	**-**	**-**	**(17,555)**	**17,555**	**-**	**-**	**-**
Net unrealized gains from changes in fair value	**-**	**-**	**-**	**200,705**	**-**	**-**	**200,705**	**-**	**200,705**
Income tax relating to components of other comprehensive income	**-**	**-**	**-**	**(40,141)**	**(750,240)**	**-**	**(790,381)**	**-**	**(790,381)**
Total comprehensive income for the year	**-**	**-**	**-**	**160,564**	**(767,795)**	**4,050,040**	**3,442,809**	**81,823**	**3,524,632**
Balance as of December 31, 2012	**30,000,000**	**-**	**2,595,192**	**450,411**	**3,941,157**	**10,533,349**	**47,520,109**	**1,341,446**	**48,861,555**

Consolidated statement of cash flows

In thousand Armenian drams	Year ended December 31, 2012	Year ended December 31, 2011
Cash flows from operating activities		
Profit before tax	**5,476,607**	7,855,377
Adjustments for		
Impairment charge of possible asset losses	**1,720,509**	387,419
Amortization and depreciation allowances	**1,323,204**	1,226,151
Loss from sale of PPE	**11,192**	22,522
Interest receivable	**(436,946)**	(458,901)
Interest payable	**280,846**	605,121
Net gain from changes of fair value of derivatives	**(464,777)**	(244,646)
Foreign currency translation net losses of non-trading assets and liabilities	**392,450**	217,480
Cash flows from operating activities before changes in operating assets and liabilities	**8,303,085**	9,610,523
(Increase)/decrease in operating assets		
Deposits with the CBA	**(10,166)**	(5,602)
Amounts due from other financial institutions	**(2,165,861)**	6,707,958
Derivative financial assets	**118,777**	106,812
Loans and advances to customers	**(9,887,270)**	(42,700,354)
Other assets	**(836,002)**	190,486
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	**(137,770)**	(3,542,324)
Derivative financial liabilities	**(117,262)**	50,773
Amounts due to customers	**9,770,859**	13,637,984
Other liabilities	**110,742**	716,218
Net cash flow from/(used in) operating activities before income tax	**5,149,132**	(15,227,526)
Income tax paid	**(2,203,944)**	(1,088,704)
Net cash from/(used in) operating activities	**2,945,188**	(16,316,230)
Cash flows from investing activities		
(Purchase)/sale of investment securities	**(4,211,834)**	1,567,738
Purchase of property and equipment	**(1,402,936)**	(3,631,461)
Proceeds from sale of property and equipment	**1,584**	3,936
Purchase of intangible assets	**(23,456)**	(130,070)
Net cash used in investing activities	**(5,636,642)**	(2,189,857)
Cash flow from financing activities		
Loans received from CBA	**711,926**	1,602,499
Loans received from other financial institutions	**2,755,850**	18,666,889
Other long-term loans	**6,560,993**	5,773,530
Net cash from financing activities	**10,028,769**	26,042,918
Net increase in cash and cash equivalents	**7,337,315**	7,536,831
Cash and cash equivalents at the beginning of the year	**39,434,816**	30,927,078
Exchange differences on cash and cash equivalents	**222,930**	970,907
Cash and cash equivalents at the end of the year (Note 14)	**46,995,061**	39,434,816

Supplementary information:		
Interest received	**24,758,773**	21,964,288
Interest paid	**(10,743,998)**	(7,464,567)

Accompanying notes to the consolidated financial statements

1 Principal activities

"ACBA-CREDIT AGRICOLE BANK" CJSC (the "Bank") is the parent company of the Group, which is comprised of the Bank and its subsidiaries (the "Group").

"ACBA-CREDIT AGRICOLE BANK" CJSC is a closed joint-stock company, which was incorporated in the Republic of Armenia in 1995 as cooperative bank with collective ownership and changed into closed joint stock company on September 2006. The Bank is regulated by the legislation of RA and conducts its business under license number N70, granted on 17 February 1998 by the Central Bank of Armenia (the "CBA").

The Bank accepts deposits from the public and extends credit, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

Its main office is in Yerevan and its 43 branches are located in Yerevan and in different regions. The registered office of the Bank is located at: 1 Bayron Street, Yerevan, RA.

The subsidiaries of the Bank are "ACBA LEASING" CJSC and "ACBA Brok" LTD.

"ACBA LEASING" Credit organization is a closed joint-stock company, which was incorporated in the Republic of Armenia in 2003. The Organization performs finance lease operations as well as provides financial consulting and other financial services. The Organization is regulated by the legislation of RA and conducts its business under license number 4, granted on 23 April 2003 by the Central Bank of Armenia. The investment of the Bank in "ACBA LEASING" Credit organization amounts to 54%.

"ACBA Brok" LTD was incorporated in the Republic of Armenia in 2004. The Organization performs insurance intermediary operations. The Organization is regulated by the legislation of RA and conducts its business under license number 0004, granted on 29 July 2004 by the Central Bank of Armenia.

Despite the fact that the investment of the Bank in "ACBA Brok" LTD amounts to 40%, the latter has been considered as a subsidiary in accordance with IAS 27 and has been consolidated in these financial statements.

2 Armenian business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base.

There are still uncertainties about the economic situation of countries, collaborating with the RA, due to the forecasted slowdown in the world economy, which may lead to the shortage of money transfers from abroad, as well as to the decline in the prices of mining products, upon which the economy of Armenia is significantly dependant. In times of more severe market stress the situation of Armenian economy and of the Group may be exposed to deterioration. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Group may be affected.

Accordingly, the financial statements of the Group do not include the effects of adjustments, which might have been considered necessary.

3 Basis of preparation

3.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as developed and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

3.2 Basis of measurement

The consolidated financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost, with the exception of fixed assets, which are stated at revalued amount.

3.3 Functional and presentation currency

Functional currency of the Group is the currency of the primary economic environment in which the Group operates. The Group's functional currency and the Group's presentation currency is Armenian Drams ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Group. The Group prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia and the International Financial Reporting Standards. These consolidated financial statements are based on the Group's books and records as adjusted and reclassified in order to comply with IFRS. The consolidated financial statements are presented in thousands of AMD, which is not convertible outside Armenia.

3.4 Changes in accounting policies

In the current year the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2012. The standards and interpretations which became effective in the current year didn't affect the financial statements presented by the Bank.

3.5 Standards and Interpretations not yet applied by the Group

At the date of authorization of these financial statements, certain new Standards, amendments and interpretations to the existing Standards have been published but are not yet effective. The Group has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effect date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's consolidated financial statements.

New standards, amendments and interpretations to the existing Standards that are not yet effective

IAS 32 (Amendment) *Offsetting Financial Assets and Financial Liabilities*

The amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- The meaning of 'currently has a legally enforceable right of set-off': the amendments clarify that a right of set-off is required to be legally enforceable in the normal course of business, the event of default and the event of insolvency or bankruptcy of the entity and all of the counterparties, and that the right must also exist for all counterparties.
- Since there was diversity in practice related to the interpretation of 'simultaneous settlement' in IAS 32, the IASB has therefore clarified the principle behind net settlement and included an example of a gross settlement system with characteristics that would satisfy the IAS 32 criterion for net settlement.

The amendments are effective for annual reporting periods beginning on or after 1 January 2014 and are required to be applied retrospectively.

IFRS 7 (Amendment) *Offsetting Financial Assets and Financial Liabilities*

The amendment adds qualitative and quantitative disclosures to IFRS 7 relating to gross and net amounts of recognized financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position.
The amendments are effective for annual reporting periods beginning on or after 1 January 2013, and are required to be applied retrospectively.

IFRS 9 *Financial Instruments*

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

The IASB has issued an amendment to IFRS 9 which deferred the mandatory effective date of IFRS from 1 January 2013 to 1 January 2015. This means that all the phases of the project to replace IAS 39 will now have the same mandatory effective date. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Additional transition disclosures will now be required to help understand the initial application of the Standard.

Management have yet to assess the impact of this new standard on the Group's financial statements.

IFRS 10 *Consolidated Financial Statements*

IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same. The standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 13 *Fair Value Measurement*

IFRS 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. This IFRS shall be applied prospectively and no need to present comparative information provided for periods before initial application of this IFRS. The Group's management have yet to assess the impact of this new standard on the financial statements.

IAS 1 *Presentation of Financial Statements*

The IAS 1 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Group's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

Annual Improvements to IFRSs 2009-2011 Cycle

The amendments to IFRSs contained in Annual Improvements 2009-2011 Cycle are effective for annual periods beginning on or after January 1, 2013, although early application is permitted.

The brief descriptions of the issues addressed are presented below:

IAS 16 *Property, plant and Equipment*

The amendment addresses the classification of servicing equipment. It clarifies that major spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

IAS 32 *Financial Instruments: Presentation*

The amendment clarifies that income tax relating to distribution to equity holders and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes.

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. The accounting policies have been consistently applied.

4.1 Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. All subsidiaries have a reporting date of 31 December.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of the acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to profit and loss in the period of acquisition. The non-controlling interest is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the non-controlling interest in excess of the minority interest are allocated against the interests of the parent. The equity attributable to equity holders of the parent and net income attributable to non-controlling interests are shown separately in the balance sheet and income statement, respectively.

4.2 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Group and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within ‘interest income’ and ‘interest expense’ in the income statement using the effective interest method.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income and expense

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts.

Dividend income

Revenue is recognized when the Group's right to receive the payment is established.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences related to trading assets and liabilities. Net trading income also includes gains less losses from trading in foreign currencies.

4.3 Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in net trading income.

The exchange rates at year-end used by the Group in the preparation of the consolidated financial statements are as follows:

	December 31, 2012	December 31, 2011
AMD/1 US Dollar	**403.58**	385.77
AMD/1 Euro	**532.24**	498.72

4.4 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Republic of Armenia also has various operating taxes, which are assessed on the Group's activities. These taxes are included as a component of other expenses in the statement of income.

4.5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks, which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

4.6 Amounts due from other financial institutions

In the normal course of business, the Group maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.7 Financial instruments

The Group recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

When financial assets and liabilities are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

After initial recognition all financial liabilities, other than liabilities at fair value through profit or loss are measured at amortized cost using effective interest method. After initial recognition financial liabilities at fair value through profit or loss are measured at fair value.

The Group classified its financial assets into the following categories: loans and receivables, financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss. A financial asset is classified in this category if acquired for the purpose of selling in the short-term or if so designated by management from the initial acquisition of that asset.

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognized in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of income as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than insignificant amount of held-to-maturity assets not close to their maturity, the entire category would be reclassified as available-for-sale. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments, which arise when the Group provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Group with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

Available-for-sale financial instruments

Investments available for sale represent debt and equity investments that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of income. However, interest calculated using the effective interest method is recognised in the statement of income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis. Otherwise the investments are stated at cost less any allowance for impairment.

4.8 Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Criteria used to determine that there is objective evidence of an impairment loss may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty (for example, equity ratio, net income percentage of sales), default or delinquency in interest or principal payments, breach of loan covenants or conditions, deterioration in the value of collateral, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If future write-off is later recovered, the recovery is credited to the allowance account.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement on income, is transferred from equity to the statement of income. Reversals of impairment in respect of equity instruments classified as available-for-sale are not recognised in the statement of income but accounted for in other comprehensive income in a separate component of equity. Reversals of impairment losses on debt instruments are reversed through the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4.9 Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

4.10 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The corresponding liability is presented within amounts due to financial institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized on the balance sheet. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

4.11 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the balance sheet if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized on the balance sheet, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in "Net trading income".

4.12 Leases

Finance - Group as lesser

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. The arrangement is presented in within loans and advances. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Operating - Group as leasee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

4.13 Property, plant and equipment

Property, plant and equipment ("PPE") are recorded at fair value less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value. Land is carried at fair value. It has unlimited useful life and thus is not depreciated.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

	Useful life (years)	Rate (%)
Buildings	20	5
Vehicles	5	20
Computers	3	33
Equipments	5	20
Communication	5	20
ATM	10	10
Other fixed assets	5	20

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property plant and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

Repairs and maintenance are charged to the income statement during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

When revalued assets are sold, the amounts attributed to disposed item of assets and included in the revaluation reserve are transferred to retained earnings.

4.14 Goodwill and Intangible assets

Intangible assets include computer software, licences, goodwill and other.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Goodwill arising on the acquisition of a minority interest represents te excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of exchange.

Goodwill is measured at cost less accumulated impairement losses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

4.15 Grants

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

4.16 Borrowings

Borrowings, which include amounts due to the Central Bank and Government, amounts due to financial institutions, amounts due to customers, are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the liabilities are derecognised as well as through the amortisation process.

4.17 Pensions

The Group does not have any pension arrangements separate from the State pension system of the Republic of Armenia, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

4.18 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value, in "Other liabilities", being the premium received. Subsequently to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

4.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

4.20 Share capital

Share capital

External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

4.21 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The most significant areas of judgements and estimates with regards to these consolidated financial statements are presented below:

Consolidation of a subsidiary where ownership percentage is 50% or less

Despite the fact that the investment of the Bank in "ACBA Brok" LTD amounts to 40%, according to IAS 27 it is considered as subsidiary in these consolidated financial statements as the Bank has power to exercise control over their operations.

Classification of investment securities

Securities owned by the Group comprise Armenian state bonds, promissory notes and corporate shares. Upon initial recognition, the Group designates securities as available-for-sale financials assets with recognition of changes in fair value through equity.

Related party transactions

In the normal course of business the Group enters into transactions with its related parties. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Allowance for impairment of loans and receivables

The Group reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 27.

Impairment of available-for-sale equity investments

The Group determined that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged required judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.

6 Interest and similar income and expense

In thousand Armenian drams	2012	2011
Loans and advances to customers	**23,704,005**	21,532,409
Debt securities available-for-sale	**353,398**	226,517
Amounts due from other financial institutions	**594,815**	379,181
Reverse repurchase transactions	**28,676**	135,814
Interest accrued on impaired financial assets	**438,832**	128,473
Other interest income	**75,993**	20,795
Total interest and similar income	**25,195,719**	22,423,189

Amounts due to customers	**4,511,110**	3,164,894
Amounts due to financial institutions	**6,402,877**	4,815,550
Repurchase transactions	**7,769**	6,640
Other interest expenses	**103,088**	82,604
Total interest and similar expense	**11,024,844**	8,069,688

7 Fee and commission income and expense

In thousand Armenian drams	2012	2011
Cash operations	**126,262**	132,246
Wire transfer fees	**579,809**	574,262
Service fee for maintenance of bank accounts	**422,424**	369,919
Plastic cards operations	**1,270,285**	1,055,535
Finance lease processing fee	**33,146**	20,701
Other fees and commissions	**22,014**	3,735
Total fee and commission income	**2,453,940**	2,156,398

Wire transfer fees	**119,289**	44,138
Cash operations	**24,057**	13,215
Plastic cards operations	**689,048**	612,287
Bank account service fee	**23,479**	28,420
Other expenses	**1,105**	10,809
Total fee and commission expense	**856,978**	708,869

8 Net trading income

In thousand Armenian drams	2012	2011
Gains less losses from trading in foreign currencies	**1,095,720**	1,003,025
Net loss from derivative instruments	**(424,650)**	(350,614)
Net gain from changes of fair value of derivatives	**464,777**	244,646
Total net trading income	**1,135,847**	897,057

9 Other income

In thousand Armenian drams	2012	2011
Fines and penalties received	**666,965**	829,337
Guarantees and letters of credits	**76,386**	96,593
Income from dividends	**1,866**	1,481
Income from grants related to assets	**-**	555
Income from disposal of objects on financial leasing	**14,663**	16,833
Other income	**122,373**	83,507
Total other income	**882,253**	1,028,306

10 Impairment charge for asset losses

In thousand Armenian drams	2012	2011
Loans and advances to customers (Note 17)	**1,566,865**	379,079
Other assets (Note 21)	**153,644**	8,340
Total impairment charge for credit losses	**1,720,509**	387,419

11 Staff costs

In thousand Armenian drams	2012	2011
Wages and salaries	**5,498,785**	4,851,802
Social security contributions	**431,055**	389,243
Total staff costs	**5,929,840**	5,241,045

12 Other expenses

In thousand Armenian drams	2012	2011
Foreign currency translation net losses of non-trading assets and liabilities	**392,450**	217,480
Loss from fair value adjustment of assets carried at amortized cost	**121,019**	-
Fixed assets maintenance	**376,316**	300,758
Advertising and representative expenses	**538,188**	816,721
Business trip expenses	**149,790**	164,502
Communications	**302,071**	300,340
Operating lease	**101,430**	69,651
Taxes, other than income tax, duties	**417,899**	428,261
Consulting and other services	**29,673**	43,099
Security	**229,329**	201,787
Loss on disposal of PPE	**11,192**	22,522
Office supplies	**165,031**	211,805
Penalties paid	**20,760**	5,175
Money collection expenses	**97,185**	83,895
Insurance expenses	**99,050**	72,137
Financial System Mediator payments	**28,054**	22,260
Cards service expenses	**78,411**	61,331
Impairment of assets	**48,083**	6,703
Other expenses	**129,846**	114,380
Total other expense	**3,335,777**	3,142,807

13 Income tax expense

In thousand Armenian drams	2012	2011
Current tax expense	**1,472,795**	1,720,778
Adjustments of current income tax of previous years	**2,625**	-
Deferred tax	**(113,121)**	(4,194)
Total income tax expense	**1,362,299**	1,716,584

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2011: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

Numerical reconciliation between the tax expenses and accounting profit is provided below:

In thousand Armenian drams	2012	Effective rate (%)	2011	Effective rate (%)
Profit before tax	**5,476,607**		7,855,377	
Income tax at the rate of 20%	**1,095,321**	**20**	1,571,076	20
Non-taxable income	**(92,955)**	**(2)**	(25,756)	-
Non-deductible expenses	**281,443**	**5**	127,768	2
Foreign exchange losses	**78,490**	**2**	43,496	-
Income tax expense	**1,362,299**	**25**	1,716,584	22

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of December 31, 2011	Recognized in consolidated comprehensive income statement	Recognized in equity	As of December 31, 2012
Fixed assets	11,098	(11,098)	-	-
Accrued expenses and other liabilities	72,819	7,392	-	80,211
Loans and advances to customers	-	164,406	-	164,406
Total deferred tax assets	**83,917**	**160,700**	**-**	**244,617**
Contingent liabilities	(31,907)	978	-	(30,929)
Amounts due from other financial institutions and other assets	(42,239)	(27,392)	-	(69,631)
Loans and advances to customers	(4,669)	4,669	-	-
Investments available for sale	(71,189)	-	(40,141)	(111,330)
Fixed assets	-	6,788	(750,240)*	(743,452)
Amounts due to financial institutions and customers	-	(32,622)	-	(32,622)
Total deferred tax liability	**(150,004)**	**(47,579)**	**(790,381)**	**(987,964)**
Net deferred tax liability	**(66,087)**	**113,121**	**(790,381)**	**(743,347)**

In thousand Armenian drams	As of December 31, 2010	**Recognized in consolidated comprehensive income statement**	**Recognized in equity**	**As of December 31, 2011**
Fixed assets	15,408	(4,310)	-	11,098
Accrued expenses and other liabilities	52,134	20,685	-	72,819
Loans and advances to customers	14,499	(14,499)	-	-
Grants related to assets	111	(111)	-	-
Total deferred tax assets	82,152	1,765	-	83,917
Contingent liabilities	(21,408)	(10,499)	-	(31,907)
Amounts due from other financial institutions and other assets	(59,836)	17,597	-	(42,239)
Loans and advances to customers	-	(4,669)	-	(4,669)
Investments available for sale	(69,919)	-	(1,270)	(71,189)
Total deferred tax liability	(151,163)	2,429	(1,270)	(150,004)
Net deferred tax liability	(69,011)	4,194	(1,270)	(66,087)

*Due to changes in the tax legislation in 2012 the Bank has formed deferred tax liability in respect of revaluation reserve of fixed assets.

14 Cash, cash equivalents and balances with CBA

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Cash on hand	**7,626,532**	8,555,734
Other money market placements	**12,166**	11,393
Correspondent account with the CBA	**22,657,677**	20,677,378
Included in cash and cash equivalents	**30,296,375**	29,244,505
Deposited funds with the CBA	**536,647**	526,481
Cash and balances with the CBA	**30,833,022**	29,770,986
Cash and balances with the CBA, included in cash flow	**30,296,375**	29,244,505
Placements with other banks (note 15)	**16,698,686**	10,190,311
Total cash and cash equivalents	**46,995,061**	39,434,816

As at 31 December 2012 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 8% of certain obligations of the Group denominated in Armenian drams and 12% of certain obligations of the Group, denominated in foreign currency and amounts to AMD 19,063,510 thousand (2011: AMD 16,718,769 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Group could be subject to penalties. Cash on hand, other money market placements, correspondent account, deposited funds with CBA and mandatory reserve deposits are non-interest bearing.

Deposited funds with CBA include a guaranteed deposit for settlements via ArCa payment system.

Non-cash transaction performed by the Bank during 2012 is represented by:

- repayment of AMD 156,194 thousand loan by fixed assets (2011: AMD 93,086 thousand)

15 Amounts due from other financial institutions

In thousand Armenian drams	As of December 31, 2012	As of December 31, 2011
Correspondent accounts with financial institutions	**16,698,686**	10,190,311
Included in cash and cash equivalents	**16,698,686**	10,190,311
Loans and deposits to financial institutions	**11,548,829**	9,161,103
Reverse repurchase agreements	**434,425**	-
Other amounts	**222,766**	217,350
	12,206,020	9,378,453
Total amounts due from other financial institutions	**28,904,706**	19,568,764

As at 31 December 2012 the accounts in the amount of AMD 13,321,249 thousand (80%) were due from 4 banks (2011: AMD 7,716,964 thousand (76%) due from 3 banks).

As of 31 December 2012 included in loans and deposits to financial institutions are guarantee deposits placed by the Bank for its operations in VISA payment system in the amount of AMD 142,103 thousand and in MasterCard payment system in the amount of AMD 96,799 thousand, (2011: AMD 135,729 thousand in VISA payment system, AMD 92,527 thousand in MasterCard payment system).

Fair value of securities and carrying value of loans under reverse repurchase agreements as of 31 December 2012 are presented as follows:

In thousand Armenian drams	**As of December 31, 2012**		As of December 31, 2011	
	Fair value of collateral	**Carrying value of loans**	Fair value of collateral	Carrying value of loans
Securities issued by the RA Ministry of Finance	**444,124**	**434,425**	-	-

16 Derivative financial instruments

In thousand Armenian drams	**As of December 31, 2012**			As of December 31, 2011		
	Notional amount	**Fair value of assets**	**Fair value of liabilities**	Notional amount	Fair value of assets	Fair value of liabilities
Derivatives held for trading						
Currency swaps	**7,906,403**	**557,882**	**-**	7,556,872	206,963	-
Currency forwards	**-**	**-**	**-**	1,616,762	-	115,475
Interest rate swaps	**19,977,210**	**-**	**25,129**	28,739,865	452	44,841
Total derivative financial instruments	**27,883,613**	**557,882**	**25,129**	37,913,499	207,415	160,316

In 2011 the Bank has signed a currency swap contract with the Central Bank of Armenia for extension of loans to rural economies, according to which the Bank sells USD 19,589,061 and acquires AMD 7,319,951 thousand and then is obliged to purchase USD 19,589,061 and sell AMD 7,319,951 thousand applying the annual interest rate of 5.25% for USD and the interest annual rate of 8.25% for AMD.

In 2011 the Bank has signed an interest swap contract with IFC, the balance of which was USD 49,500,000 as of December 31, 2012, by paying the fixed interest rate and receiving the floating interest rate.

17 Loans and advances to customers

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Loans to customers	**153,949,336**	141,874,792
Financial lease receivables	**7,453,167**	5,844,390
Letter of credit	**133,416**	208,035
Factoring	**402,233**	41,112
	161,938,152	147,968,329
Less allowance for loan impairment	**(2,641,820)**	(1,836,946)
Total loans and advances to customers	**159,296,332**	146,131,383

As of 31 December 2012 accrued interests included in loans and advances to customers amounted to AMD 2,560,284 thousand (2011: AMD 2,115,687 thousand).

As of 31 December 2012 the average effective interest rates on loans and advances to customers were 18% for loans in AMD (2011: 21.55%) and 13.27% for loans in USD, EUR and other freely convertible currencies (2011: 14.31%).

As of 31 December 2012 and 31 December 2011 the Group does not have significant concentration in the loan portfolio in accordance with the quantity of the borrowers.

Reconciliation of loans and advances by industry sectors is as follows:

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Manufacture	**32,905,645**	29,167,489
Agriculture	**41,010,716**	35,558,771
Construction	**6,229,584**	5,185,439
Trading	**28,770,249**	27,363,378
Transport	**4,856,668**	5,237,547
Services	**6,426,400**	7,529,597
Mortgage	**5,102,914**	5,821,682
Consumer	**36,273,031**	32,072,989
Other	**362,945**	31,437
	161,938,152	147,968,329
Less allowance for loan impairment	**(2,641,820)**	(1,836,946)
Total loans and advances to customers	**159,296,332**	146,131,383

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

In thousand Armenian drams	**Manufacture**	**Agriculture**	**Construction**	**Trading**	**Transport**	**Services**	**Mortgage**	**Consumer**	**Other**	**2012 Total**
At 1 January 2012	**295,845**	**390,896**	**51,855**	**437,375**	**158,949**	**82,294**	**89,827**	**329,591**	**314**	**1,836,946**
Charge for the year	**787,278**	**39,206**	**202,206**	**339,670**	**12,822**	**2,229**	**58,431**	**121,708**	**3,315**	**1,566,865**
Amounts written off	**(776,325)**	**(248,744)**	**(2,333)**	**(68,783)**	**(250,456)**	**(25,693)**	**(89,225)**	**(264,120)**	**-**	**(1,725,679)**
Recoveries	**49,473**	**337,585**	**520**	**160,589**	**175,889**	**5,434**	**22,457**	**211,741**	**-**	**963,688**
At 31 December 2012	**356,271**	**518,943**	**252,248**	**868,851**	**97,204**	**64,264**	**81,490**	**398,920**	**3,629**	**2,641,820**
Individual impairment	**28,345**	**13,037**	**196,953**	**591,437**	**31,012**	**-**	**10,991**	**-**	**-**	**871,775**
Collective impairment	**327,926**	**505,906**	**55,295**	**277,414**	**66,192**	**64,264**	**70,499**	**398,920**	**3,629**	**1,770,045**
	356,271	**518,943**	**252,248**	**868,851**	**97,204**	**64,264**	**81,490**	**398,920**	**3,629**	**2,641,820**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**226,775**	**56,548**	**700,081**	**3,416,052**	**161,392**	**-**	**67,259**	**-**	**-**	**4,628,107**

In thousand Armenian drams	Manufacture	Agriculture	Construction	Trading	Transport	Services	Mortgage	Consumer	Other	2011 Total
At 1 January 2011	129,299	316,663	23,536	388,976	188,196	125,647	78,967	277,143	2,756	1,531,183
Charge for the year/ (reversal)	94,677	193,121	86,901	(86,625)	(62,261)	(20,254)	84,187	98,777	(9,444)	379,079
Amounts written off	(9,579)	(481,929)	(62,822)	(89,181)	(108,981)	(105,989)	(92,520)	(181,055)	(6,374)	(1,138,430)
Recoveries	81,448	363,041	4,240	224,205	141,995	82,890	19,193	134,726	13,376	1,065,114
At 31 December 2011	295,845	390,896	51,855	437,375	158,949	82,294	89,827	329,591	314	1,836,946
Individual impairment	6,332	-	-	137,934	103,796	-	-	-	-	248,062
Collective impairment	289,513	390,896	51,855	299,441	55,153	82,294	89,827	329,591	314	1,588,884
	295,845	390,896	51,855	437,375	158,949	82,294	89,827	329,591	314	1,836,946
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	12,256	-	-	652,115	324,500	-	-	-	-	988,871

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

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
State owned enterprises	**10,885**	8,861
Privately held companies	**69,100,161**	62,802,738
Individuals	**79,463,677**	70,503,997
Sole proprietors	**10,758,432**	12,445,177
Non-profit organizations	**44,713**	91,869
Accrued interest	**2,560,284**	2,115,687
	161,938,152	147,968,329
Less allowance for loan impairment	**(2,641,820)**	(1,836,946)
Total loans and advances to customers	**159,296,332**	146,131,383

Loans to individuals comprise the following products:

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Agriculture	**38,534,647**	32,609,326
Mortgage	**5,493,139**	5,821,682
Consumer	**35,426,519**	32,072,989
Other	**9,372**	-
Total loans and advances to individuals	**79,463,677**	70,503,997

The finance lease receivables may be analyzed as follows:

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Gross investment in finance leases, receivable:		
Not later than 1 year	**3,525,955**	2,847,791
Later than 1 year and not later than 5 years	**5,271,353**	3,076,776
Later than 5 years	**306,722**	1,226,614
	9,104,030	7,151,181
Unearned future finance income on finance leases	**(1,650,863)**	(1,306,791)
Net investment in finance leases	**7,453,167**	5,844,390
Less allowance for impairment of finance lease receivables	**(152,277)**	(169,558)
Net investment in finance leases	**7,300,890**	5,674,832

The allowances for the finance lease are included in allowance for impairment of loans and advances.

Implied interest rate of the lease amounts to 12.7% (2011: 12.4 %).

Maturity analysis of loans and advances to customers is presented in Note 30.

As it is mentioned in the Note 29, at 31 December 2012 and 2011 the estimated fair value of loans and advances to customers approximates it carrying value.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in Note 31. The information on related party balances is disclosed in Note 28.

18 Investment securities available for sale

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Unquoted investments		
Shares of Armenian companies	**63,818**	63,818
Securities issued by the Ministry of Finance of Armenia	**8,339,891**	4,058,491
Promissory notes issued by the Ministry of Finance of Armenia	**11,033**	296
Shares of foreign companies	**401,623**	257,838
Total investments	**8,816,365**	4,380,443

All debt securities have fixed coupons.

The fair value of unquoted available-for-sale debt securities is measured using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

All unquoted available-for-sale shares of Armenian companies are recorded at cost less impairment losses since its fair value cannot be reliably estimated. There is no market for these investments and the Group intends to hold it for the long term.

Available for sale securities by effective interest rates and maturity date comprise:

In thousand Armenian drams	**As of December 31, 2012**		As of December 31, 2011	
	%	**Maturity**	%	Maturity
Securities issued the Ministry of Finance of Armenia	**8.71-13.83%**	**2013-2016**	9.00-11.50%	2012
Promissory notes issued the Ministry of Finance of Armenia	**8.0%**	**2013**	7.25%	2012

19 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Machinery and equipment	Vehicles	Capital investments on leased PPE	Other assets	Total
COST/REVALUED AMOUNT						
At January 1, 2011	9,936,316	2,412,751	302,928	-	811,319	13,463,314
Additions	2,794,194	347,416	43,832	3,392	442,627	3,631,461
Disposals	(1,024)	(18,169)	(2,049)	-	(28,179)	(49,421)
At December 31, 2011	**12,729,486**	**2,741,998**	**344,711**	**3,392**	**1,225,767**	**17,045,354**
Additions	**457,403**	**616,363**	**16,623**	**-**	**312,547**	**1,402,936**
Disposals	**-**	**(6,575)**	**(2,400)**	**-**	**(18,373)**	**(27,348)**
At December 31, 2012	**13,186,889**	**3,351,786**	**358,934**	**3,392**	**1,519,941**	**18,420,942**
DEPRECIATION						
At January 1, 2011	386,378	525,134	64,340	-	153,917	1,129,769
Depreciation charge	426,657	339,793	67,227	58	186,066	1,019,801
Disposals	(73)	(14,245)	(524)	-	(8,121)	(22,963)
At December 31, 2011	**812,962**	**850,682**	**131,043**	**58**	**331,862**	**2,126,607**
Depreciation charge	**516,276**	**308,159**	**68,787**	**356**	**211,801**	**1,105,379**
Disposals	**-**	**(3,817)**	**(1,125)**	**-**	**(9,630)**	**(14,572)**
At December 31, 2012	**1,329,238**	**1,155,024**	**198,705**	**414**	**534,033**	**3,217,414**
CARRYING VALUE						
At December 31, 2012	**11,857,651**	**2,196,762**	**160,229**	**2,978**	**985,908**	**15,203,528**
At December 31, 2011	11,916,524	1,891,316	213,668	3,334	893,905	14,918,747
At December 31, 2010	9,549,938	1,887,617	238,588	-	657,402	12,333,545

Revaluation of assets

Buildings owned by the Group were evaluated by an independent appraiser "Artin Enterprise" at 18 June 2009 using a combination of the market, income and cost methods resulting in a revaluation of AMD 4,163,764 thousand. Management has based their estimate on the fair value of the buildings on the results of the independent appraisal.

If the buildings and land were presented at difference of cost and accumulated depreciation, the carrying value would be AMD 9,854,467 thousand, as at 31 December 2012 (2011: AMD 9,889,478 thousand).

Fixed assets in the phase of construction

From 2006 to 2009 the Group acquired land at AMD 1,074,241 thousand for the construction of new buildings for the head office and branches.

As at 31 December 2012 fixed assets included assets in the phase of installation and construction in amount of AMD 1,861,460 thousand (2011: AMD 1,453,437 thousand), which are not amortized and are classified in accordance with their type.

Fully depreciated items

As at 31 December 2012 fixed assets included fully depreciated assets in amount of AMD 384,452 thousand (2011: AMD 368,547 thousand).

Restrictions on title of fixed assets

As at 31 December 2012, the Group does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted (2011: nil).

Contractual commitments

As at 31 December 2012 the Group has had a contractual commitments at the total amount of AMD 129,615 thousand for construction (2011: AMD 32,603 thousand for the construction and AMD 18,200 thousand for the purchase of property).

20 Goodwill and intangible assets

In thousand Armenian drams

	Computer software	Licenses and patents	Goodwill	Other	Total
COST					
At January 1, 2011	225,558	951,120	18,132	35,619	1,230,429
Additions	83,455	45,467	-	1,148	130,070
At December 31, 2011	**309,013**	**996,587**	**18,132**	**36,767**	**1,360,499**
Additions	**2,655**	**3,331**	**-**	**17,470**	**23,456**
Adjustments	**73,355**	**(73,355)**	**-**	**-**	**-**
At December 31, 2012	**385,023**	**926,563**	**18,132**	**54,237**	**1,383,955**
AMORTISATION					
At January 1, 2011	31,813	41,566	-	31,232	104,611
Amortisation charge	14,898	187,393	-	4,059	206,350
At December 31, 2011	**46,711**	**228,959**	**-**	**35,291**	**310,961**
Amortisation charge	**34,701**	**180,199**	**-**	**2,925**	**217,825**
Adjustments	**8,695**	**(8,695)**	**-**	**-**	**-**
At December 31, 2012	**90,107**	**400,463**		**38,216**	**528,786**
CARRYING VALUE					
At December 31, 2012	**294,916**	**526,100**	**18,132**	**16,021**	**855,169**
At December 31, 2011	262,302	767,628	18,132	1,476	1,049,538
At December 31, 2010	193,745	909,554	18,132	4,387	1,125,818

As at 31 December 2012 included are the license at the carrying amount of AMD 491,762 thousand acquired for the issue and service of AMEX payment card system (2011: AMD 662,364 thousand as at 31 December).

Contractual commitments

As at 31 December 2012, the Bank does not have any contractual commitments (2011: nil).

As at 31 December 2012, the Bank does not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted (2011: nil).

21 Other assets

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Prepayments on assets to be acquired for financial lease purposes	**1,104,243**	464,736
Amounts receivable from transactions with payment systems	**610,375**	285,021
Accounts receivable	**24,579**	67,146
Total financial assets	**1,739,197**	816,903
Prepayments and other debtors	**187,665**	574,339
Expenses of future period	**31,459**	62,573
Unamortized insurance premium	**45,249**	46,052
Settlements with employees	**5,723**	4,367
	2,009,293	1,504,234
Less allowance for impairment	**(30,759)**	(16,924)
	1,978,534	1,487,310
Repossessed assets	**542,784**	373,740
Other prepaid taxes	**8,148**	29,088
Materials	**287,168**	266,679
Other assets	**128,082**	47,745
Total other assets	**2,944,716**	2,204,562

Reconciliation of allowance account for losses on other assets is as follows:

In thousand Armenian drams	**Total**
At January 1, 2011	19,554
Charge for the year	8,340
Amounts written off	(13,740)
Recoveries	2,770
At December 31, 2011	**16,924**
Charge for the year	**153,644**
Amounts written off	**(145,407)**
Recoveries	**5,598**
At December 31, 2012	**30,759**

22 Amounts due to CBA

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Loans from CBA	**10,526,984**	9,791,564
Other liabilities	**4,390**	-
Total amounts due to CBA	**10,531,374**	9,791,564

Loans from the CBA include those received within the scope of "Small and medium business loan project" of German-Armenian fund and "Access for "Small and medium entrepreneurship loan project" of the World Bank.

The Group has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2011: nil).

As of 31 December 2012 the average effective interest rates of loans received from CBA was 8.35% (2011: 8.2%).

23 Amounts due to other financial institutions

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Correspondent accounts of other banks	**4,402**	4,672
Current accounts of other financial institutions	**184,881**	322,381
Loans and advances from international financial institutions	**93,599,384**	86,884,376
Total amounts due to financial institutions	**93,788,667**	87,211,429

Loans from financial institutions include loans from European Bank for Reconstruction and Development, Credit Agricole CIB Bank, KFW, Black Sea Trade and Development Bank, VDK SpaarBank, Asian Development Bank, Citibank, Global Microfinance Facility, Credit Suisse Microfinance Fund, ResponsAbility SICAV and KCD Microfinance.

Loans from financial institutions have variable and fixed interest rates.

As of 31 December 2012 the average interest rates on amounts due to financial institutions 9.9% for borrowings in AMD (2011: 8.59%) and 4.9 % for borrowings in USD, EUR and other freely convertible currencies (2011: 5.08 %).

The Group has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2011: nil).

24 Amounts due to customers

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Government of the RA		
Loans	**22,250,133**	15,665,307
	22,250,133	15,665,307
Corporate customers		
Current/Settlement accounts	**7,427,939**	8,888,624
Time deposits	**6,008,978**	4,392,380
	13,436,917	13,281,004
Retail customers		
Current/Settlement accounts	**11,625,074**	9,994,384
Time deposits	**44,336,559**	34,137,009
	55,961,633	44,131,393
Total amounts due to customers	**91,648,683**	73,077,704

All customer deposits carry fixed rates.

As at 31 December 2012 included in amounts due to customers are deposits amounting to AMD 1,430,785 thousand (2011: AMD 1,978,604 thousand) held as security against loans, letters of credit and guarantees issued. The fair value of those deposits approximates the carrying amount.

At 31 December 2012 the aggregate balance of top ten customers of the Group (including related parties) amounts to AMD 9,664,015 thousand (2011: AMD 8,786,508 thousand) or 13.8% of total customer accounts (2011: 15.3%). The total amount of deposits does not include amounts due to RA Government.

Amounts due to Government represent the loans obtained from the World Bank's "Agriculture Reform Support" project as well as from the International Fund of Agriculture Development's "North-West Agriculture Services" and "Agricultural Services" program, "Small and medium business loan project" of KFW and "Urban Heating" project of Armenia Renewable Resources and Energy Efficiency Fund, as well as RA Government Program on accrediting economy stability.

As of 31 December 2012 the effective interest rates on amounts due to customers were 9.6% for amounts attracted in AMD (2011: 9.13%) and 6.00% for amounts attracted in USD, EUR and other freely convertible currencies (2011: 6.00%).

25 Other liabilities

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Accounts payables	**750,228**	879,733
Total financial liabilities	**750,228**	879,733
Tax payable, other than income tax	**421,399**	403,850
Revenues of future periods	**1,459**	17,974
Due to personnel	**302,534**	255,349
Other liabilities	**158,078**	123,118
Total other liabilities	**1,633,698**	1,680,024

26 Equity

As at 31 December 2012 the Bank's registered and paid-in share capital was AMD 30,000,000 thousand. In accordance with the Bank's statues, the share capital consists of 2,500 shares, all of which have a par value of AMD 12,000 thousand each.

In 2011 the shareholders of the Bank increased its share capital by AMD 20,000,000 thousand due to share premium and retained earnings, by increasing the nominal value of the shares from AMD 4,000 thousand up to AMD 12,000 thousand.

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

In thousand Armenian drams	Paid-in share capital	% of total paid-in capital
Credit Agricole S A	4,668,000	15.56
Armavir ACRU	4,224,000	14.08
Sacam International	3,732,000	12.44
Ararat ACRU	3,684,000	12.28
Shirak ACRU	1,980,000	6.60
Aragatsotn ACRU	2,220,000	7.40
Lori ACRU	1,992,000	6.64
Kotayk ACRU	1,680,000	5.60
Tavush ACRU	1,440,000	4.80
Syuniq ACRU	1,284,000	4.28
Gegharquniq ACRU	1,584,000	5.28
Vayots Dzor ACRU	1,212,000	4.04
Stepan Gishyan	300,000	1.00
	30,000,000	100

As at 31 December 2012, the Bank did not possess 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.

As per the charter of the Bank approved by the Board of the Bank on 18 December 2006, the dividends will not be paid within seven years after the legal status of the Bank changed from cooperative into closed joint stock company (September 2006).

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 15% of the Bank's share capital reported in statutory books.

27 Contingent liabilities and commitments

Tax and legal matters

The taxation system in Armenia is characterized by frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among various taxation authorities and jurisdictions.

Often tax authorities claim additional taxes for transactions and accounting methods, for which they did not claim previously. As a result additional fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include earlier periods.

Management believes that the Group has complied with all regulations and has completely settled all its tax liabilities.

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Group, will not have a material adverse impact on the financial condition or results of future operations of the Group.

Loan commitment, guarantee and other financial facilities

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Undrawn loan commitments	**9,810,468**	9,305,977
Letters of credit	**413,314**	893,627
Guarantees	**2,754,220**	3,360,299
Total credit related commitments	**12,978,002**	13,559,903

Operating lease commitments – Group as a lessee

In the normal course of business the Group enters into commercial lease agreements for office and facilities.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Not later than 1 year	**33,272**	41,497
Later than 1 year and not later than 5 years	**77,034**	103,620
Later than 5 years	**68,989**	40,000
Total operating lease commitments	**179,295**	185,117

Capital commitments

Information on the Bank's capital commitments is disclosed in notes 19.

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. However, as at 31 December 2012 the Group's building and other fixed assets are insured. The Group possesses insurances for all banking liabilities, electronic or computer crimes and for professional responsibility. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Starting 2005 the Bank is member of the obligatory deposit insurance system. The system operates under the Armenian laws and regulations and is governed by the Law on Guarantee of Physical

Persons Deposits. Insurance covers the Bank's liabilities to individual depositors for the amount up to AMD 4,000 thousand (up to AMD 2,000 thousand for deposits in foreign currency) for each individual in case of business failure and revocation of the banking license.

28 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively.

The Group does not have an ultimate controlling party.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	**2012**		2011	
	Shareholders	**Key management personnel**	Shareholders	Key management personnel
Loans and advances to customers				
Loans outstanding at January 1, gross	**69,581**	**185,231**	39,861	189,506
Loans issued during the year	**37,817**	**857,394**	166,854	132,847
Loan repayments during the year	**(68,956)**	**(257,622)**	(137,134)	(137,122)
Loans outstanding at December 31, gross	**38,442**	**785,003**	69,581	185,231
Less: allowance for loan impairment	**(391)**	**(7,873)**	(696)	(1,852)
Loans outstanding at December 31	**38,051**	**777,130**	68,885	183,379
Interest income on loans	**5,366**	**9,485**	6,380	8,157
Impairment charge for credit losses/(reversal)	**(305)**	**6,021**	297	(43)
Amounts due to customers				
Deposits at January 1	**3,717**	**1,191,120**	2,332	1,029,857
Deposits received during the year	**57,815**	**3,470,261**	62,369	2,293,749
Deposits repaid during the year	**(51,343)**	**(2,519,588)**	(60,984)	(2,132,486)
Deposits at December 31	**10,189**	**2,141,793**	3,717	1,191,120
Interest expense on deposits	**315**	**125,994**	132	83,928
Amounts due from other financial institutions				
At January 1	**3,694,495**	**-**	5,981,080	-
Increase	**1,592,577**	**-**	78,719,573	-
Decrease	**(171,293)**	**-**	(81,006,158)	-
At December 31	**5,115,779**	**-**	3,694,495	-
Interest income	**3,551**		3,617	-
Amounts due to financial institutions				
At January 1	**16,202,340**	**-**	15,383,263	-
Increase	**-**	**-**	3,206,280	-
Decrease	**(7,323,580)**	**-**	(2,387,203)	-
At December 31	**8,878,760**	**-**	16,202,340	-
Interest expense	**737,627**	**-**	776,062	-
Guarantees issued	**1,013,133**	**-**	266,111	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	**2012**	2011
Salaries and other short-term benefits	**1,232,100**	1,126,994
Social security costs	**69,632**	57,624
Total key management compensation	**1,301,732**	1,184,618

The loans granted to related parties of the Group are repayable monthly from 2012 up to 2020 and have average effective interest rate of 7.1% (2011: 7.1%). The loans advanced to the directors during the year are collateralised by real estate, movable property, cash flows and guarantees. The fair value of those collaterals was AMD 686,112 thousand (2011: AMD 617,558 thousand).

29 Fair value of Financial instruments

The fair value of financial assets and liabilities, not presented on the balance sheet at their fair value, does not differ significantly from their carrying values:

In thousand Armenian drams	**As of December 31, 2012**		As of December 31, 2011	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL ASSETS				
Cash and balances with CBA	**30,833,022**	**30,833,022**	29,770,986	29,770,986
Amounts due from other financial institutions	**28,904,706**	**28,904,706**	19,568,764	19,568,764
Loans and advances to customers	**159,296,332**	**159,296,332**	146,131,383	146,131,383
Other assets	**1,739,197**	**1,739,197**	816,903	816,903
FINANCIAL LIABILITIES				
Amounts due to CBA	**10,531,374**	**10,531,374**	9,791,564	9,791,564
Amounts due to other financial institutions	**93,788,667**	**93,788,667**	87,211,429	87,211,429
Amounts due to customers	**91,648,683**	**91,648,683**	73,077,704	73,077,704
Other liabilities	**750,228**	**750,228**	879,733	879,733

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates. Fair value approximates carrying amounts as interest rates applicable reflect year end market rates.

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Fair value approximates carrying amounts as current interest rates for new instruments reflect interest rate for instruments originated previously.

Other borrowings

The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The fair value approximates the carrying value, as current interest rates for new instruments express interest rates of previously extended instruments.

29.1 Fair Value Hierarchy

The fair value hierarchy has the following levels:

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

In thousand Armenian drams				**As of December 31, 2012**
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Unquoted securities and debentures	**-**	**8,350,924**	**-**	**8,350,924**
Unquoted share investments	**-**	**401,623**	**-**	**401,623**
Derivative financial assets	**-**	**557,882**	**-**	**557,882**
Total	**-**	**9,310,429**	**-**	**9,310,429**
FINANCIAL LIABILITIES				
Derivative financial liabilities	-	**25,129**	**-**	**25,129**
Total	**-**	**25,129**	**-**	**25,129**
Net fair value	**-**	**9,285,300**	**-**	**9,285,300**

In thousand Armenian drams				As of December 31, 2011
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Unquoted securities and debentures	-	4,058,787	-	4,058,787
Unquoted share investments	-	257,838	-	257,838
Derivative financial assets	-	207,415	-	207,415
Total	-	4,524,040	-	4,524,040
FINANCIAL LIABILITIES				
Derivative financial liabilities	-	160,316	-	160,316
Total	-	160,316	-	160,316
Net fair value	-	4,363,724	-	4,363,724

Unquoted equity investments consist of unquoted securities of C class in VISA Company, the fair value of which has been determined based on the fair value of quoted securities of the company.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

Unquoted equity investments in RA companies

The fair value of Bank's investment in RA companies' equity investments cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 18 for further information about this equity investment.

30 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 31.3 for the Group's contractual undiscounted repayment obligations.

In thousand Armenian drams	As of December 31, 2012							
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	***Subtotal less than 12 months***	**From 1 to 5 years**	**More than 5 years**	***Subtotal over 12 months***	**Total**
ASSETS								
Cash and balances with CBA	30,296,375	-	-	***30,296,375***	-	536,647	***536,647***	**30,833,022**
Amounts due from other financial institutions	22,447,664	65	6,075,601	***28,523,330***	-	381,376	***381,376***	**28,904,706**
Derivative financial assets	-	-	557,882	***557,882***	-	-	**-**	**557,882**
Loans and advances to customers	6,142,245	7,030,029	50,783,716	***63,955,990***	91,465,983	3,874,359	***95,340,342***	**159,296,332**
Investments available for sale	803,304	1,821,716	4,414,836	***7,039,856***	1,311,068	465,441	***1,776,509***	**8,816,365**
Other assets	1,160,811	405,492	172,894	***1,739,197***	-	-	-	**1,739,197**
	60,850,399	9,257,302	62,004,929	***132,112,630***	92,777,051	5,257,823	***98,034,874***	**230,147,504**
LIABILITIES								
Amounts due to CBA	4,390	-	2,676,770	**2,681,160**	7,850,214	-	**7,850,214**	**10,531,374**
Amounts due to other financial institutions	1,174,890	3,723,751	25,253,611	**30,152,252**	63,636,415	-	**63,636,415**	**93,788,667**
Amounts due to customers	27,814,992	7,080,590	25,204,618	**60,100,200**	29,026,775	2,521,708	**31,548,483**	**91,648,683**
Derivative financial liabilities	-	73	25,056	**25,129**	-	-	**-**	**25,129**
Other liabilities	750,228	-	-	**750,228**	-	-	**-**	**750,228**
	29,744,500	10,804,414	53,160,055	**93,708,969**	100,513,404	2,521,708	**103,035,112**	**196,744,081**
Net position	31,105,899	(1,547,112)	8,844,874	**38,403,661**	(7,736,353)	2,736,115	**(5,000,238)**	**33,403,423**
Accumulated gap	31,105,899	29,558,787	38,403,661		30,667,308	33,403,423		

In thousand Armenian drams	As of December 31, 2011							
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	*Subtotal less than 12 months*	From 1 to 5 years	More than 5 years	*Subtotal over 12 months*	Total
ASSETS								
Cash and balances with CBA	29,244,505	-	-	*29,244,505*	-	526,481	*526,481*	29,770,986
Amounts due from other financial institutions	11,570,932	1,928,752	5,840,824	*19,340,508*	-	228,256	*228,256*	19,568,764
Derivative financial assets	-	-	-	-	207,415	-	*207,415*	207,415
Loans and advances to customers	2,859,917	6,273,962	43,059,740	*52,193,619*	85,005,614	8,932,150	*93,937,764*	146,131,383
Investments available for sale	1,096,513	892,294	2,069,980	*4,058,787*	-	321,656	*321,656*	4,380,443
Other assets	816,903	-	-	*816,903*	-	-	-	816,903
	45,588,770	9,095,008	50,970,544	*105,654,322*	85,213,029	10,008,543	*95,221,572*	200,875,894
LIABILITIES								
Amounts due to CBA	240,900	2,405,188	-	2,646,088	7,145,476	-	7,145,476	9,791,564
Amounts due to other financial institutions	2,201,096	829,970	20,458,887	23,489,953	62,439,294	1,282,182	63,721,476	87,211,429
Amounts due to customers	25,202,153	8,304,228	19,274,878	52,781,259	19,651,831	644,614	20,296,445	73,077,704
Derivative financial liabilities	115,475	-	-	115,475	44,841	-	44,841	160,316
Other liabilities	879,733	-	-	879,733	-	-	-	879,733
	28,639,357	11,539,386	39,733,765	79,912,508	89,281,442	1,926,796	91,208,238	171,120,746
Net position	16,949,413	(2,444,378)	11,236,779	25,741,814	(4,068,413)	8,081,747	4,013,334	29,755,148
Accumulated gap	16,949,413	14,505,035	25,741,814		21,673,401	29,755,148		

31 Risk management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, market risk and operating risk.

Risk management structure

The authorized bodies for risk management are the Board of the Bank, the Bank's Chief Executive Officer, the Risk Management Department, the Internal Audit Department and other territorial and structural subdivisions of the Bank.

The Board of the Bank

The Board of the Bank performs the following risk management functions: the approval of perspective development program and risk management methods, decision on risk management policy, the approval of types of risks associated with the activity of the Bank, the approval of methodology defining the acceptable risk levels, the approval of acceptable limits of the main risks associated with the activity of the Bank, the definition of forms on risks submitted to the Board, their content and periodicity assurance of supervision performed by Risk Management Department as well as audit inspections performed by the Internal Audit Department in order to follow the risk management methods and procedures.

The Chief Executive Officer of the Bank

The CEO discharges the following functions on risk management: elaboration of risk management methods and perspective development program as well as their submission for approval to the Board of the Bank, their implementation after the appropriate approval, supervision over the maintenance of the established risk limits, assurance of the control performed by the Risk Management Department on risk management methods, limits and procedures.

The Committee of risk management issues

The functions of the committee of risk management issues are as follows: discussion on the Bank's risk management strategy, on dynamics of market risk, liquidity risk and credit risk ratios as well as discussion on stress tests, the required procedures and results of the continuous supervision definition of internal control goals for the certain types of risk, elaboration of assignments and supervision over their implementation.

The Risk Management Department

The functions of the risk management department are brought below:

- insurance of the strict works on recognition, measurement, assessment , monitoring of all types of risks related to the Bank both for the separate financial functions and for the Bank as a whole ;
- regulation of processes on risk restraining and management arisen from the banking activities;
- documentation of the strict definition and classification of risks related to the Bank, coordination and elaboration of the maps of segregation of duties on risk management;
- the continuous and periodic analysis of risks by VAR method, stress testing and other indicators;
- planning of internal control works in the Bank's subdivision, the analysis of inspection results and elaboration of appropriate measurements;
- submission of reports to the Bank's Management on risk monitoring purposes;
- organization of trainings for the Bank's employees on the risks and internal control;
- assessment of possible risks related to the given product during the elaboration of the new financial instruments and etc.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the meeting of Internal Audit Committee.

Risk measurement and reporting systems

The Bank's risks are measured by econometric models, VAR method, GAP method, as well as based on the statistical methods, which reflect both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss. The stress tests are performed based on the historical statistical series taking into account the economic conditions, and certain mortgage scenarios. As a result of stress tests the Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the CEO of the Bank and the Committee on risk management issues quarterly. The report includes the possible forecasts of the credit risk, the limit concentrations, maximum possible losses of foreign exchange risks (VAR) exposure, interest rate risk, liquidity ratios and risk profile changes. The mentioned reports form the basis for decisions making on risk management. The information over risk management and monitoring is presented to the Board of the Bank annually.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, and cost of securities.

Excessive risk concentration

Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

31.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is the most important risk for the Group's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control is exercise by the Risk Management Department and Credit Management. The reports are periodically submitted to the Chief Executive Officer and the Committee of Risk Management Issues.

The main directions of the credit risk management are:

- analysis of the loan portfolio according to the type of loans, groups of the customers and fields;
- evaluation of possibility of becoming problem loans;
- analysis of loan portfolio by pledges ;
- evaluation of loan portfolio concentration according to 20 largest loans and borrowers;
- disclosure and management of loan portfolio limits according to branches; disclosure of the reasons of high concentrations and undertaking of appropriate measures;
- evaluation and control of the loan portfolio concentrations according to fields;
- analysis of the quality of the newly provided loans;
- analysis of the loan portfolio according to the maturity;
- evaluation of efficiency of problem loans recovery according to the branches, types of loans and fields;

- exercising of stress-tests and evaluation of impact of stress environment on the Bank's activity.

The carrying amounts of the Bank's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

31.1.1 Risk concentrations of the maximum exposure to credit risk

Geographical sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December.

In thousand Armenian drams	Armenia	OECD countries	Other non-OECD countries	Total
Balances with CBA	**30,833,022**	**-**	**-**	**30,833,022**
Amounts due from other financial institutions	**11,744,425**	**14,476,277**	**2,684,004**	**28,904,706**
Derivative financial assets	**557,882**	**-**	**-**	**557,882**
Loans and advances to customers	**159,291,630**	**1,077**	**3,625**	**159,296,332**
Investments available for sale	**8,414,742**	**401,623**	**-**	**8,816,365**
Other assets	**561,706**	**-**	**1,177,491**	**1,739,197**
As at 31 December 2012	**211,403,407**	**14,878,977**	**3,865,120**	**230,147,504**
As at 31 December 2011	189,541,489	10,214,318	1,120,087	200,875,894

Assets have been classified based on the country in which the counterparty is located.

Industry sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December.

In thousand Armenian drams	Financial institutions	Manufac-turing	Construc-tion	Trading	Consumer sector	Agriculture	Mortgage	Transport and communi-cation	Other	Total
Balances with CBA	**30,833,022**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**30,833,022**
Amounts due from other financial institutions	**28,904,706**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**28,904,706**
Derivative financial assets	**557,882**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**557,882**
Loans and advances to customers	**-**	**32,549,374**	**5,977,336**	**27,901,398**	**35,874,111**	**40,491,773**	**5,021,424**	**4,759,464**	**6,721,452**	**159,296,332**
Investments available for sale	**8,816,365**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,816,365**
Other assets	**610,375**	**395,000**	**55,885**	**144,325**	**-**	**-**	**-**	**399,130**	**134,482**	**1,739,197**
As at 31 December 2012	**69,722,350**	**32,944,374**	**6,033,221**	**28,045,723**	**35,874,111**	**40,491,773**	**5,021,424**	**5,158,594**	**6,855,934**	**230,147,504**
As at 31 December 2011	54,243,575	28,871,644	5,133,584	26,926,003	31,743,398	35,167,875	5,731,855	5,078,598	7,979,362	200,875,894

31.1.2 Risk limit control and mitigation policies

The Group manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory;
- Charges over financial instruments such as debt securities and equities
- Gold

Longer-term finance, lending to corporate entities and individual credit facilities are generally secured. In addition, in order to minimise the credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

The analysis of loan portfolio by collateral is represented as follows:

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Loans collateralized by real estate	**89,851,541**	90,834,842
Loans collateralized by movable property	**5,490,132**	7,456,823
Loans collateralized by guarantees of organisations and individuals	**49,484,972**	39,178,912
Loans collateralized by goods in circulation	**1,170,528**	906,167
Loans collateralized by cash	**476,887**	406,230
Loans collateralized by precious jewellery, gold	**7,549,587**	5,392,021
Other collateral	**7,914,505**	3,793,334
Total loans and advances to customers	**161,938,152**	147,968,329

The prepayments on financial lease are insured by the grants of companies and individuals.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

31.1.3 Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or there are any known difficulties in the cash flows of counterparties or infringement of the original terms of the contract. The Group addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not significant (including credit cards, residential mortgages and consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Loans and advances not impaired

The table below shows the credit quality by class of not impaired loans, based on the historical counterparty default rates.

In thousand Armenian drams	**2012**	2011
Loans and advances to customers		
Manufacture	**1.6%**	0.2%
Agriculture	**0.2%**	0.5%
Construction	**0.1%**	0.4%
Trading	**0.2%**	0.5%
Transport	**0.3%**	-
Services	**1.2%**	0.9%
Mortgage	**1.5%**	1.4%
Consumer	**0.2%**	0.5%

Past due but not 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					**As of December 31, 2012**
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Privately held companies	**188,913**	**-**	**19,625**	**765,412**	**973,950**
Individuals	**115,748**	**196,055**	**105,135**	**209,414**	**626,352**
Sole proprietors	**6,448**	**1,065**	**-**	**149,503**	**157,016**
Total	**311,109**	**197,120**	**124,760**	**1,124,329**	**1,757,318**

In thousand Armenian drams					As of December 31, 2011
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Privately held companies	72,639	113,569	3,799	71,271	261,278
Individuals	99,933	244,189	147,711	138,277	630,110
Sole proprietors	20,940	42,516	26,161	41,196	130,813
Total	193,512	400,274	177,671	250,744	1,022,201

Loans and advances individually impaired

As at 31 December, 2012 the total gross amount of individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is AMD 4,628,107 thousand (2011: AMD 988,871 thousand) (Note 17).

31.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Group classifies exposures to market risk into either trading or non-trading portfolios. Non-trading positions are managed and monitored using other sensitivity analyses. The Group has no significant concentration of market risk.

31.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows.

The interest rate risk management is exercised by the Risk Management Division and Assets and Liabilities Management and Dealing Department.

The main directions of interest rate risk management are:

- Analysis of interest rate gap/total assets ratio
- interest rate GAP evaluation by duration method;
- evaluation of the impact of interest rate fluctuations on the net interest income;
- exercising of stress tests and evaluation of the impact of stress situations on the net interest income.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2012. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, at 31 December 2012 for the effects of the assumed changes in interest rates.

The sensitivity of equity is analysed by maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

In thousand Armenian drams

			As of December 31, 2012				
			Sensitivity of equity				
Currency	**Change in Interest rate basis points**	**Sensitivity of net interest income**	**Up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
AMD	**1**	**(5,902)**	**(12,449)**	**(13,487)**	**(27,131)**	**-**	**(53,067)**
USD	**1**	**(94,271)**	**-**	**-**	**-**	**-**	**-**
AMD	**(1)**	**5,902**	**12,532**	**13,658**	**28,005**	**-**	**54,195**
USD	**(0.5)**	**62,963**	**-**	**-**	**-**	**-**	**-**

In thousand Armenian drams

			As of December 31, 2011				
			Sensitivity of equity				
Currency	Change in Interest rate basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	1	(23,339)	(6,995)	(3,320)	-	-	(10,315)
USD	1	(101,154)	-	-	-	-	-
AMD	(1)	23,339	7,038	3,368	-	-	10,406
USD	(0.5)	59,871	-	-	-	-	-

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The currency risk management is exercised by the Risk Management Department and Assets and liabilities management and dealing department.

The main directions of the currency risk management are:

- evaluation of possible losses using the VAR method;
- control of limits on revaluation losses;
- analysis of normative on currency risk;
- elaboration of stress tests and evaluation of impact on the Bank.

The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits. Currency risk is monitored using VAR methodology.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2012 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities).

A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	**As of December 31, 2012**		As of December 31, 2011	
Currency	**Change in currency rate in %**	**Effect on profit before tax**	Change in currency rate in %	Effect on profit before tax
USD	**10**	**249,845**	10	(83,919)
EUR	**10**	**(6,841)**	10	(3,397)
RUR	**10**	**29,093**	10	13,640
USD	**(10)**	**(249,845)**	(10)	83,919
EUR	**(10)**	**6,841**	(10)	3,397
RUR	**(10)**	**(29,093)**	(10)	(13,640)

The Group's exposure to foreign currency exchange risk is as follow:

In thousand Armenian drams	**Armenian Dram**	**Freely convertible currencies**	**Non-freely convertible currencies**	**Total**
ASSETS				
Cash and balances with the CBA	**23,371,184**	**7,103,754**	**358,084**	**30,833,022**
Amounts due from other financial institutions	**4,009,574**	**23,151,733**	**1,743,399**	**28,904,706**
Derivative financial assets	**557,882**	**-**	**-**	**557,882**
Loans and advances to customers	**75,372,091**	**83,924,241**	**-**	**159,296,332**
Investments available for sale	**8,414,742**	**401,623**	**-**	**8,816,365**
Other assets	**501,363**	**1,237,834**	**-**	**1,739,197**
	112,226,836	**115,819,185**	**2,101,483**	**230,147,504**

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
LIABILITIES				
Amounts due to CBA	**10,531,374**	**-**	**-**	**10,531,374**
Amounts due to other financial institutions	**20,309,566**	**73,479,101**	**-**	**93,788,667**
Amounts due to customers	**42,332,493**	**48,776,544**	**539,646**	**91,648,683**
Derivative financial liabilities	**-**	**25,129**	**-**	**25,129**
Other liabilities	**332,835**	**417,393**	**-**	**750,228**
	73,506,268	**122,698,167**	**539,646**	**196,744,081**
Net position as at 31 December 2012	**38,720,568**	**(6,878,982)**	**1,561,837**	**33,403,423**
Commitments and contingent liabilities as at 31 December 2012	**5,491,690**	**7,486,312**	**-**	**12,978,002**
Total financial assets	92,673,781	107,571,665	630,448	200,875,894
Total financial liabilities	54,434,656	116,292,111	393,979	171,120,746
Net position as at 31 December 2011	38,239,125	(8,720,446)	236,469	29,755,148
Commitments and contingent liabilities as at 31 December 2011	4,967,118	8,561,637	31,148	13,559,903

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

31.3 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The liquidity risk management is realized by the Risk Management Department and Assets and liabilities management and dealing department.

The main directions of liquidity risk management are:

- control over the structure of deposits and liabilities;
- monitoring of correspondent accounts, observations of violations if any and undertaking of appropriate measures;
- analysis of the liquidity gap;
- exercising of liquidity risk stress tests and the evaluation of the impact of stress situations on the Bank’s activity.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Group maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 8% of certain obligations of the Group denominated in Armenian drams and 12% on certain obligations of the Bank denominated in foreign currency. See note 14.

The Group calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia.

As at 31 December, these ratios were as follows:	**Not audited** **2012, %**	**2011, %**
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	**22.8**	20.8
H22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	**249.8**	207.9

Analysis of financial liabilities by remaining contractual maturities.

The table below summarises the maturity profile of the Group’s financial liabilities at 31 December 2012 based on contractual undiscounted repayment obligations. See note 30 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. The Bank conducts probability analysis of repayment of majority part of demand deposits due to customers and appropriate action plans are contemplated.

In thousand Armenian drams — **As of December 31, 2012**

	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
NON-DERIVATIVE FINANCIAL LIABILITIES						
Amounts due to CBA	**4,390**	**-**	**2,887,463**	**9,841,652**	**-**	**12.733,505**
Amounts due to other financial institutions	**1,174,890**	**3,801,735**	**27,472,731**	**80,702,225**	**-**	**113,151,581**
Amounts due to customers	**28,403,661**	**7,325,642**	**27,236,439**	**31,640,851**	**5,075,965**	**99,682,558**
Other liabilities	**750,228**	**-**	**-**	**-**	**-**	**750,228**
Total undiscounted financial liabilities	**30,333,169**	**11,127,377**	**57,596,633**	**122,184,728**	**5,075,965**	**226,317,872**
Derivative financial liabilities						
Inflow	**32,026**	**3,103**	**9,237,763**	**59,610**	**-**	**9,332,502**
Outflow	**54,623**	**9,578**	**7,786,238**	**109,235**	**-**	**7,959,674**
Commitments and contingent liabilities	**94,166**	**115,722**	**1,700,439**	**11,067,675**	**-**	**12,978,002**

In thousand Armenian drams — As of December 31, 2011

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	**Total**
NON-DERIVATIVE FINANCIAL LIABILITIES						
Amounts due to CBA	244,958	2,876,141	-	8,334,938	-	11,456,037
Amounts due to other financial institutions	2,391,184	3,278,956	20,685,930	67,829,039	1,367,872	95,552,981
Amounts due to customers	27,975,304	10,069,864	27,622,140	26,265,985	3,487,769	95,421,062
Other liabilities	879,733	-	-	-	-	879,733
Total undiscounted financial liabilities	31,491,179	16,224,961	48,308,070	102,429,962	4,855,641	203,309,813
Derivative financial liabilities						
Inflow	1,514,110	5,676	138,013	7,768,390	-	9,426,189
Outflow	1,669,665	9,464	224,137	7,713,646	-	9,616,912
Commitments and contingent liabilities	68,633	478,972	2,474,693	319,052	10,218,553	13,559,903

31.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness.

For restraining the operational risk the appropriate measures are undertaken in the Bank such as principle of "second eye", classification and management of circulating information in the Bank, restriction of software accessibility, multi-level system of decisions making on loan extension, limits on amounts in cash vault proformas for documentation, going concern of business processes, evaluation of possible risks for new products, training and education of the Bank's employees and etc.

For the efficient control over the risks associated with the Bank as well as for ensuring the Bank's activity in compliance with the legislative requirements and internal legal acts, the three-level system is installed and operates in the Bank. Within the scope of the mentioned system, the permanent control is exercised in the Bank's subdivisions and therefore, the results are periodically submitted to the Risk Management Department. Proceeding from the re-examination results the Risk Management Department organizes and conducts discussions and trainings with the respective subdivisions, makes clarifications and undertakes the appropriate measurements.

32 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 maximise 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, 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.

As of 31 December 2012 and 2011 the amount of regulatory capital, risk weighted assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Not audited	
In thousand Armenian drams	**2012**	2011
Tier 1 capital	**41,549,910**	37,141,551
Tier 2 capital	**3,289,287**	1,637,750
Total regulatory capital	**44,839,197**	38,779,301
Risk-weighted assets	**247,867,313**	225,077,424
Capital adequacy ratio	**18,09%**	17.23%

The Group has complied with all 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.

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