Financial Statements and Independent Auditor's Report

“Armbusinessbank” closed joint stock company

31 December 2013

Contents

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Note	**Year ended December 31, 2013**	Year ended December 31, 2012 (restated)
Interest and similar income	6	**18,767,409**	14,916,416
Interest and similar expense	6	**(12,804,964)**	(11,992,071)
Net interest income		**5,962,445**	2,924,345
Fee and commission income	7	**1,528,452**	1,335,984
Fee and commission expense	7	**(546,758)**	(485,798)
Net fee and commission income		**981,694**	850,186
Net trading income	8	**795,899**	1,586,493
Gains less losses on investments available for sale		**56,027**	2,451,641
Other income	9	**546,453**	311,012
Impairment charge for credit losses	10	**(886,214)**	(2,825,007)
(Impairment charge)/reversal on financial investments		**684**	(684)
Staff costs	11	**(2,443,677)**	(2,143,863)
Depreciation of property, plant and equipment	19	**(790,947)**	(921,712)
Amortization of intangible assets	20	**(38,533)**	(377)
Foreign currency translation net losses of non-trading assets and liabilities		**(300,293)**	(1,234,322)
Other expenses	12	**(1,758,010)**	(1,925,244)
Profit/(loss) before income tax		**2,125,528**	(927,532)
Income tax expense	13	**(234,838)**	(83,223)
Profit/(loss) for the year		**1,890,690**	(1,010,755)
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of PPE		**589,278**	-
Income tax relating to components of other comprehensive income		**(117,856)**	-
Net income from items that will not be reclassified subsequently to profit or loss		**471,422**	-
Items that will be reclassified subsequently to profit or loss			
Net unrealized gains/(losses) from changes in fair value of investments available-for-sale		**1,440,190**	(4,951,304)
Net losses/(gains) realized to comprehensive income statement on disposal of available-for-sale instruments		**(282,486)**	5,089,567
Income tax relating to components of other comprehensive income		**(231,541)**	(27,653)
Net income from items that will be reclassified subsequently to profit or loss		**926,163**	110,610
Other comprehensive income for the year, net of tax		**1,397,585**	110,610
Total comprehensive income for the year		**3,288,275**	(900,145)

Statement of financial position

In thousand Armenian drams	Note	**As of December 31, 2013**	As of December 31, 2012 (restated)	As of December 31, 2011
ASSETS	14			
Cash and cash equivalents	15	**36,581,512**	14,271,022	24,072,851
Amounts due from other financial institutions	16	**2,599,559**	2,754,710	885,735
Derivative financial assets	17	**50,550**	13,504	777,215
Loans and advances to customers		**137,169,936**	132,744,677	108,741,959
Investment securities	18			
- Investments available for sale	18	**24,927**	196,950	819,163
- Investments held to maturity	28	**-**	33,502	51,304
Securities pledged under repurchase agreements		**25,010,573**	20,475,538	6,050,120
Prepaid income taxes	19	**99,253**	371,275	-
Property, plant and equipment	20	**9,226,502**	9,301,148	9,299,386
Intangible assets	13	**1,348,599**	1,043,790	364,249
Deferred tax assets	21	**-**	177,553	288,429
Repossessed assets	22	**5,824,128**	5,087,665	2,741,745
Other assets		**1,523,455**	1,067,701	13,045,745
TOTAL ASSETS		**219,458,994**	187,539,035	167,137,901
LIABILITIES AND EQUITY				
Liabilities	23			
Amounts due to CBA	16	**36,949,970**	31,084,556	17,164,040
Derivative financial liabilities	24	**-**	120,942	-
Amounts due to other financial institutions	25	**24,744,977**	24,766,530	22,541,632
Financial liabilities held for trading	26	**15,482,300**	11,868,589	10,173,850
Amounts due to customers		**116,507,837**	97,239,307	94,228,848
Current income tax liabilities	13	**-**	-	230,756
Deferred income tax liabilities	27	**40,888**	-	-
Other liabilities		**812,368**	826,732	266,251
Total liabilities		**194,538,340**	165,906,656	144,605,377
Equity	29			
Share capital		**17,500,000**	17,500,000	17,500,000
Statutory general reserve		**309,357**	309,357	264,688
Other reserves		**1,595,572**	197,987	87,377
Retained earnings		**5,515,725**	3,625,035	4,680,459
Total equity		**24,920,654**	21,632,379	22,532,524
TOTAL LIABILITIES AND EQUITY		**219,458,994**	187,539,035	167,137,901

The financial statements from pages 3 to 60 were signed by the Bank's Chairman of the Executive Board and Chief Accountant on 15 April 2014.

The accompanying notes on pages 7 to 60 are an integral part of these financial statements.

Arsen Michaelyan
Chairman of the Executive Board

Narine Sargsyan
Chief accountant

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings/ (Accumu-lated loss)	Total
Balance as of January 1, 2012	17,500,000	264,688	87,377	-	4,680,459	22,532,524
Distribution to reserve	-	44,669	-	-	(44,669)	-
Transactions with owners	-	44,669	-	-	(44,669)	-
Loss for the year	-	-	-	-	(1,010,755)	(1,010,755)
Other comprehensive income:						
Net unrealized loss from changes in fair value	-	-	(4,951,304)	-	-	(4,951,304)
Net losses realized to comprehensive income statement on disposal of available-for-sale instruments	-	-	5,089,567	-	-	5,089,567
Income tax relating to components of other comprehensive income	-	-	(27,653)	-	-	(27,653)
Total comprehensive income for the year	-	-	110,610	-	(1,010,755)	(900,145)
Balance as of December 31, 2012 (restated)	**17,500,000**	**309,357**	**197,987**	**-**	**3,625,035**	**21,632,379**
Profit for the year	**-**	**-**	**-**	**-**	**1,890,690**	**1,890,690**
Other comprehensive income:						
Revaluation of PPE	**-**	**-**	**-**	**589,278**	**-**	**589,278**
Net unrealized gains from changes in fair value	**-**	**-**	**1,440,190**	**-**	**-**	**1,440,190**
Net gains realized to comprehensive income statement on disposal of available-for-sale instruments	**-**	**-**	**(282,486)**	**-**	**-**	**(282,486)**
Income tax relating to components of other comprehensive income	**-**	**-**	**(231,541)**	**(117,856)**	**-**	**(349,397)**
Total comprehensive income for the year	**-**	**-**	**926,163**	**471,422**	**1,890,690**	**3,288,275**
Balance as of December 31, 2013	**17,500,000**	**309,357**	**1,124,150**	**471,422**	**5,515,725**	**24,920,654**

Statement of cash flows

In thousand Armenian drams	Year ended December 31, 2013	Year ended December 31, 2012 (restated)
Cash flows from operating activities		
Profit/(loss) before tax	**2,125,528**	(927,532)
Adjustments for		
Amortization and depreciation allowances	**829,480**	922,089
Impairment charge for credit losses	**886,214**	2,825,007
Impairment charge/(reversal) financial investments	**(684)**	684
Net (gain)/loss from changes in fair value of instruments held for trading	**(157,988)**	470,149
Interest receivable	**(3,743,589)**	(1,219,352)
Interest payable	**965,214**	1,041,159
Foreign currency translation net loss of non-trading assets and liabilities	**300,293**	1,234,322
Cash flows from operating activities before changes in operating assets and liabilities	**1,204,468**	4,346,526
(Increase)/decrease in operating assets		
Amounts due from other financial institutions	**358,896**	(1,162,587)
Securities pledged under repurchase agreements	**(4,535,035)**	(14,425,418)
Loans and advances to customers	**(1,609,997)**	(26,078,581)
Other assets	**(460,901)**	12,271,792
Increase/(decrease) in operating liabilities		
Amounts due to CBA	**5,838,308**	13,868,312
Amounts due to other financial institutions	**162,708**	1,632,297
Financial liabilities held for trading	**3,613,711**	1,694,739
Amounts due to customers	**18,131,442**	(877,326)
Other liabilities	**(13,470)**	360,444
Net cash flow from/(used in) operating activities before income tax	**22,690,130**	(8,369,802)
Income tax paid	**(104,734)**	(602,031)
Net cash from/(used in) operating activities	**22,585,396**	(8,971,833)
Cash flows from investing activities		
Proceeds from sale of investment securities	**196,175**	648,281
Purchase of property and equipment	**(221,140)**	(945,399)
Purchase of intangible assets	**(343,162)**	(695,664)
Net cash used in investing activities	**(368,127)**	(992,782)
Net increase/(decrease) in cash and cash equivalents	**22,217,269**	(9,964,615)
Cash and cash equivalents at the beginning of the year	**14,271,022**	24,072,851
Exchange differences on cash and cash equivalents	**93,221**	162,786
Cash and cash equivalents at the end of the year (Note 14)	**36,581,512**	14,271,022

Supplementary information:		
Interest received	**15,023,820**	13,697,064
Interest paid	**(11,839,750)**	(10,950,912)

Accompanying notes to the financial statements

1 Principal activities

"Armbusinessbank" CJSC (previous "Hayinvestbank" CJSC) (the "Bank") is a closed joint-stock company, which was incorporated in the Republic of Armenia in 1991. The Bank is regulated by the legislation of RA and conducts its business under license number 40, granted on 10 December, 1991 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.

The Bank's main office and its 12 branches are located in Yerevan, 12 branches are located in different regions of Armenia and 7 branches are located in the Republic of Nagorno Karabakh. The registered office of the Bank is located at: 48 Nalbandyan Street, Yerevan.

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, 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 Bank 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 Bank may be affected.

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

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Bank 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 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 land and buildings, which are presented in revalued amount.

3.3 Functional and presentation currency

Functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's functional currency and the Bank's presentation currency is Armenian Dram ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Bank. The Bank prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These financial statements are based on the Bank's books and records as adjusted and reclassified in order to comply with IFRS. The 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, 2013.

IFRS 13 Fair Value Measurement

IFRS 13 clarifies the definition of fair value and provides relevant guidelines and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of IFRS 13 is broad and it applies to both financial and non-financial items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in certain circumstances.

Its disclosure requirements need not be applied for comparative information in the first year of application.

The Bank has applied IFRS 13 for the first time in the current year. Refer to note 32.

IAS 1* (Amendment) *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. The amendment, which has changed the current presentation of items in other comprehensive income; however, it has not affected the measurement or recognition of such items.

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 IFRS has been applied for the first time in the current year. Refer to note 33.

3.5 Standards and interpretations not yet applied by the Bank

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 Bank has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Bank's accounting policy for the first period beginning after the effective date of the pronouncement.

Management does not anticipate a material impact on the Bank's financial statements from these Amendments, they are presented below.

The amendments are effective for annual reporting periods beginning on or after 1 January 2014 and are required to be applied retrospectively, with the exception of amendments performed in IFRS 9 *Financial Instruments.*

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.

Because the impairment phase of the IFRS 9 project has not yet been completed, the IASB decided that a mandatory date of 1 January 2015 would not allow sufficient time for entities to prepare to apply the new Standard. Accordingly, the IASB decided that a new date should be decided upon when the entire IFRS 9 project is closer to completion. The amendments made to IFRS 9 in November 2013 remove the mandatory effective date from IFRS 9. However, entities may still choose to apply IFRS 9 immediately.

IAS 36* (Amendment) *Recoverable Amount Disclosure for Non-Financial Assets

Amendments to IAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

Earlier application is permitted provided the entity has already adopted IFRS 13.

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

The amendment addresses inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. Two areas of inconsistency are addressed by the amendments.

- relates to the meaning of 'currently has a legally enforceable right of set-off'. The IASB has clarified that a right of set-off is required to be legally enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The right must also exist for all counterparties.
- relates to gross settlement systems, such as clearing houses, used by banks and other financial institutions. There had been diversity in practice over the interpretation of IAS 32's requirement for there to be 'simultaneous settlement' of an asset and a liability in order to achieve offsetting.

The IASB has clarified in the amendments 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.

These Amendments were made in conjunction with additional disclosures in IFRS 7 on the effects of rights of set-off and similar arrangements.

Annual Improvements to IFRSs 2010-2012 Cycle

The Annual Improvements 2010-2012 made several minor amendments to a number of IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014

IFRS 8 Operating Segments

Aggregation of operating segments

- requires entities to disclose the judgements made in identifying their reportable segments when operating segments have been aggregated, including a brief description of the operating segments that have been aggregated and the economic indicators that determine the aggregation criteria.

Reconciliation of the total of the reportable segments' assets to the entity's assets

- clarifies that the entity is required to provide a reconciliation between the total reportable segments' assets and the entity's assets only if the segment assets are regularly reported to the chief operating decision maker.

IFRS 13 Fair Value Measurement

Short-term receivables and payables

- amends the Basis for Conclusions to clarify that an entity is not required to discount short-term receivables and payables without a stated interest rate below their invoice amount when the effect of discounting is immaterial.

Several new standards and interpretations have been issued, however it is not anticipated that they will have impact on the Bank's financial statements.

3.6 Restatement of financial statements

Financial statements, including previous year comparative information, are presented in a way as if the adjustment was made in the period when the necessity to make it arose. Therefore, the amount of adjustment relating to each presented period is assigned to the financial statement of that year. The amount subject to adjustment relating to previous periods of comparative information in financial statements is adjusted in earliest presented period.

The table below shows articles presented in previous period till restatement, the adjustment made in the result of restatement and final restated articles and their effect on previous year financial results.

Restatement of statement of financial position

In thousand Armenian drams	As at 31 December 2012	Adjustment of restatement	As at 31 December 2012 (restated)
ASSETS			
Cash and cash equivalent	12,114,301	2,156,721	14,271,022
Precious metals	24,080	(24,080)	-
Amounts due from other financial institutions	4,894,061	(2,139,351)	2,754,710
Financial assets held for trading	11,868,589	(11,868,589)	-
Derivative financial assets	-	13,504	13,504
Loans and advances to customers	124,273,220	8,471,457	132,744,677
Investments available for sale	8,813,335	(8,616,385)	196,950
Securities pledged under repurchase agreements	-	20,475,538	20,475,538
Prepaid income taxes	-	371,275	371,275
Deferred tax assets	149,158	28,395	177,553
Repossessed assets	-	5,087,665	5,087,665
Other assets	14,224,247	(13,156,546)	1,067,701
Total assets	176,360,991	799,604	177,160,595
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to CBA	-	31,084,556	31,084,556
Derivative financial liabilities	-	120,942	120,942
Amounts due to other financial institutions	55,882,140	(31,115,610)	24,766,530
Amounts due to customers	97,411,255	(171,948)	97,239,307
Deferred tax liability	46,382	(46,382)	-
Amounts payable	35,357	(35,357)	-
Reserves	197,260	(197,260)	-
Other liabilities	512,055	314,677	826,732
Total liabilities	154,084,449	(46,382)	154,038,067
Equity			
Retained earnings	2,779,049	845,986	3,625,035
Total equity	2,779,049	845,986	3,625,035
Total liabilities and equity	156,863,498	799,604	157,663,102

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	For the year ended 31 December 2012	Adjustment of restatement	For the year ended 31 December 2012 (restated)
Interest and similar income	16,806,129	(1,889,713)	14,916,416
Interest and similar expense	(12,341,343)	349,272	(11,992,071)
Fee and commission income	1,336,850	(866)	1,335,984
Fee and commission expense	(383,606)	(102,192)	(485,798)
Net trading income	712,437	874,056	1,586,493
Gains less losses from investments available for sale	-	2,451,641	2,451,641
Other income	324,525	(13,513)	311,012
Impairment charge for credit losses	(3,383,488)	558,481	(2,825,007)
Impairment loss on financial investments	-	(684)	(684)
General administrative expenses	(3,408,619)	3,408,619	-
Staff costs	-	(2,143,863)	(2,143,863)
Depreciation of property, plant and equipment	-	(921,712)	(921,712)
Amortisation of intangible assets	-	(377)	(377)
Gains less losses from foreign exchange currency translation of non-trading assets and liabilities	-	(1,234,322)	(1,234,322)
Other expenses	(1,649,465)	(275,779)	(1,925,244)
Income tax expense	129,839	(213,062)	(83,223)
Total	(1,856,741)	845,986	(1,010,755)

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank 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 Bank 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

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. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Dividend income

Revenue is recognized when the Bank'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.

4.2 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 profit or loss and other comprehensive 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 the own equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as 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.

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the AMD (the Group's presentation currency) are translated into AMD upon consolidation. The functional currency of the entities in the Group have remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into AMD at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into AMD at the closing rate(only for consolidated financial statements whose subsidiaries operate in foreign countries).

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 Bank in the preparation of the financial statements are as follows:

	December 31, 2013	December 31, 2012
AMD/1 US Dollar	**405.64**	403.58
AMD/1 EUR	**559.54**	532.24

4.3 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the statement of profit or loss and other comprehensive income 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 Bank's activities. These taxes are included as a component of other expenses in the statement of profit or loss and other comprehensive income.

4.4 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.

4.5 Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Precious metals are included in other assets in the statement of financial position.

Changes in the bid prices are recorded in net gain/loss on operations with precious metals in other income/expense.

4.6 Amounts due from other financial institutions

In the normal course of business, the Bank 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 Bank 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 (including held for trading) 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 Bank 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 Bank 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 Bank 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 recognised 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 unrealised 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.

Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the statement of profit or loss and other comprehensive income.

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Bank’s management has the positive intention and ability to hold to maturity. Were the Bank 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 Bank provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Bank 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 statement of profit or loss and other comprehensive income 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 other comprehensive income 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 profit or loss and other comprehensive income. However, interest calculated using the effective interest method is recognised in the statement of profit or loss and other comprehensive income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank'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 Bank 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 Bank 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 profit or loss and other comprehensive 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 Bank 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 Bank'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 Bank 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 Bank. 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.

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 of 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 profit or loss and other comprehensive 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 Bank 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 Bank 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 Bank 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 Bank'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 Bank 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 Bank's continuing involvement is the amount of the transferred asset that the Bank 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 Bank'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 profit or loss and other comprehensive 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 Leases

Operating - Bank 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.

Operating - Bank as leaser

The Bank presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognised in statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

4.12 Property, plant and equipment

Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation, with the exception of land and buildings.

The Bank's buildings are stated 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 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	30	3.33
Computers	3	33.3
ATMs	10	10
Vehicles	5	20
Equipment	5	20
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 not depreciated until they are ready for usage.

Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income 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.

4.13 Intangible assets

Intangible assets include computer software, licences and other.

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 15 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.

4.14 Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

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, debt securities issued and subordinated debt 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 profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

4.17 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. Following initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

4.18 Provisions

Provisions are recognised when the Bank 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.

4.19 Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. 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.

4.20 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the financial statements 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.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

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 financial statements are presented below:

Classification of investment securities

Securities owned by the Bank comprise Armenian state and corporate bonds, securities issued by the Central Bank of Armenia and corporate shares. Upon initial recognition, the Bank designates securities as financial assets with recognition of changes in fair value through profit or loss, held to maturity financial assets or available-for-sale financials assets recognition of changes in fair value through equity.

Related party transactions

In the normal course of business the Bank enters into transactions with its related parties. These transactions are priced predominantly at market rates. 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 Bank reviews its problem loans and advances at each reporting date to assess whether there are objective criteria of depreciation. 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 Bank 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 30.

Impairment of available-for-sale equity investments

The Bank 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 Bank 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	**2013**	2012
Loans and advances to customers	**15,177,552**	12,787,702
Debt securities available for sale	**1,090,172**	997,496
Debt securities held to maturity	**1,753**	5,514
Amounts due from other financial institutions	**153,588**	61,630
Reverse repurchase operations	**1,102,556**	1,064,074
Interest accrued on impaired financial assets	**1,240,726**	-
Other interest income	**1,062**	-
Total interest and similar income	**18,767,409**	14,916,416
Amounts due to customers	**7,104,841**	7,159,873
Amounts due to the CBA	**287,072**	251,750
Subordinate debt from CBA	**633,597**	634,138
Amounts due to other financial institutions	**3,174,703**	2,459,925
Repurchase transactions	**1,604,751**	1,486,385
Total interest and similar expense	**12,804,964**	11,992,071

7 Fee and commission income and expense

In thousand Armenian drams	**2013**	2012
Cash operations	**249,938**	296,620
Utilities	**15,038**	13,965
Wire transfer fees	**29,000**	22,729
Transfers	**336,871**	258,453
Loan servicing	**144,279**	160,357
Plastic cards operations	**499,398**	366,661
Guarantees and letters of credit	**225,957**	194,150
Other fees and commission income	**27,971**	23,049
Total fee and commission income	**1,528,452**	1,335,984

Wire transfer fees	**196,934**	182,710
Cash collection	**55,573**	47,211
Plastic cards operations	**275,740**	242,010
Other expenses	**18,511**	13,867
Total fee and commission expense	**546,758**	485,798

8 Net trading income

In thousand Armenian drams	**2013**	2012
Net income from foreign currency operations	**699,941**	661,150
Gains less losses from foreign currency swap	**95,958**	925,343
Total net trading income	**795,899**	1,586,493

9 Other income

In thousand Armenian drams	**2013**	2012
Fines and penalties received	**383,675**	166,414
Income from grants	**82**	94
Income from sale of fixed assets	**33,820**	33,514
Income from account closing	**4,879**	3,558
Income from receipt of loan applications	**11464**	15,839
Income from transfers	**33,663**	41,127
Income from internet banking services	**24,860**	20,162
Income from vehicle technical screening coupons	**15,543**	-
Other income	**38,467**	30,304
Total other income	**546,453**	311,012

10 Impairment charge/(reversal) for credit losses

In thousand Armenian drams	**2013**	2012
Amounts due from other financial institutions (Note 15)	**(49,298)**	(4,625)
Loans and advances to customers (Note 17)	**1,240,708**	2,516,721
Other assets (Note 22)	**(107,936)**	115,651
Other reserves (Note 30)	**(197,260)**	197,260
Total impairment charge for credit losses	**886,214**	2,825,007

11 Staff costs

In thousand Armenian drams	**2013**	2012
Wages and salaries	**2,443,677**	1,943,515
Social security contributions	**-**	200,348
Total staff costs	**2,443,677**	2,143,863

*Since January 1 2013 RA laws on "Income tax" and "Mandatory social security payments" were revoked and RA law on "Income tax" came into effect, which unifies income tax, social security payment of employee and social security payment by the employer.

12 Other expenses

In thousand Armenian drams	**2013**	2012
Consulting and other services	**13,350**	22,263
Operating lease	**74,018**	67,018
Taxes, other than income tax, duties	**206,258**	193,661
Advertising costs	**118,295**	136,939
Insurance expenses	**36,184**	33,548
Representative expenses	**35,788**	115,364
Administrative expenses	**311,986**	316,977
Loss from disposal of repossessed property	**75,204**	35,524
Repair and maintenance of tangible assets	**186,298**	236,080
Communications	**75,979**	101,284
Security	**169,058**	151,678
Losses from operations with precious metals	**88,598**	5,098
Deposit guarantee fund expenses	**134,645**	124,258
Office supplies	**35,486**	66,370
Business trip expenses	**14,794**	64,350
Other operating expenses	**126,826**	107,273
Payments to financial system mediator	**18,849**	19,720
Penalties paid	**1,614**	4,494
Other expenses	**34,780**	123,345
Total other expense	**1,758,010**	1,925,244

13 Income tax expense

In thousand Armenian drams	2013	2012
Current tax expense	**365,794**	-
Deferred tax	**(130,956)**	83,223
Total income tax expense	**234,838**	83,223

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2012: 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/(loss) is provided below:

In thousand Armenian drams	2013	Effective rate (%)	2012	Effective rate (%)
Profit/(loss) before tax	**2,125,528**		(927,532)	
Income tax at the rate of 20%	**425,106**	**20**	(185,506)	(20)
Non taxable income	**(102,175)**	**(5)**	-	-
Non-deductible expenses	**32,000**	**2**	141,757	15
Foreign exchange losses	**19,360**	**1**	126,972	14
Effect of utilization of tax losses carried forward, not recognized previously	**(139,453)**	**(7)**	-	-
Total income tax expense	**234,838**	**11**	83,223	9

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	**At 31 December 2012**	**Recognized in the statement of profit or loss and other comprehensive income**	**Recognized in other comprehensive income**	**At 31 December 2013**
Other liabilities	**3,116**	**33,795**	**-**	**36,911**
Other assets	**65,859**	**(65,859)**	**-**	**-**
Loans and advances to customers	**158,076**	**232,986**	**-**	**391,062**
Tax loss carried forward	**139,453**	**(139,453)**	**-**	**-**
Total deferred tax asset	**366,504**	**61,469**	**-**	**427,973**
Effect of utilization of tax asset carried forward, not recognized previously	**(139,453)**	**139,453**	**-**	**-**
Total deferred tax asset	**227,051**	**200,922**	**-**	**427,973**
Other assets	**-**	**(16,430)**	**-**	**(16,430)**
Reserves	**-**	**(53,536)**	**-**	**(53,536)**
Fair value adjustment of securities	**(49,498)**	**-**	**(231,541)**	**(281,039)**
PPE	**-**	**-**	**(117,856)**	**(117,856)**
Total deferred tax liability	**(49,498)**	**(69,966)**	**(349,397)**	**(468,861)**
Net deferred tax asset/(liability)	**177,553**	**130,956**	**(349,397)**	**(40,888)**

In thousand Armenian drams	At 31 December 2011	Recognized in the statement of profit or loss and other comprehensive income	Recognized in other comprehensive income	At 31 December 2012
Other liabilities	22,235	(19,119)	-	3,116
Other assets	105,319	(39,460)	-	65,859
Investments available-for-sale	7,886	(7886)	-	-
Loans and advances to customers	252,123	(94,047)	-	158,076
Tax losses carried forward	-	139,453	-	139,453
Total deferred tax assets	387,563	(21,059)	-	366,504
Effect of utilization of tax asset carried forward, not recognized previously	-	(139,453)	-	(139,453)
Total deferred tax assets	387,563	(160,512)	-	227,051
Loans and advances to customers	(34,004)	34,004	-	-
Provisions	(43,285)	43,285	-	-
Adjustment of fair value of securities	(21,845)	-	(27,653)	(49,498)
Total deferred tax liability	(99,134)	77,289	(27,653)	(49,498)
Net deferred tax asset	288,429	(83,223)	(27,653)	177,553

14 Cash and cash equivalents

In thousand Armenian drams	**2013**	2012
Cash on hand	**4,078,547**	4,765,367
Other money market placements	**6,554**	5,181
Correspondent account with the CBA	**30,227,219**	6,323,804
Placements with other banks	**2,269,192**	3,176,670
Total cash and cash equivalents	**36,581,512**	14,271,022

As at 31 December 2013 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 4% of certain obligations of the Bank denominated in Armenian drams and 12% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 12,918,415 thousand (2012: AMD 11,751,763 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Mandatory reserve deposits are non-interest bearing.

As at 31 December 2013 placements in other banks in amounts of AMD 1,538,122 thousand (68%) were due from three banks, which represent significant concentration (2012: AMD 2,405,748 thousand (76%) were due from three banks).

Non-cash transactions that took place in 2013 represent repayment of AMD 2,082,626 thousand loan by repossession of property (2012: AMD 5,310,552 thousand)

15 Amounts due from other financial institutions

In thousand Armenian drams	2013	2012
Deposited funds with CBA	**420,000**	1,020,000
Loans and advances with financial institutions	**1,558,163**	1,313,726
Other accounts	**621,396**	470,282
Allowance for impairment for amounts due from financial institutions	**-**	(49,298)
Total amounts due from other financial institutions	**2,599,559**	2,754,710

As at 31 December 2013 the amounts due from other financial institutions in amounts of AMD 1,034,351 thousand (66%) were concentrated in one financial institution (2012: AMD 1,134,111 thousand (86%) were concentrated in one financial institution banks).

As at 31 December 2013 other accounts include guarantee amounts provided by the Bank for its operations through Master Card payment system in the amount of AMD 317,146 thousand (2012: AMD 314,775 thousand), as well as frozen deposit placed by the Bank for membership to Visa payment system in the amount of AMD 182,785 thousand (2012: AMD 74,662 thousand).

Deposited fund with the CBA is guarantee deposited placed by the Bank for its operations through ArCa payment system.

The movement in allowance for impairment losses on amounts due from other financial institutions was as follows:

In thousand Armenian drams	Total
At January 1, 2012	53,923
Reversal for the year	(4,625)
At December 31, 2012	49,298
Reversal for the year	**(49,298)**
At December 31, 2013	**-**

16 Derivative financial instruments

The fair values of derivative instruments held are set out below.

In thousand Armenian drams	**At 31 December 2013**			Ar 31 December 2012		
	Notional amount	**Fair value of assets**	**Fair value of liabilities**	Notional amount	Fair value of assets	Fair value of liabilities
Derivatives held for trading						
Foreign currency contracts						
Swaps – foreign	**2,078,750**	**50,550**	**-**	21,829,933	227	115,407
Swaps - domestic	**-**	**-**	**-**	2,902,511	13,277	5,535
Total derivative financial instruments	**2,078,750**	**50,550**	**-**	24,732,444	13,504	120,942

17 Loans and advances to customers

In thousand Armenian drams	2013	2012
Loans to customers	**97,106,775**	96,740,561
Reverse repurchase agreements	**12,777,537**	11,830,909
Overdrafts	**31,036,752**	27,554,385
Guarantee payments	**917,429**	1,747
Leasing	**1,282**	1,676
	141,839,775	136,129,278
Less allowance for loan impairment	**(4,669,839)**	(3,384,601)
Total loans and advances to customers	**137,169,936**	132,744,677

As of 31 December 2013 accrued interest income included in loans and advances to customers amounted to AMD 6,340,446 thousand (2012: AMD 2,591,590 thousand).

As of 31 December 2013 the effective interest rates on loans and advances to customers ranged from 6.16% to 27.87% for loans in AMD (2010: from 6.16% to 26.87%) and from 8.98 to 21.94% for loans in USD, EUR and other freely convertible currencies (2012: from 9.37% to 19.56%).

As of December 31, 2013 the Bank has acquired collateral pledged for extended loans. The carrying amount of these assets is AMD 5,824,128 thousand (2012: AMD 5,087,665 thousand) (Note 21). The Bank has the intention to sell these assets in a short period of time.

As of December 31, 2013, the Bank had a concentration of loan portfolio represented by AMD 31,014,797 thousand (2012: AMD 26,495,881 thousand or 19% of gorr loan portfolio) with regard to 10 borrowers and parties related with them (22% of the gross loan portfolio). Individual allowance of AMD 320,795 thousand was made against these loans (2012: AMD 567,403 thousand).

The fair value of securities pledged under reverse repurchase agreements, which were repledged in other organizations as securities pledged under repurchase agreements amounts to AMD 15,482,300 thousand as at 31 December 2013 (2012: AMD 11,868,589 thousand) (Note 25, 28).

Analysis of loans and advances to customers by industry sectors is presented below:

In thousand Armenian drams	2013	2012
Manufacturing	**25,731,595**	25,711,566
Agriculture	**4,040,939**	4,400,410
Construction	**14,124,446**	14,609,697
Trading	**38,077,380**	34,081,850
Consumer	**20,572,624**	18,995,134
Mortgage loans	**14,122,196**	16,171,516
Other	**25,170,595**	22,159,105
	141,839,775	136,129,278
Less allowance for impairment	**(4,669,839)**	(3,384,601)
Total loans and advances to customers	**137,169,936**	132,744,677

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

In thousand Armenian drams								2013
	Manufacture	Agriculture	Const-ruction	Trading	Consumer	Mort-gage	Other	Total
At 1 January 2013	**514,231**	**350,713**	**292,194**	**796,021**	**664,830**	**323,430**	**443,182**	**3,384,601**
Charge/(reversal) for the year	**213,822**	**(53,591)**	**414,247**	**1,529,817**	**(505,775)**	**(175,331)**	**(182,481)**	**1,240,708**
Amounts written off	**(20,224)**	**(75,100)**	**(334,858)**	**(42,856)**	**(155,639)**	**(81,900)**	**(10,021)**	**(720,598)**
Recoveries	**6,003**	**51,830**	**306,556**	**122,380**	**202,310**	**75,023**	**1,026**	**765,128**
At 31 December 2013	**713,832**	**273,852**	**678,139**	**2,405,362**	**205,726**	**141,222**	**251,706**	**4,669,839**
Individual impairment	**493,960**	**-**	**548,673**	**1,994,816**	**-**	**-**	**-**	**3,037,449**
Collective impairment	**219,872**	**273,852**	**129,466**	**410,546**	**205,726**	**141,222**	**251,706**	**1,632,390**
	713,832	**273,852**	**678,139**	**2,405,362**	**205,726**	**141,222**	**251,706**	**4,669,839**
Gross amount of loans individually impaired, before deducting any individually assessed impairment allowance	**3,744,345**	**-**	**1,177,796**	**3,531,819**	**-**	**-**	**-**	**8,453,960**

In thousand Armenian drams								2012
	Manufacture	Agriculture	Const-ruction	Trading	Consumer	Mort-gage	Other	Total
At 1 January 2012	242,964	131,922	337,145	792,603	247,092	228,827	351,593	2,332,146
Charge/(reversal) for the year	117,429	1,183,408	(48,951)	810,286	503,297	(174,942)	126,194	2,516,721
Amounts written off	(54,275)	(1,012,733)	-	(905,103)	(230,863)	(63,006)	(56,375)	(2,322,355)
Recoveries	208,113	48,116	4,000	98,235	145,304	332,551	21,770	858,089
At 31 December 2012	514,231	350,713	292,194	796,021	664,830	323,430	443,182	3,384,601
Collective impairment	514,231	350,713	292,194	796,021	664,830	323,430	443,182	3,384,601
	514,231	350,713	292,194	796,021	664,830	323,430	443,182	3,384,601

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

In thousand Armenian drams	2013	2012
Individuals	**35,992,197**	36,848,927
Privately held companies	**102,071,835**	94,912,408
Sole proprietors	**2,783,348**	2,557,968
State owned enterprises	**769,210**	1,305,854
Non-profit organizations	**223,185**	504,121
	141,839,775	136,129,278
Less allowance for loan impairment	**(4,669,839)**	(3,384,601)
Total loans and advances to customers	**137,169,936**	132,744,677

Loans to individuals comprise the following products:

In thousand Armenian drams	2013	2012
Mortgage	**14,122,196**	16,171,516
Credit cards	**12,685,071**	11,133,803
Consumer	**1,835,755**	1,977,541
Gold loans	**5,463,399**	5,111,139
Car	**383,457**	590,547
Other	**1,502,319**	1,864,381
Total loans and advances to individuals (gross)	**35,992,197**	36,848,927

The information on financial leasing is introduced below:

In thousand Armenian drams	2013	2012
Gross investments on finance lease		
Till 1 year	**1,068**	1,365
From 1 to 5 years	**281**	607
	1,349	1,972
Unearned future financial gains from finance lease	**(67)**	(296)
Net investments in finance lease	**1,282**	1,676

Impairment allowance for finance lease is not included in the impairment allowance and amunt to AMD 13 thousand drams as at 31 December 2013 (2012: AMD 27 thousand drams).

Implied interest rate for finance lease is 19-20%.

At 31 December 2013 and at 31 December 2012 the estimated fair value of loans and advances to customers approximates it carrying value (Note 32).

Maturity analysis of loan portfolio is presented in Note 34.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in Note 35. The information on related party balances is disclosed in Note 31.

18 Investment securities

	As of December 31, 2013			As of December 31, 2012		
In thousand Armenian drams	**Available for sale**	**Held to maturity**	**Total**	Available for sale	Held to maturity	Total
Unquoted investments						
Equity instruments	**9,226**	**-**	**9,226**	10,230	-	10,230
Shares of Armenian companies	**10,093**	**-**	**10,093**	10,093	-	10,093
State bonds	**1,009**	**-**	**1,009**	154,878	-	154,878
Corporate bonds	**-**	**-**	**-**	-	32,598	32,598
Promissory notes	**4,302**	**-**	**4,302**	13,006	-	13,006
Accrued interest	**297**	**-**	**297**	8,743	904	9,647
Total investments	**24,927**	**-**	**24,927**	196,950	33,502	230,452

All debt securities have fixed coupons.

The Bank has not reclassified any financial assets measured at amortised cost rather than fair value during the year (2012: either).

The Bank has not reclassified any financial assets measured at amortised cost rather than fair value during the year (2012: nil).

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 equity shares are recorded at cost since its fair value cannot be reliably estimated. There is no quoted market on these investments and the Bank intends to hold them for a long term.

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

In thousand Armenian drams	**2013**		2012	
	%	**Maturity**	%	Maturity
State bonds	**8.19%**	**2014**	13.62-15.04%	2014-2028
Corporate bonds	**-**	**-**	12%	2013
Promissory notes	**26%**	**2014**	24.63%	2013

Available for sale debt securities at fair value in the amount of AMD 9,528,273 thousand (2012: AMD 8,606,949 thousand) were sold to third parties on reverse repurchase agreements for periods not exceeding six months. These securities were classified as securities pledged under repurchase agreements on the face of the balance sheet (Note 28).

Held-to-maturity investments

In thousand Armenian drams	**2013**	2012
Nominal value	**-**	33,282
Discount	**-**	(684)
Accrued interest	**-**	904
Total investments held to maturity	**-**	33,502

Held-to-maturity securities upon profitability and maturity terms:

In thousand Armenian drams	**2013**		2012	
	%	**Maturity**	%	Maturity
Corporate bonds	**-**	**-**	12%	2013

19 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Machinery and equipment	Vehicles	Computer equipment	Other PPE	Capital investments in leased PPE	Leasehold improve-ments	Total
COST								
Cost at January 1, 2012	6,589,903	363,641	401,011	2,034,565	517,035	28,996	1,451,313	11,386,464
Additions	372,270	10,147	185,471	34,660	15,532	-	327,319	945,399
Disposals	-	(1,191)	(115,644)	(7,657)	(4,911)	-	-	(129,403)
Reclassifications	971,841	75,647	-	622,335	108,809	-	(1,778,632)	-
At December 31, 2012	**7,934,014**	**448,244**	**470,838**	**2,683,903**	**636,465**	**28,996**	**-**	**12,202,460**
Additions	**2,330**	**10,058**	**9,011**	**153,931**	**44,407**	**1,403**	**-**	**221,140**
Disposals	**-**	**-**	**(219,829)**	**-**	**(2,357)**	**-**	**-**	**(222,186)**
Reclassifications	**-**	**-**	**-**	**(100,760)**	**100,760**	**-**	**-**	**-**
Revaluation	**589,278**	**-**	**-**	**-**	**-**	**-**	**-**	**589,278**
Adjustment of revaluation	**(952,836)**	**-**	**-**		**-**	**-**	**-**	**(952,836)**
At December 31, 2013	**7,572,786**	**458,302**	**260,020**	**2,737,074**	**779,275**	**30,399**	**-**	**11,837,856**
DEPRECIATION								
At January 1, 2012	444,966	150,144	181,380	1,083,057	211,950	15,581	-	2,087,078
Depreciation charge	242,381	83,206	76,903	419,770	96,927	2,525	-	921,712
Disposals	-	(882)	(97,381)	(4,515)	(4,700)	-	-	(107,478)
At December 31, 2012	**687,347**	**232,468**	**160,902**	**1,498,312**	**304,177**	**18,106**	**-**	**2,901,312**
Depreciation charge	**265,489**	**79,261**	**85,156**	**212,225**	**148,378**	**438**	**-**	**790,947**
Disposals	**-**	**-**	**(126,024)**	**-**	**(2,225)**	**-**	**-**	**(128,249)**
Reclassification	**-**	**-**	**-**	**-**	**180**	**-**	**-**	**180**
Adjustment of revaluation	**(952,836)**	**-**	**-**	**-**	**-**	**-**	**-**	**(952,836)**
At December 31, 2013	**-**	**311,729**	**120,034**	**1,710,537**	**450,510**	**18,544**	**-**	**2,611,354**
CARRYING VALUE								
At December 31, 2013	**7,572,786**	**146,573**	**139,986**	**1,026,537**	**328,765**	**11,855**	**-**	**9,226,502**
At December 31, 2012	7,246,667	215,776	309,936	1,185,591	332,288	10,890	-	9,301,148
At January 1, 2012	6,144,937	213,497	219,631	951,508	305,085	13,415	1,451,313	9,299,386

Revaluation of assets

The buildings and land owned by the Bank were evaluated by an independent appraiser at 31 December 2013 using a combination of market, income and cost methods resulting in a revaluation of AMD 589,278 thousand. Management has based its estimate of the fair value of the buildings on the results of the independent appraisal.

If PPE were presented at the difference of cost and accumulated depreciation, the carrying amount would have been AMD 6,983,508 thousand as at 31 December 2013.

Fully depreciated items

As at 31 December 2013 fixed assets included fully depreciated assets at cost in the amount of AMD 122,175 thousand (2012: AMD 119,988 thousand).

Fixed assets in the phase of installation

As at 31 December 2013 fixed assets included assets in the phase of installation in the amount of AMD 67,900 thousand (2012: AMD 254,722 thousand).

Restrictions on title of fixed assets

As at 31 December 2013 the Bank does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments

As at 31 December 2013 the Bank had a contractual commitments in respect of renovation of buildings totalling AMD 12,169 thousand (2012: nil). The Bank's Management has already allocated the necessary resources in respect of this commitment. The Bank's Management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

20 Intangible assets

In thousand Armenian drams	Licenses	Acquired software licenses	Capital investments	Other	Total
COST					
At January 1, 2012	252,210	157,192	-	76,178	485,580
Additions	653,217	22,158	4,847	-	680,222
Disposals	(66,076)	(32,032)	-	(23,341)	(121,449)
At December 31, 2012	**839,351**	**147,318**	**4,847**	**52,837**	**1,044,353**
Additions	**251,232**	**-**	**91,930**	**-**	**343,162**
Disposals	**(4,864)**	**-**	**-**	**-**	**(4,864)**
At December 31, 2013	**1,085,719**	**147,318**	**96,777**	**52,837**	**1,382,651**
AMORTISATION					
At January 1, 2012	65,767	32,223	-	23,341	121,331
Disposals	(65,772)	(32,032)	-	(23,341)	(121,145)
Amortization charge	292	85	-	-	377
At December 31, 2012	**287**	**276**	**-**	**-**	**563**
Disposal	**(4,864)**	**-**	**-**	**-**	**(4,864)**
Reclassification	**-**	**(180)**	**-**	**-**	**(180)**
Amortisation charge	**38,291**	**242**	**-**	**-**	**38,533**
At December 31, 2013	**33,714**	**338**	**-**	**-**	**34,052**
CARRYING VALUE					
At December 31, 2013	**1,052,005**	**146,980**	**96,777**	**52,837**	**1,348,599**
At December 31, 2012	839,064	147,042	4,847	52,837	1,043,790
At January 1, 2012	186,443	124,969	-	52,837	364,249

Fully depreciated items

As at 31 December 2013 intangible assets do not include any fully depreciated assets (2012: either).

As at 31 December 2013, the Bank does not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments

As at 31 December 2013 the Bank had contractual commitments in respect of acquisition of computer software totalling AMD 35,117 thousand (2012: AMD 97,354 thousand). The Bank's Management has already allocated the necessary resources in respect of this commitment. The Bank's Management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

21 Repossessed assets

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances as at December 31 are shown below:

In thousand Armenian drams	2013	2012
Property	**4,853,870**	3,548,157
Other	**970,258**	1,539,508
Total	**5,824,128**	5,087,665

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

22 Other assets

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Prepayments and other debtors	**426,726**	348,876
Other amounts receivable	**660,342**	233,997
Total other financial assets	**1,087,068**	582,873
Paintings	**81,030**	47,252
Prepaid other taxes	**9,564**	10,812
Future period expenses	**34,867**	49,948
Precious metals	**8,819**	24,080
Stock	**262,889**	315,802
Other	**39,218**	36,934
Total non financial assets	**436,387**	484,828
Total other assets	**1,523,455**	1,067,701

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

In thousand Armenian drams	Total
At January 1, 2012	292,444
Charge for the year	115,651
Amounts written off	(411,340)
Recoveries	3,245
At December 31, 2012	-
Reversal	**(107,936)**
Amounts written off	**(12,883)**
Recoveries	**120,819**
At December 31, 2013	**-**

23 Amounts due to the CBA

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Amounts due to CBA	**3,981,248**	4,075,132
Loans under repurchase agreements	**24,490,768**	18,533,234
Subordinate debt	**8,477,954**	8,476,190
Total amounts due to the CBA	**36,949,970**	31,084,556

Subordinate debt was attracted by the CBA in the amount of AMD 8,450,000 thousand drams at 7.5% annual interest rate with a maturity up to 2014.

As at 31 December 2013 amounts due to CBA represent loans received from the German-Armenian fund for extending loans to SMEs, consumer and other purposes within the frames of retroactive financing (2012: either).

24 Amounts due to other financial institutions

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Loans and deposits from financial institutions	**17,663,111**	14,899,775
Current accounts of other financial institutions	**63,574**	197,398
Correspondent accounts of other banks	**163**	162
Loans from international financial institutions	**7,018,129**	8,211,376
Loans under repurchase agreements	**-**	1,457,819
Total amounts due to financial institutions	**24,744,977**	24,766,530

Loans from international financial institutions include loans from Eurasian Development Bank.

Loans and deposits from financial institutions have no significant concentrations (2012: either).

All deposits from banks carry fixed interest rates.. Loans from financial institutions carry fixed and variable interest rates.

As at 31 December 2013 the effective interest rates on amounts due to financial institutions ranged from 5.64 to 9.38 % for borrowings in AMD (2012: from 5.64 to 10.46 %) and from 8.30 to 8.84 % for borrowings in USD, EUR and other freely convertible currencies (2012: 4.07 %).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2012: nil).

25 Trading financial liabilities

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Securities received from other non-resident institutions	**15,482,300**	11,868,589
Total financial liabilities held for trading	**15,482,300**	11,868,589

The mentioned liabilities arose as a result of repledging securities under repurchase agreements previously pledged under reverse repurchase agreements. Refer to Note 17.

26 Amounts due to customers

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Government of the RA		
Current/Settlement accounts	**156,547**	233,063
Loans received from the RA government	**4,560,711**	4,286,733
	4,717,258	4,519,796
Corporate customers		
Current/Settlement accounts	**21,357,759**	12,108,134
Time deposits	**20,730,646**	7,555,592
	42,088,405	19,663,726
Retail customers		
Current/Demand accounts	**4,997,463**	4,803,581
Time deposits	**64,704,711**	68,252,204
	69,702,174	73,055,785
Total amounts due to customers	**116,507,837**	97,239,307

All customer deposits carry fixed interest rates.

Loans received from the RA Government include loans received from "Rural finance facility-Project Implementation Unit State Institution" in the amount of AMD 1,075,047 thousand (2012: AMD 1,431,039 thousand" and "Millennium Challenge Account - Armenia" in the amount of AMD 247,565 thousand (2012: AMD 332,625 thousand) , and within the scope of "Small and medium business loan project" of German-Armenian Fund in the amount of AMD 3,196,449 thousand (2012: AMD 2,488,165 thousand).

As at 31 December 2013 included in current accounts of corporate and individual customers are deposits amounting to AMD 34,680,265 thousand (2012: AMD 39,270,469 thousand) held as security against letters of credit issued and guarantees issued). The fair value of those deposits approximates the carrying amount.

At 31 December 2013 the aggregate balance of top ten customers of the Bank (including relating parties, see Note 31) amounts to AMD 33,690,114 thousand (2012: AMD 22,590,608 thousand) or 30% of total customer accounts (2012: 24%).

As of 31 December 2013 the effective interest rates on amounts due to customers ranged from 3% to 15.5% for amounts attracted in AMD (2012: from 3% to 13.8%) and from 3.44% to 10.44% for amounts attracted in USD, EUR and other freely convertible currencies (2012: from 3.44% to 11.05%).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2012: either).

27 Other liabilities

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Accounts payables	**128,876**	192,112
Due to personnel	**74,657**	86,462
Total other financial liabilities	**203,533**	278,574
Other reserves		
Tax payable, other than income tax	**172,865**	184,612
Reserves	**-**	197,260
Grants related to assets	**2,037**	2,119
Other operating liabilities	**302,955**	46,253
Other	**130,978**	117,914
Total other non financial liabilities	**608,835**	548,158
Total other liabilities	**812,368**	826,732

Grants related to assets

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
At January 1	**2,119**	2,213
Recognised as income (Note 9)	**(82)**	(94)
At December 31	**2,037**	2,119

28 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	2013	2012	**2013**	2012
Loans and advances to customers (Note 17)	**15,482,300**	11,868,589	**15,166,128**	11,114,073
Investment securities (Note 18)	**9,528,273**	8,606,949	**9,324,640**	8,876,980
At 31 December 2013 (Note 23,24)	**25,010,573**	20,475,538	**24,490,768**	19,991,053

29 Equity

As at 31 December 2013 the Bank's registered and paid-in share capital was AMD 17,500,000 thousand (2012: AMD 17,500,000 thousand).

In accordance with the Bank's statues, the share capital consists of 35,000 ordinary shares, all of which have a par value of AMD 500 thousand each.

The respective shareholdings as at 31 December 2013 and 2012 may be specified as follows:

In thousand Armenian drams	Paid-in share capital	% of total paid-in capital
"Christy Management" Inc.	**17,500,000**	**100%**

On 3 April 2014 100% shares of the Bank were purchased by Vitali Grigoryants.

As at 31 December 2013, 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.

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

Distributable among shareholders reserves equal the amount of retained earnings calculated in accordance with the RA 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 5% of the Bank's net profit of the previous year reported in statutory books.

30 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 Bank 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 Bank, will not have a material adverse impact on the financial condition or results of future operations of the Bank.

Loan commitment, guarantee and other financial facilities

In the normal course of business, the Bank 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, 2013**	As of December 31, 2012
Undrawn loan commitments	**4,694,542**	4,155,831
Letters of credit	**-**	48,212
Guarantees	**18,048,213**	11,244,852
	22,742,755	15,448,895
Allowance for liabilities containing credit risk	**-**	(197,260)
Total commitments and contingent liabilities	**22,742,755**	15,251,635

The maximum exposure to credit risk of Loan commitments, guarantee and other financial facilities is best represented by the total amount of these commitments and contingent liabilities.

The movement of other allowances is the following:

In thousand Armenian drams	**2013**	2012
Balance at 1 January	**197,260**	-
Charge/(reversal)	**(197,260)**	197,260
Balance at 31 December	**-**	197,260

Operating lease commitments – Bank as a lessee

In the normal course of business the Bank enters into commercial lease agreements for buildings and premises.

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

In thousand Armenian drams	**2013**	2012
Not later than 1 year	**33,921**	27,108
Later than 1 year and not later than 5 years	**62,572**	80,083
Later than 5 years	**23,055**	27,735
Total operating lease commitments	**119,548**	134,926

Contractual commitments

Information on contractual commitments is presented in notes 19, 20.

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.

As at 31 December 2013, the Bank has insured its vehicles, buildings, property in exploitation, ATMs, Banking risks, electronic and computer fraud, as well as responsibility of directors and management.

The Bank does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

Starting from 2005 the Bank is a 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 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.

31 Transactions with related parties

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

The ultimate controlling party of the Bank is the resident of the Russian Federation Vitaly Sargis Grigoriyants.

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	**2013**		2012	
	Shareholders	**Key management personnel**	Shareholders	Key management personnel
Statement of financial position				
Loans and advances to customers				
Loans outstanding at January 1, gross	**238,042**	**1,510,512**	56,663	9,421,436
Loans issued during the year	**61,448**	**589,494**	240,658	1,401,410
Loan repayments during the year	**(238,042)**	**(863,741)**	(59,279)	(9,312,334)
Loans outstanding at December 31, gross	**61,448**	**1,236,265**	238,042	1,510,512
Less: allowance for loan impairment	**(614)**	**(12,363)**	(2,380)	(15,105)
Loans outstanding at December 31	**60,834**	**1,223,902**	235,662	1,495,407
Amounts due to other financial institutions				
Deposits at January 1	**-**	**-**	-	-
Deposits received during the year	**-**	**1,288,021**	-	-
Deposits repaid during the year	**-**	**(1,062,822)**	-	-
Deposits outstanding at December 31	**-**	**225,199**	-	-
Amounts due to customers				
Deposits at January 1	**-**	**43,501**	6,716	129,630
Deposits received during the year	**958,244**	**10,302,139**	121,213	13,048,542
Deposits repaid during the year	**(958,244)**	**(10,319,061)**	(127,929)	(13,134,671)
Deposits at December 31	**-**	**26,579**	-	43,501
Guarantees issued	**-**	**-**	-	60,000
Statement of profit or loss and other comprehensive income				
Interest income	**15,056**	**174,863**	22,362	736,283
Interest expense	**-**	**6,132**	-	377
Impairment charge/(reversal) of credit losses	**(1,766)**	**(2,742)**	1,813	(79,109)

The loans issued to directors and other key management personnel (and close family members) during the year are repayable over 13 years and have interest rates of 9-24% (2012: 9-22%, 1-14 years). The loans advanced to the directors during the year are collateralised by gold, real estate, cash and other property.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2013	2012
Salaries and other short-term benefits	**316,016**	234,741
Social security costs	**-**	14,769
Total key management compensation	**316,016**	249,510

32 Fair value measurement

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

External valuers are involved for valuation of significant assets, such as properties, trading and available-for-sale securities and derivatives. Involvement of external valuers is decided upon annually by the investment committee after discussion with and approval by the Bank's audit committee.

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

32.1 Financial instruments that are not measured at fair value

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

In thousand Armenian drams	As of 31 December 2013				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	36,581,512	-	36,581,512	36,581,512
Amounts due from other financial institutions	-	2,599,559	-	2,599,559	2,599,559
Loans and advances to customers	-	137,169,936	-	137,169,936	137,169,936
Other financial assets	-	1,087,068	-	1,087,068	1,087,068
FINANCIAL LIABILITIES					
Amounts due to CBA	-	36,949,970	-	36,949,970	36,949,970
Amounts due to other financial institutions	-	24,744,977	-	24,744,977	24,744,977
Amounts due to customers	-	116,507,837	-	116,507,837	116,507,837
Other financial liabilities	-	203,533	-	203,533	203,533

Amounts due from and to financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 5% to 24% per annum (2012: 5% to 24% per annum).

The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by independent, professionally-qualified property valuers.

Amounts due to customers

The fair value of deposits of customers is calculated based on discounted cash flows method, by applying the interest rates of deposits with similar maturity period. The fair value of demand deposits is the amount repayable on the reporting date.

32.2 Financial instruments that are measured at fair value

In thousand Armenian drams				2013
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Investments available-for-sale	-	1,009	-	1,009
Securities pledged under repurchase agreements	-	25,010,573	-	25,010,573
Derivative financial assets	50,550	-	-	50,550
Total	50,550	25,011,582	-	25,062,132
FINANCIAL LIABILITIES				
Liabilities accounted at fair value through profit or loss	-	15,482,300	-	15,482,300
Total	-	15,482,300	-	15,482,300
NET FAIR VALUE	50,550	9,529,282	-	9,579,832

				2012
In thousand Armenian drams	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Investments available-for-sale	-	154,878	-	154,878
Securities pledged under repurchase agreements	-	20,475,538	-	20,475,538
Derivative financial assets	13,504	-	-	13,504
Total	13,504	20,630,416	-	20,643,920
FINANCIAL LIABILITIES				
Derivative financial liabilities	120,942	-	-	120,942
Liabilities at fair value through profit or loss	-	11,868,589	-	11,868,589
Total	120,942	11,868,589	-	11,989,531
NET FAIR VALUE	(107,438)	8,761,827	-	8,654,389

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

Unlisted equity investments.

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

32.3 Fair value measurement of non-financial assets and liabilities

In thousand Armenian drams				2013
	Level 1	Level 2	Level 3	Total
NON FINANCIAL ASSETS				
Land and buildings	**-**	**-**	**7,572,786**	**7,572,786**
Total	**-**	**-**	**7,572,786**	**7,572,786**
NET FAIR VALUE	**-**	**-**	**7,572,786**	**7,572,786**

Fair value measurements in Level 3

The Bank's non financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial assets and financial liabilities within this level can be reconciled from beginning to ending balance as follows:

In thousand Armenian drams	Land and buildings	Total
NON FINANCIAL ASSETS		
Balance as at 1 January 2013	**7,934,014**	**7,934,014**
Purchases	**2,330**	**2,330**
Losses recognised in other comprehensive income	**(952,836)**	**(952,836)**
Adjustment of revaluation	**589,278**	**589,278**
Balance as at 31 December, 2013	**7,572,786**	**7,572,786**
NET FAIR VALUE	**7,572,786**	**7,572,786**

Fair value of the Bank's main property assets is estimated based on appraisals performed by independent, professionally-qualified property valuers. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the board of directors and audit committee at each reporting date.

The appraisal was carried out using comparative and income approaches that reflect observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use and other.

The land and buildings were revalued on 31 December 2013.

The significant unobservable input is the adjustment for factors specific to the land in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is a subjective judgement, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

33 Offsetting of financial assets and financial liabilities

In the ordinary course of business, the Bank performs different operations with financial instruments which may be presented in net amounts 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.

The table below presents financial assets and financial liabilities that are offset in the statement of financial position or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

In thousand Armenian drams					**As of 31 December 2013**
			Amounts offset		**Amounts not offset**
	Gross financial asset/liabilities	Gross financial assets/liabilities offset	Net amounts presented	Instruments not recognized in the statement of profit or loss and other comprehensive income	Net
FINANCIAL ASSETS					
Reverse repurchase agreements (Note 17)	**12,777,537**	**-**	**12,777,537**	**(15,482,300)**	**(2,704,763)**
FINANCIAL LIABILITIES					
Amounts due to CBA (Note 23)	**(24,490,768)**	**-**	**(24,490,768)**	**25,010,573**	**519,805**

In thousand Armenian drams					As of 31 December 2012
			Amounts offset		Amounts not offset
	Gross financial asset/liabilities	Gross financial assets/liabilities offset	Net amounts presented	Instruments not recognized in the statement of profit or loss and other comprehensive income	Net
FINANCIAL ASSETS					
Reverse repurchase agreements (Note 17)	11,830,909	-	11,830,909	(11,868,589)	(37,680)
FINANCIAL LIABILITIES					
Amounts due to CBA (Note 23)	(18,533,234)	-	(18,533,234)	18,986,961	453,727
Amounts due to other financial institutions (Note 24)	(1,457,819)	-	(1,457,819)	1,488,577	30,758

34 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 35.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams								2013
	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 cash equivalents	36,581,512	-	-	36,581,512	-	-	-	36,581,512
Amounts due from other financial institutions	1,040,535	193,304	515,712	1,749,551	850,008	-	850,008	2,599,559
Derivative financial instruments	-	-	50,550	50,550	-	-	-	50,550
Loans and advances to customers	19,601,903	16,821,097	29,069,572	65,492,572	57,117,837	14,559,527	71,677,364	137,169,936
Investments available for sale	-	24,927	-	24,927	-	-	-	24,927
Securities pledged under repurchase agreements	-	15,481,272	1,705,865	17,187,137	3,961,316	3,862,120	7,823,436	25,010,573
Other financial assets	990,502	96,566	-	1,087,068	-	-	-	1,087,068
	58,214,452	32,617,166	31,341,699	122,173,317	61,929,161	18,421,647	80,350,808	202,524,125
LIABILITIES								
Amounts due to the CBA	25,117,936	6,445	8,708,528	33,832,909	1,345,105	1,771,956	3,117,061	36,949,970
Amounts due to other financial institutions	4,150,114	2,555,213	4,578,039	11,283,366	11,235,915	2,225,696	13,461,611	24,744,977
Trading financial liabilities	-	7,825,694	7,656,606	15,482,300	-	-	-	15,482,300
Amounts due to customers	32,297,978	5,722,048	55,315,725	93,335,751	19,715,392	3,456,694	23,172,086	116,507,837
Other financial liabilities	203,533	-	-	203,533	-	-	-	203,533
	61,769,561	16,109,400	76,258,898	154,137,859	32,296,412	7,454,346	39,750,758	193,888,617
Net position	(3,555,109)	16,507,766	(44,917,199)	(31,964,542)	29,632,749	10,967,301	40,600,050	8,635,508
Accumulated gap	(3,555,109)	12,952,657	(31,964,542)		(2,331,793)	8,635,508		

In thousand Armenian drams								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 cash equivalents	14,271,022	-	-	14,271,022	-	-	-	14,271,022
Amounts due from other financial institutions	1,440,984	-	179,615	1,620,599	1,134,111	-	1,134,111	2,754,710
Derivative financial assets	13,504	-	-	13,504	-	-	-	13,504
Loans and advances to customers	13,161,614	19,032,138	42,446,188	74,639,940	48,532,966	9,571,771	58,104,737	132,744,677
Investments available for sale	-	196,950	-	196,950	-	-	-	196,950
Investments held to maturity	-	-	33,502	33,502	-	-	-	33,502
Securities pledged under repurchase agreement	-	11,705,101	-	11,705,101	1,182,149	7,588,288	8,770,437	20,475,538
Other financial assets	13,261	569,612	-	582,873	-	-	-	582,873
	28,900,385	31,503,801	42,659,305	103,063,491	50,849,226	17,160,059	68,009,285	171,072,776
LIABILITIES								
Amounts due to the CBA	18,604,441	105,923	279,644	18,990,008	10,036,548	2,058,000	12,094,548	31,084,556
Derivative financial liabilities	75,074	21,357	24,511	120,942	-	-	-	120,942
Amounts due to financial institutions	6,544,454	497,403	2,852,866	9,894,723	8,588,136	6,283,671	14,871,807	24,766,530
Trading financial liabilities	2,487,110	5,285,242	4,096,237	11,868,589	-	-	-	11,868,589
Amounts due to customers	21,561,355	9,021,586	58,728,128	89,311,069	7,921,088	7,150	7,928,238	97,239,307
Other financial liabilities	278,574	-	-	278,574	-	-	-	278,574
	49,551,008	14,931,511	65,981,386	130,463,905	26,545,772	8,348,821	34,894,593	165,358,498
Net position	(20,650,623)	16,572,290	(23,322,081)	(27,400,414)	24,303,454	8,811,238	33,114,692	5,714,278
Accumulated gap	(20,650,623)	(4,078,333)	(27,400,414)		(3,096,960)	5,714,278		

35 Risk management

The Bank'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.

The risk management procedure is organized in compliance with the Bank's mission, principal and interim goals and is aimed at the improvement of the financial position of the Bank and the Bank's reputation.

The main goals of risk management policy of the Bank is to disclose, assess and make manageable all possible risks that relate immediately to the Bank's activity, help the Bank's management make optimal decisions, assist in realistic planning of the Bank's strategy, taking into account the principles of risk/profitability ratio by taking up manageable risks, determining preferable sectors of resource allocation, providing the maintenance of ratios set forth by the CBA, as well as interbank ratios of the Bank.

The Risk management policy of the Bank arises from the following main principles:

- ✓ The risk management must be mitigating and justified
- ✓ Risks must be fully disclosed, objectively assessed and efficiently managed
- ✓ When reacting to disclosed risks the risk management/supervision expenses and consequences of undesired cases must be weighed against gains expected as a result of risk mitigation
- ✓ Risk management may include such approaches as procedures aimed at risk mitigation, risk transfer to third parties, for example, through insurance, and risk acceptance, when risk mitigation expenses exceed assessed losses or their mitigation is actually impossible. For this purpose, accepted level of risk is determined.

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Bank's risk management policy allows to efficiently manage risks relating to assets and liabilities of the Bank and Bank's customers through exclusion and minimization of losses caused by risks by providing acceptable level of profitability, liquidity and solvency

The risk management in the Bank is carried out through limits set forth by all business processes, internal legal acts regulating the activity of the latter, all procedures and operations in a precise and documented manner.

Risk management structure

The Board of the Bank, the Chair of the Executive Board, the Executive Board and the Management of the Bank within the frames of their responsibilities set forth by RA legislation and internal legal acts of the Bank are responsible for the formation, viability and efficiency of proper Risk management system in the Bank; however, there are separate independent bodies responsible for managing and monitoring risks.

Risk management committee and Risk management and planning department

The Risk management committee and risk management and planning departments are responsible for carrying out risk management policy of the Bank.

The risk management and planning department continually supervise risk levels assumed by the Bank and the maintenance of limits relating to these risks, the possible effect of risks on the Bank’s activity are assessed through different stress-tests.

Reports, analysis and proposals concerning risks relating to the Bank’s activity are presented by the Risk management and planning department (as well as other beneficiary departments) are discussed in Risk management committee meetings and presented to the Executive Board of the Bank with the purpose of making appropriate decision.

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 presents his/her conclusions and suggestions to the Board of the Bank.

Risk characterization and assessment

Depending on a variety of factors the Bank finds it expedient to divide banking risks into external and internal risks.

External risks are country, price, competitive and force major risks.

Internal risks are credit, liquidity, interest rate, foreign currency, operating, personnel and money laundering risks.

Country risk

Country risk is managed by the Bank using rankings assigned by international rating agencies (Moody’s, S&P, Fitch) to international banks and institutions. Risk management department performs periodic monitoring of ratings of foreign banks who are counteragents of the Bank.

Price risk

Possible minimum level of price risks is provided within the frames of the following measures: analysis of financial market structural, volume and price index dynamics, analysis of liquidity of separate financial instruments, disclosure of present tendencies, assessment of possible losses through stress tests on monthly basis, determination of financial instruments’ limit (by the type of operation with securities, dealer, issuer).

Competitive risk

Management of competitive risk in the Bank is performed by business departments and Marketing analysis department, through periodic comparison of variety of services and terms offered by the Bank and other banks.

Force major risk

The Bank has server reserve center at its disposal according to the requirement of ISO 27001-2005. The location of the centre outside the head office of the Bank, in a remote place, will allow providing the Bank’s activity in force major situation.

Credit risk

The main issue of management of credit risks for the Bank is timely disclosure of credit risks, assessment and taking appropriate measures for their reduction.

The credit risk in the Bank is assessed not only for each borrower, but also for the loan portfolio in full. According to appropriate methodology elaborated by the Bank the potential solvency of the borrower is assessed before extension of the loan. From the perspective of mitigation of credit risk, the security and expediency of the loan are given significant importance. After loan extension, over the full term of the credit contract, credit monitoring is performed by the Bank for periodically assessing the solvency and security of the loans and taking appropriate measures for mitigating possible credit risks. The Bank's loan portfolio is periodically analyzed by economic sectors, customers and loan types for providing diversification and quality of the loan portfolio.

The activity of the Loan committee is significant in mitigation of credit risk. Loan committee is the body executing loan policy of the Bank, whose purpose is the management of loan policy and formation of quality loan portfolio. The main issue of the Credit committee is to make professional protocol or final decision concerning execution and servicing of instruments exposed to credit risk.

Liquidity risk

The liquidity management purpose in the Bank is to create a volume of such financial means, which would enable to satisfy legal cash requirements of all kinds of creditors, depositors and other clients without serious issues, which may be reflected in the Bank's balance and off-balance sheet articles, as well as provide maximum level of profitability along with all these factors.

Management of assets and liabilities by mutual agreement is carried out in the Bank for providing fluent liquidity and efficient liquidity risk management by providing:

- ✓ Providing existence of highly liquid assets
- ✓ Stability of resources
- ✓ Acceptable limits of maturity gaps of assets and liabilities
- ✓ Opportunities for attracting means from external sources

With the purpose of making correct decision regarding liquidity management of the Bank the maturity analysis of assets and liabilities is given great importance, which is performed by the calculation model of maturity gaps (GAP) by demand and accumulated separations. Demand liquidity is calculated on daily basis for making correct circumstances decision.

35.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Relevant reports and analysis are periodically presented to the Executive Board of the Bank.

Credit risk in the Bank is managed according to the Bank's lending policy and the field is regulated by other internal legal acts. The risk management executive body performs monitoring of loan portfolio on daily basis, loan portfolio dynamics calculation based on constructed series and analysis of quality of portfolio by products and branches, based on which forecasting of quality indexes of loan portfolio are performed. The risk management executive body performs loan monitoring of several loan types by the approved procedure, and when necessity arises, monitoring of other loans based on deterioration of the financial position of the borrower. Loans extended by the Bank are approved by the risk executive body according to internal legal acts by reducing credit risk.

As at 31 December 2013 and 2012 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.

35.1.1 Risk concentrations of the maximum exposure to credit risk

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2013 and 2012.

In thousand Armenian drams	Armenia	OECD countries	Other non-OECD countries	Total
Cash and cash equivalents	**34,312,402**	**1,909,950**	**359,160**	**36,581,512**
Amounts due from other financial institutions	**1,866,134**	**590,245**	**143,180**	**2,599,559**
Derivative financial assets	**-**	**-**	**50,550**	**50,550**
Loans and advances to customers	**105,603,305**	**715,932**	**30,850,699**	**137,169,936**
Investments available for sale	**15,701**	**9,226**	**-**	**24,927**
Securities pledged under repurchase agreements	**25,010,573**	**-**	**-**	**25,010,573**
Other financial assets	**895,337**	**996**	**190,735**	**1,087,068**
As at 31 December 2013	**167,703,452**	**3,226,349**	**31,594,324**	**202,524,125**
As at 31 December 2012	137,967,696	3,471,376	29,633,704	171,072,776

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

Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December 2013 and 2012.

In thousand Armenian drams	Financial institutions	Manufac-turing	Agriculture	Trading	Constructi on	Mortgage	Consumer	Other	Total
Cash and cash equivalents	**36,581,512**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**36,581,512**
Amounts due from other financial institutions	**2,599,559**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,599,559**
Derivative financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**50,550**	**50,550**
Loans and advances to customers	**-**	**25,017,763**	**3,767,087**	**35,672,018**	**13,446,307**	**13,980,974**	**20,366,898**	**24,918,889**	**137,169,936**
Investments available for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**24,927**	**24,927**
Securities pledged under repurchase agreements	**25,010,573**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**25,010,573**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,087,068**	**1,087,068**
As at 31 December 2013	**64,191,644**	**25,017,763**	**3,767,087**	**35,672,018**	**13,446,307**	**13,980,974**	**20,366,898**	**26,081,434**	**202,524,125**
As at 31 December 2012	37,514,774	25,197,335	4,049,697	33,319,331	14,317,503	15,848,086	18,330,304	22,495,746	171,072,776

35.1.2 Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved, in line with changes in Bank's operating environment, not less than annually, by the Board of Directors.

The exposure to any one borrower including banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

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

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

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. 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	**2013**	2012
Loans collateralized by real estate	**21,749,485**	23,784,278
Loans collateralized by gold	**7,205,672**	6,502,684
Loans collateralized by securities	**6,673,256**	6,419,556
Loans collateralized by guarantees of institutions	**41,856,747**	42,721,268
Loans collateralized by vehicles	**15,962,306**	6,184,353
Loans collateralized by cash	**34,680,265**	39,270,469
Loans collateralized by stock	**4,824,520**	6,741,000
Other collateral	**8,887,524**	4,505,670
Total loans and advances to customers (gross)	**141,839,775**	136,129,278

The amounts presented in the above table are the carrying amounts of loans, and it is not compulsory for those to present the fair value of collateral. The assessment of market values of collaterals is based on assessment of collateral according to the date of issue of the loan. Generally, those are not updated until the loans are assessed as individually impaired.

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 Bank on behalf of a customer authorising a third party to draw drafts on the Bank 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 Bank is potentially exposed to loss in an amount equal to the total unused commitments.

35.1.3 Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank 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 unsecured 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 neither past due or impaired

The table below shows the credit quality by class of asset for loans and advances neither past due or impaired, based on the historical counterparty default rates.

In thousand Armenian drams	**2013**	2012
Loans and advances to customers		
Manufacturing	**0.1**	-
Agriculture	**0.7**	18.9
Construction	**0.2**	-
Trade	**-**	3.2
Consumer	**-**	0.4
Mortgage	**0.1**	-
Other	**-**	0.1

As of 31 December 2013 and 2012 the Bank has not had any losses on other financial assets bearing credit risk.

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	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**2013 Total**
Loans and advances to customers					
Manufacturing	**25,548**	**44,028**	**45,738**	**3,603,815**	**3,719,129**
Agriculture	**28,711**	**28,650**	**59,776**	**666,645**	**783,782**
Construction	**-**	**2,776**	**-**	**454,366**	**457,142**
Trade	**360,346**	**35,940**	**17,373**	**5,904,209**	**6,317,868**
Consumer	**433,698**	**516,863**	**152,692**	**3,563,852**	**4,667,105**
Mortgage	**147,407**	**62,424**	**37,550**	**450,187**	**697,568**
Other	**-**	**96,878**	**-**	**244,765**	**341,643**
Total	**995,710**	**787,559**	**313,129**	**14,887,839**	**16,984,237**

In thousand Armenian drams	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	2012 Total
Loans and advances to customers					
Manufacture	12,667,380	-	1,642,378	4,127,820	18,437,578
Agriculture	3,642,296	112,418	16,224	37,254	3,808,192
Construction	10,514,518	2,338	-	385,687	10,902,543
Trade	20,002,425	-	-	3,046,063	23,048,488
Consumer	2,806,664	126,928	74,730	327,372	3,335,694
Mortgage	6,978,910	128,463	17,787	59,663	7,184,823
Other	822,121	34,257	251,012	8,865	1,116,255
Total	57,434,314	404,404	2,002,131	7,992,724	67,833,573

35.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses.

35.2.1 Market risk – Trading

For calculating the risk of securities held for sale the Bank applies interest risk calculation methods and approaches of Basel 2. According to those, the interest rate risk is set as the total of special and general risks of interest rate.

For the purpose of calculating interest rate risk debt security positions are calculated based on below mentioned principles for collective debt securities. Debt securities participating in the calculation of same positions must:

- Be issued by the same person, and
- Be reflected in the same currency,
- Have the same profitability, or difference between profitability must not exceed 0.2

Calculation of special risk of interest rate

For the purpose of calculation of special risk of interest rate calculation of positions of debt securities is performed. After the calculation of positions, gross position of debt securities is calculated. For including debt securities at differentiated weights in the calculation of gross position, those are classified into the following categories:

- State debt securities,
- positive debt securities
- other debt securities.

Calculation of general risk of interest rate

For the purpose of calculation of general risk of interest rate calculation of positions of debt securities is performed as well. Moreover, gross net position of debt securities is calculated as the difference of total sum of long positions of debt securities and short positions (absolute value). After the calculation of positions of debt securities the long and short positions of debt securities are allocated during the periods until repayment in appropriate weights. For each period till maturity the minimum position of debt securities is the minimal value of total sum of all long positions and total sum of all short positions (absolute value). Depending on the maturity all securities are divided into appropriate zones.

The general risk of the interest rate of the set date is the total sum of below mentioned values.

- 10% of minimal position of each period until maturity,
- 40% of minimal position of first zone,
- 30% of minimal position of second zone,
- 30% of minimal position of third zone,

- 40% of minimal position between first and second zones,
- 40% of minimal position between second and third zones
- 150% of minimal position between third and fourth zones,
- 100% of gross net position of debt securities

On days, when the Bank's balance sheet has not incurred changes (including non working days), the previous day data are included in the calculation of daily data.

35.2.2 Market risk – Non-trading

Interest rate risk

The interest rate risk management issue in the Bank is to maintain the target level of interest rate spread and net interest margin of assets and liabilities. For the purpose of mitigating interest rate risk specially elaborated mechanisms of price formation (interest rate determination) for assets and liabilities are in place.

The model of calculation of maturity gap of interest rate sensitive assets and interest rate sensitive liabilities is the base of assessment of interest rate risk, which allows estimating the effect of interest rate change on the Bank's expected net interest income. The interest rate risk in the Bank is assessed using duration model which indicates the economic value change of equity as a result of interest rate change taking into account the incompliance of maturities of attracted liabilities and allocated assets.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank manages currency risk using standard and VaR methodologies. Foreign currency rates are monitored on daily basis, based on which forecasting of foreign currency rates is performed at the end of the month for the following month. The Executive board has established limits for foreign currency positions.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2013 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) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges, and equity instruments). 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		**2013**			2012	
Currency	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	**+5**	**31,597**	**25,278**	+5	1,601	1,281
USD	**-5**	**(31,597)**	**(25,278)**	-5	(1,601)	(1,281)
EUR	**+8**	**(4,398)**	**(3,518)**	+8	3,164	2,531
EUR	**-8**	**4,398**	**3,518**	-8	(3,164)	(2,531)

The Bank's exposure to foreign currency exchange risk is as follows:

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
ASSETS				
Cash and cash equivalents	**12,348,196**	**23,773,130**	**460,186**	**36,581,512**
Amounts due from other financial institutions	**831,783**	**1,632,160**	**135,616**	**2,599,559**
Derivative financial assets	**50,550**	**-**	**-**	**50,550**
Loans and advances to customers	**62,926,371**	**74,243,565**	**-**	**137,169,936**
Investments available for sale	**24,927**	**-**	**-**	**24,927**
Securities pledged under repurchase agreements	**25,010,573**	**-**	**-**	**25,010,573**
Other financial assets	**954,734**	**95,014**	**37,320**	**1,087,068**
	102,147,134	**99,743,869**	**633,122**	**202,524,125**
LIABILITIES				
Amounts due to the CBA	**36,949,970**	**-**	**-**	**36,949,970**
Amounts due to other financial institutions	**13,226,063**	**11,518,914**	**-**	**24,744,977**
Trading financial liabilities	**15,482,300**	**-**	**-**	**15,482,300**
Amounts due to customers	**29,102,943**	**86,857,311**	**547,583**	**116,507,837**
Other financial liabilities	**149,026**	**54,507**	**-**	**203,533**
	94,910,302	**98,430,732**	**547,583**	**193,888,617**
Net position as at 31 December 2013	**7,236,832**	**1,313,137**	**85,539**	**8,635,508**
Commitments and contingent liabilities as at 31 December 2013	**14,138,750**	**8,603,947**	**58**	**22,742,755**
Total financial assets	92,274,482	77,539,608	1,258,686	171,072,776
Total financial liabilities	82,305,369	81,141,923	1,911,206	165,358,498
Net position as at 31 December 2012	9,969,113	(3,602,315)	(652,520)	5,714,278
Commitments and contingent liabilities as at 31 December 2012	6,742,592	8,701,255	5,048	15,448,895

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.

35.3 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily bases. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 4% of certain obligations of the Bank denominated in Armenian drams and 12% on certain obligations of the Bank denominated in foreign currency. See note 14. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia.

	Not audited	
As at 31 December, these ratios were as follows:	**2013, %**	**2012, %**
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	**21.41**	18.99
H22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	**134.17**	64.10

Analysis of financial liabilities by remaining contractual maturities.

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2013 based on contractual undiscounted repayment obligations. See note 34 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams						2013
	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**
Financial liabilities						
Amounts due to the CBA	**25,159,904**	**6,950**	**8,984,922**	**1,641,311**	**2,555,696**	**38,348,783**
Amounts due to other financial institutions	**4,169,148**	**2,589,145**	**4,659,610**	**11,759,195**	**4,887,156**	**28,064,254**
Trading financial liabilities	**-**	**7,825,694**	**7,656,606**	**-**	**-**	**15,482,300**
Amounts due to customers	**32,318,304**	**5,807,935**	**58,946,880**	**23,339,709**	**3,458,133**	**123,870,961**
Other financial liabilities	**203,533**	**-**	**-**	**-**	**-**	**203,533**
Total undiscounted non-derivative financial liabilities	**61,850,889**	**16,229,724**	**80,248,018**	**36,740,215**	**10,900,985**	**205,969,831**
Derivative financial liabilities						
Currency swap contracts						
Inflow	**-**	**-**	**2,078,750**	**-**	**-**	**2,078,750**
Outflow	**-**	**-**	**(2,028,200)**	**-**	**-**	**(2,028,200)**
Net currency swop contracts	**-**	**-**	**50,550**	**-**	**-**	**50,550**
Credit risk related commitments	**5,313,692**	**2,197,903**	**9,275,029**	**5,945,631**	**10,500**	**22,742,755**
Total undiscounted financial liabilities as at 31 December 2012	49,549,566	15,024,450	69,314,674	28,299,882	12,254,302	174,442,874
Derivative financial liabilities						
Net currency swop contracts as at 31 December 2012	(56,234)	(21,357)	(29,847)	-	-	(107,438)
Credit risk related commitments as at 31 December 2012	4,612,126	947,692	4,241,735	5,647,342	-	15,448,895

The Bank has attracted means in significant amounts from shareholders and related parties. Any significant repayment of these amounts may negatively affect the Bank's activity. The Management of the Bank is assured that the present level of financing will be maintained in the visible future and in the case of repayment of means it will be informed in advance, which will allow the Bank cash its liquid means and repay the debt.

35.4 Operational risk

For the management of operational risk the appropriate internal control mechanisms are implemented in the working processes, operations and functions of the Bank. In order to avoid operational risk the execution of operations at least by the principle of "two persons" in the key positions, definition of procedures in a written form, the clear separation of authorities of employees and written approval of work responsibilities are of high importance in the Bank. The latter's maintenance is also the requirement of the ISO 9001:9008 quality control international standard, therefore, in regulations of all structural and regional departments of the Bank the work description of each work place, employee rights, duties and responsibilities are clearly defined.

From the perspective of operational risks, proper provision of uninterrupted work of information technologies is given significant importance.

Personnel risk

Personnel risk is managed by the Human resources management department and Training centre. The HRM periodically performs observation of positions offered in RA banking system and relevant terms, and the Training centre organizes trainings aimed at development of professional knowledge of employees at the expense of internal and external resources.

Money laundering risk

Money laundering risk management is performed by internal observations department, which operates in compliance with requirements of internal legal acts of the Bank and money laundering legislation.

36 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 in 1988 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. 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 2013 and 2012 the amount of regulatory capital, risk waited 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	**2013**	2012
Tier 1 capital	**20,137,168**	15,529,308
Tier 2 capital	**1,189,428**	1,873,582
Total regulatory capital	**21,326,596**	17,402,890
Risk-weighted assets	**171,216,186**	144,721,908
Capital adequacy ratio	**12.46%**	12.03%

Risk weighted assets are measured by risk weights classified by assessment of credit, market and operational risks.

The Bank 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.