Ameriabank cjsc

Financial Statements

for the year ended 31 December 2012

Contents

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Independent Auditors' Report

To the Management Board
Ameriabank cjsc

We have audited the accompanying financial statements of Ameriabank cjsc (the Bank), which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Andrew Coxshall
Director

Tigran Gasparyan
Head of Audit Department

KPMG Armenia cjsc
17 April 2013

	Notes	2012 AMD'000	2011 AMD'000
Interest income	4	20,733,752	16,268,848
Interest expense	4	(9,623,728)	(7,466,101)
Net interest income		**11,110,024**	**8,802,747**
Fee and commission income	5	1,681,813	1,324,729
Fee and commission expense	6	(631,339)	(451,408)
Net fee and commission income		**1,050,474**	**873,321**
Net loss on financial instruments at fair value through profit or loss		(549,771)	(238,871)
Net foreign exchange income	7	1,191,890	1,096,625
Net gain on available-for-sale financial assets		41,900	31,452
Other operating income		352,136	63,242
Operating income		**13,196,653**	**10,628,516**
Impairment reversals (losses)	8	395,529	(304,900)
Personnel expenses	9	(3,085,155)	(2,798,417)
Other general administrative expenses	10	(2,922,794)	(2,369,377)
Profit before income tax		**7,584,233**	**5,155,822**
Income tax expense	11	(1,546,795)	(1,100,477)
Profit for the year		**6,037,438**	**4,055,345**
Other comprehensive income, net of income tax			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		13,249	69,456
- Net change in fair value transferred to profit or loss		(33,520)	(25,162)
Other comprehensive income for the year, net of income tax		**(20,271)**	**44,294**
Total comprehensive income for the year		**6,017,167**	**4,099,639**

The financial statements as set out on pages 4 to 62 were approved by the Management Board on 17 April 2013 and were signed on its behalf by:

Artak Hanesyan
General Director
Chairman of Management Board

Gohar Khachatryan
Chief Accountant

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of the financial statements.

	Notes	2012 AMD'000	2011 AMD'000
ASSETS			
Cash and cash equivalents	12	57,567,215	34,200,857
Financial instruments at fair value through profit or loss	13	1,444	52,406
Available-for-sale financial assets	14	5,771,617	13,225,987
Loans and advances to banks	15	11,478,687	8,635,846
Amounts receivable under reverse repurchase agreements	16	968,852	922,519
Loans to customers	17	141,419,180	134,053,462
Receivables from letters of credit	18	9,700,484	-
Receivables from finance leases	19	3,050,756	1,815,786
Receivables from factoring		1,692,447	569,743
Held-to-maturity investments	20	7,325,533	-
Assets held for sale		853,782	2,234,280
Property, equipment and intangible assets	21	2,521,641	2,546,732
Deferred tax asset	11	-	53,924
Other assets	22	2,702,141	2,631,043
Total assets		**245,053,779**	**200,942,585**
LIABILITIES			
Financial instruments at fair value through profit or loss	13	356,484	390,251
Deposits and balances from banks	23	23,218,961	20,932,458
Current accounts and deposits from customers	24	126,301,847	91,332,821
Other borrowed funds	25	55,426,057	49,591,576
Current tax liability		307,966	312,861
Deferred tax liability	11	49,676	-
Dividends payable		-	1,315,054
Other liabilities	26	2,620,078	2,295,621
Total liabilities		**208,281,069**	**166,170,642**
EQUITY			
Share capital	27	25,447,360	25,447,640
Share premium		28,571	29,691
Revaluation reserve for available-for-sale financial assets		42,007	62,278
Retained earnings		11,254,772	9,232,334
Total equity		**36,772,710**	**34,771,943**
Total liabilities and equity		**245,053,779**	**200,942,585**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2012 AMD'000	2011 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		20,185,390	15,769,744
Interest payments		(8,993,619)	(6,550,548)
Fee and commission receipts		1,678,144	1,556,290
Fee and commission payments		(631,339)	(451,408)
Net receipts from available-for-sale financial assets		41,901	31,452
Net receipts from foreign exchange		1,131,286	959,377
Other income (expenses) receipts (payments)		373,459	(112,160)
Salaries and other payments to employees		(3,062,529)	(2,360,179)
Other general administrative expenses payments		(2,303,455)	(1,863,154)
(Increase) decrease in operating assets			
Financial instruments at fair value through profit or loss		52,020	(28,587)
Available-for-sale financial assets		(546,379)	(303,926)
Loans and advances to banks		(2,465,639)	5,941,586
Amounts receivable under reverse repurchase agreements		(45,618)	1,441,432
Loans to customers		(1,813,052)	(40,817,037)
Receivables from letters of credit		(9,682,825)	-
Receivables from finance leases		(732,252)	167,348
Receivables from factoring		(964,867)	(90,757)
Assets held for sale		1,380,498	(2,234,280)
Other assets		(72,176)	(1,254,174)
Increase (decrease) in operating liabilities			
Financial instruments at fair value through profit or loss		(584,781)	265,345
Deposits and balances from banks		1,804,595	7,319,776
Current accounts and deposits from customers		31,665,069	19,489,321
Other liabilities		(76,121)	(679,323)
Net cash from (used in) operating activities before income tax paid		**26,337,710**	**(3,803,862)**
Income tax paid		(1,443,022)	(998,704)
Cash flows from (used in) operations		**24,894,688**	**(4,802,566)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and intangible assets		(624,980)	(1,119,723)
Sales of property and equipment and intangible assets		2,136	781,397
Held-to-maturity investments		468,039	-
Cash flows used in investing activities		**(154,805)**	**(338,326)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividiends paid		(5,330,054)	-
Receipts of other borrowed funds		6,710,344	13,173,417
Repayment of other borrowed funds		(2,955,023)	(3,217,567)
Cash flows (used in) from financing activities		**(1,574,733)**	**9,955,850**
Net increase in cash and cash equivalents		**23,165,150**	**4,814,958**
Effect of changes in exchange rates on cash and cash equivalents		201,208	977,407
Cash and cash equivalents as at the beginning of the year		34,200,857	28,408,492
Cash and cash equivalents as at the end of the year	12	**57,567,215**	**34,200,857**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

AMD'000	Share capital	Share premium	Revaluation reserve for available-for-sale financial assets	Retained earnings	Total equity
Balance as at 1 January 2011	25,447,640	29,691	17,984	6,492,043	31,987,358
Total comprehensive income					
Profit for the year	-	-	-	4,055,345	4,055,345
Other comprehensive income					
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	69,456	-	69,456
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax	-	-	(25,162)	-	(25,162)
Total other comprehensive income	-	-	44,294	-	44,294
Total comprehensive income for the year	**-**	**-**	**44,294**	**4,055,345**	**4,099,639**
Transactions with owners, recorded directly in equity					
Dividends declared	-	-	-	(1,315,054)	(1,315,054)
Total transactions with owners	**-**	**-**	**-**	**(1,315,054)**	**(1,315,054)**
Balance as at 31 December 2011	**25,447,640**	**29,691**	**62,278**	**9,232,334**	**34,771,943**
Balance as at 1 January 2012	25,447,640	29,691	62,278	9,232,334	34,771,943
Total comprehensive income					
Profit for the year	-	-	-	6,037,438	6,037,438
Other comprehensive income					
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	13,249	-	13,249
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax	-	-	(33,520)	-	(33,520)
Total other comprehensive income	-	-	(20,271)	-	(20,271)
Total comprehensive income for the year	**-**	**-**	**(20,271)**	**6,037,438**	**6,017,167**
Transactions with owners, recorded directly in equity					
Treasury shares acquired	(280)	(1,120)	-	-	(1,400)
Dividends declared	-	-	-	(4,015,000)	(4,015,000)
Total transactions with owners	**(280)**	**(1,120)**	**-**	**(4,015,000)**	**(4,016,400)**
Balance as at 31 December 2012	**25,447,360**	**28,571**	**42,007**	**11,254,772**	**36,772,710**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organisation and operations

Ameriabank cjsc (formerly Armimpexbank cjsc) (the Bank) was established on 8 September 1992. In 2007 the Bank was acquired by TDA Holdings Limited, which purchased a shareholding of 96.15%. TDA Holdings Limited was renamed to Ameria Group (CY) during 2011.

The principal activities are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of Armenia (CBA). The Bank has a general banking license, and is a member of the state deposit insurance system in the Republic of Armenia. The majority of the Bank's assets and liabilities are located in Armenia.

The Bank has nine branches from which it conducts business throughout the Republic of Armenia. The registered address of the head office is 9 Grigor Lusavorich Street, Yerevan 0015, Republic of Armenia.

The main shareholder of the Bank as at 31 December 2012 and 31 December 2011 is Ameria Group (CY) which owns 99.9% of the Bank's shares.

The Bank is ultimately controlled by a single individual, Ruben Vardanyan, who has the power to direct the transactions of the Bank at his own discretion and for his own benefit.

Related party transactions are detailed in note 33.

(b) Armenian business environment

The Bank's operations are primarily located in Armenia. Consequently, the Bank is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Armenia. The financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Bank is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The AMD is also the presentation currency for the purposes of these financial statements.

Financial information presented in AMD is rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 17 “Loans to customers”.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated to the respective functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBA and other banks. The mandatory reserve deposit with the CBA is considered to be a cash equivalent due to the absence of restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold them for the foreseeble future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss
- the Bank designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the trade date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(v) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm’s length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

(vi) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss
- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

(vii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Bank writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans and advances to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(ix) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(x) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

(d) Precious metals

Precious metals are stated at the lower of net realizable value and cost. The net realizable value of precious metals is estimated based on quoted market prices. The cost of precious metals is assigned using the first-in, first-out cost formula. Precious metals are recorded within other assets.

(e) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Land and buildings, which were carried at revalued amounts, were sold in 2011.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Leased assets

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

-	leasehold improvements	5-10 years
-	computers and communication equipment	1 to 7 years
-	fixtures and fittings	3 to 5 years
-	motor vehicles	5 years

Leasehold improvements are depreciated over the shorter of the useful life of the asset and lease term.

(f) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.
Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 10 years.

(g) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Bank’s accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

(h) Impairment

(i) Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables 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 a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and can not be reversed.

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iv) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

(i) Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(j) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the following:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss
- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- commitments to provide a loan at a below-market interest rate.

(k) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(i) Share premium

Any amount paid in excess of par value of shares issued is recognized as share premium.

(ii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

(iii) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of Armenian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared and such decision is effective according to legislation of the Republic of Armenia.

(l) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains (losses) from financial instruments at fair value through profit or loss.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2012, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Bank's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The Bank has not yet analysed the likely impact of the new standard on its financial position or performance.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013. The Bank does not believe the impact of the amendment on its financial position or performance will be significant.

4 Net interest income

	2012 AMD'000	2011 AMD'000
Interest income		
Loans to customers	17,598,116	13,758,796
Available-for-sale financial assets	745,912	1,422,894
Receivables from letters of credit	382,683	52,239
Loans and advances to banks	378,695	421,639
Receivables from finance leases	375,686	234,151
Amounts receivable under reverse repurchase agreements	211,243	254,441
Held-to-maturity investments	900,636	-
Other	140,781	124,688
	20,733,752	**16,268,848**
Interest expense		
Current accounts and deposits from customers	5,080,330	4,002,038
Other borrowed funds	3,491,001	2,465,357
Deposits and balances from banks	858,393	799,606
Amounts payable under repurchase agreements	22,689	211
Other	171,315	198,889
	9,623,728	**7,466,101**
Net interest income	**11,110,024**	**8,802,747**

5 Fee and commission income

	2012 AMD'000	2011 AMD'000
Credit card maintenance	739,525	586,600
Money transfers	326,956	265,871
Guarantee and letter of credit issuance	263,267	231,617
Cash withdrawal and account service	209,995	175,387
Brokerage services	71,639	18,089
Settlement operations	15,189	13,595
Other	55,242	33,570
	1,681,813	**1,324,729**

6 Fee and commission expense

	2012 AMD'000	2011 AMD'000
Guarantee and letter of credit issuance	411,497	252,920
Credit card maintenance	145,829	124,005
Money transfers	48,026	57,992
Other	25,987	16,491
	631,339	**451,408**

7 Net foreign exchange income

	2012 AMD'000	2011 AMD'000
Net gain on spot transactions	1,131,286	959,377
Net gain from revaluation of financial assets and liabilities	60,604	137,248
	1,191,890	**1,096,625**

8 Impairment reversals (losses)

	2012 AMD'000	2011 AMD'000
Loans to customers	396,573	(304,900)
Other assets	(1,044)	-
	395,529	**(304,900)**

9 Personnel expenses

	2012 AMD'000	2011 AMD'000
Employee compensation	2,868,681	2,630,221
Payroll related taxes	216,474	168,196
	3,085,155	**2,798,417**

10 Other general administrative expenses

	2012 AMD'000	**2011 AMD'000**
Operating lease expense	704,622	535,926
Advertising and marketing	653,809	546,664
Depreciation and amortization	637,640	516,852
Repairs and maintenance	142,432	132,877
Communications and information services	120,969	118,084
Travel expenses	68,632	79,689
Charity and sponsorship	64,593	42,430
Security	55,935	45,815
Professional services	51,033	41,645
Electricity and utilities	45,635	37,949
Representation expenses	26,907	31,625
Office supplies	21,598	27,063
Insurance	16,418	31,018
Taxes other than on payroll and income	13,538	9,156
Other	299,033	172,584
	2,922,794	**2,369,377**

11 Income tax expense

	2012 AMD'000	**2011 AMD'000**
Current tax expense		
Current year	1,438,127	1,091,341
Deferred tax expense		
Deferred taxation movement due to origination and reversal of temporary differences	108,668	9,136
Total income tax expense	**1,546,795**	**1,100,477**

In 2012 the applicable tax rate for current and deferred tax is 20% (2011: 20%).

Reconciliation of effective tax rate:

	2012 AMD'000	**%**	**2011 AMD'000**	**%**
Profit before tax	7,584,233		5,155,822	
Income tax at the applicable tax rate	1,516,847	20.0	1,031,443	20.0
Non-deductible costs	29,948	0.4	69,034	1.3
	1,546,795	**20.4**	**1,100,477**	**21.3**

(a) Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities and assets as at 31 December 2012 and 2011, respectively.

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2012 and 2011 are presented as follows:

2012 AMD'000	Balance 1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2012
Financial instruments at fair value through profit or loss	-	60,709	-	60,709
Available-for-sale financial assets	(15,569)	-	5,068	(10,501)
Loans and advances to banks	(47,846)	(25,875)		(73,721)
Loans to customers	(102,624)	(136,938)	-	(239,562)
Property and equipment	14,315	12,378	-	26,693
Other assets	13,207	-	-	13,207
Other liabilities	192,441	(18,942)	-	173,499
	53,924	**(108,668)**	**5,068**	**(49,676)**

2011 AMD'000	Balance 1 January 2011	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2011
Available-for-sale financial assets	(4,495)	-	(11,074)	(15,569)
Loans and advances to banks	(42,602)	(5,244)	-	(47,846)
Loans to customers	-	(102,624)	-	(102,624)
Property and equipment	3,620	10,695	-	14,315
Other assets	13,207	-	-	13,207
Other liabilities	104,404	88,037	-	192,441
	74,134	**(9,136)**	**(11,074)**	**53,924**

(b) Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income for the year ended 31 December comprise the following:

	2012			**2011**		
AMD'000	**Amount before tax**	**Tax expense**	**Amount net-of-tax**	**Amount before tax**	**Tax expense**	**Amount net-of-tax**
Net change in fair value of available-for-sale financial assets	16,561	(3,312)	13,249	86,820	(17,364)	69,456
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(41,900)	8,380	(33,520)	(31,452)	6,290	(25,162)
Other comprehensive income	**(25,339)**	**5,068**	**(20,271)**	**55,368**	**(11,074)**	**44,294**

12 Cash and cash equivalents

	2012 AMD'000	2011 AMD'000
Cash on hand	6,498,640	7,446,811
Nostro accounts with the CBA	42,848,030	16,003,708
Nostro accounts with other banks		
- rated AA- to AA+	1,062,670	470,384
- rated A- to A+	5,913,004	8,459,661
- rated from BB- to BBB+	742,760	1,403,186
- not rated	98,530	417,107
Total nostro accounts with other banks	**7,816,964**	**10,750,338**
Cash equivalents		
Demand deposits with other banks		
- rated A- to A+	403,581	-
Total cash and cash equivalents	**57,567,215**	**34,200,857**

The nostro accounts with the CBA represent balances related to settlement activity and are available for withdrawal at the year-end.

No cash and cash equivalents are impaired or past due. The above ratings are per Fitch rating agency.

As at 31 December 2012 the Bank has no bank (2011: one bank) whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2011 is AMD 4,907,239 thousand.
As at 31 December 2012 and 2011 the balances with the Central Bank of Armenia exceed 10% of equity.

13 Financial instruments at fair value through profit or loss

	2012 AMD'000	2011 AMD'000
ASSETS		
Equity investments		
Corporate shares	-	30,100
Derivative financial instruments		
Foreign currency contracts	-	8,396
Other contracts	1,444	13,910
	1,444	**52,406**
LIABILITIES		
Derivative financial instruments		
Interest rate swaps	349,572	45,933
Foreign currency contracts	6,912	343,066
Other contracts	-	1,252
	356,484	**390,251**

Financial instruments at fair value through profit or loss comprise financial instruments held for trading.

None of financial assets at fair value through profit or loss are past due or impaired.

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2012 AMD'000	**2011 AMD'000**	**2012**	**2011**
Buy AMD sell USD				
Between 3 and 12 months	-	1,930,700	-	386.14
Buy EUR sell USD				
Less than 3 months	2,661,200	2,493,600	1.32	1.38
Between 3 and 12 months	-	2,493,600	-	1.38
	2,661,200	**6,917,900**		

Interest rate swaps

The table below summarizes the contractual amounts of interest rate swap contracts outstanding as at 31 December 2012 and 2011 with details of the fair values and notional amounts. Foreign currency amounts presented below are translated at rates effective at the reporting date. The resultant unrealized gains and losses on these unmatured contracts are recognized in profit, as appropriate.

	Fair value		Notional amount	
	2012 AMD'000	**2011 AMD'000**	**2012 AMD'000**	**2011 AMD'000**
Pay fixed in USD, receive floating in USD	349,572	45,933	18,161,100	11,573,100

As at 31 December 2012 the Bank has three interest rate swap contracts with USD 15,000,000 notional amount each (2011: two interest rate swap contracts with USD 15,000,000 notional amount each). Under these contracts the Bank pays 2.1350%, 1.3125% and 0.9450% fixed rates, and receives 6-month USD-LIBOR-BBA (British Bankers' Association) floating rates for each contract. The contractual maturity of outstanding interest rate swap contracts is 2018.

14 Available-for-sale financial assets

	2012 AMD'000	2011 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government bonds		
Government securities of the Republic of Armenia	5,674,923	13,122,874
Equity investments		
- Unquoted equity securities at cost	96,694	103,113
	5,771,617	**13,225,987**

Included in available-for-sale assets are non-quoted equity securities as follows:

Name	Country of incorporation	Main activity	% Controlled 2012	% Controlled 2011	2012 AMD'000	2011 AMD'000
ArCa	Republic of Armenia	Payment system	3.89%	3.89%	34,826	34,826
Artsakh bank cjsc	Republic of Armenia	Banking	1.10%	1.10%	61,089	67,508
SWIFT	Belgium	Money transfer	0.00%	0.00%	779	779
					96,694	**103,113**

(a) Investments without a determinable fair value

Available-for-sale equity investments stated at cost comprise unquoted equity securities in the money transfer industry. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry.

(b) Reclassifications out of available-for-sale financial assets

On 11 January 2012, the Bank reclassified certain available-for-sale assets to held-to-maturity investments for which at the date of reclassification it had the intention and ability to hold them until maturity. The assets reclassified represent Government securities of the Republic of Armenia.

The reclassifications were made with effect from 11 January 2012 at the fair value at that date. The table below sets the fair values of the financial assets reclassified at the date of reclassification and amortized cost at 31 December 2012:

2012 AMD'000	Fair value at reclassification	Amortized cost at 31 December 2012
Available-for-sale financial assets reclassified to held-to-maturity investments	**7,825,634**	**7,325,533**

The financial assets reclassified as at 11 January 2012 mature as follows:

	AMD'000
Less than 1 year	477,672
Beteween 1 and 2 years	3,148,646
Between 2 and 5 years	3,828,071
More than 5 years	371,245
	7,825,634

At 11 January 2012 the effective interest rates on reclassified available-for-sale investment securities ranged from 11% to 12% and the new effective interest rate for reclassified held-to-maturity investment securities was 12.6%.

15 Loans and advances to banks

	2012 AMD'000	2011 AMD'000
Due from the CBA		
Credit card settlement deposit with the CBA	745,000	366,162
Loans and deposits with other banks		
Foreign banks (not rated)	5,536,334	6,641,105
Largest 5 Armenian banks	3,433,294	-
Small and medium size Armenian banks	1,619,702	385,844
OECD banks	144,357	1,242,735
Total loans and deposits with other banks	**10,733,687**	**8,269,684**
Total loans and advances to banks	**11,478,687**	**8,635,846**

No loans and advances to banks are impaired or past due.

Included in loans and deposits with OECD banks and other foreign banks is AMD 144,357 thousand (2011: AMD 145,550 thousand) which represents deposits pledged for letters of credit, guarantees and credit cards.

Concentration of loans and advances to banks

As at 31 December 2012 the Bank has one bank (2011: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 is AMD 5,536,334 thousand (2011: AMD 6,341,874 thousand).

16 Amounts receivable under reverse repurchase agreements

	2012 AMD'000	2011 AMD'000
Amounts receivable from medium and small Armenian financial institutions	**968,852**	**922,519**

Collateral

As of 31 December amounts receivable under reverse repurchase agreements were collateralised by securities with the following fair values:

	2012 AMD'000	2011 AMD'000
Government securities of the Republic of Armenia	**980,202**	**921,000**

17 Loans to customers

	2012 AMD'000	2011 AMD'000
Loans to corporate customers		
Loans to large corporates	95,648,432	93,582,596
Loans to small and medium size companies	21,329,542	19,256,826
Total loans to corporate customers	**116,977,974**	**112,839,422**
Loans to retail customers		
Mortgage loans	9,271,134	7,406,033
Credit cards	7,140,820	5,807,609
Business loans	4,810,645	5,733,852
Auto loans	2,683,878	2,369,009
Consumer loans	716,070	660,470
Other	452,154	335,597
Total loans to retail customers	**25,074,701**	**22,312,570**
Gross loans to customers	**142,052,675**	**135,151,992**
Impairment allowance	(633,495)	(1,098,530)
Net loans to customers	**141,419,180**	**134,053,462**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2012 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	837,533	260,997	1,098,530
Net reversal	(348,071)	(48,502)	(396,573)
Recovery of loans previously written off	29,263	49,783	79,046
Write-offs	(49,660)	(97,848)	(147,508)
Balance at the end of the year	**469,065**	**164,430**	**633,495**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2011 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	792,150	165,012	957,162
Net charge	144,426	160,474	304,900
Recovery of loans previously written off	26,450	38,558	65,008
Write-offs	(125,493)	(103,047)	(228,540)
Balance at the end of the year	**837,533**	**260,997**	**1,098,530**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2012:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Loans corporate customers				
Loans to large corporates				
Loans without individual signs of impairment	94,578,197	189,300	94,388,897	0.2%
Overdue or impaired loans:				
- overdue more than 90 days and less than 180 days	1,070,235	2,140	1,068,095	0.2%
Total overdue or impaired loans	1,070,235	2,140	1,068,095	0.2%
Total loans to large corporates	**95,648,432**	**191,440**	**95,456,992**	**0.2%**
Loans to small and medium size companies				
Loans without individual signs of impairment	21,135,817	275,106	20,860,711	1.3%
Overdue or impaired loans:				
- not overdue	19,033	247	18,786	1.3%
- overdue less than 90 days	56,095	730	55,365	1.3%
- overdue more than 90 days and less than 180 days	118,597	1,542	117,055	1.3%
Total overdue or impaired loans	193,725	2,519	191,206	1.3%
Total loans to small and medium size companies	**21,329,542**	**277,625**	**21,051,917**	**1.3%**
Total loans to corporate customers	**116,977,974**	**469,065**	**116,508,909**	**0.4%**
Loans to retail customers				
Mortgage loans				
- not overdue	9,142,672	118,855	9,023,817	1.3%
- overdue less than 30 days	51,295	667	50,628	1.3%
- 31-90 days overdue	812	11	801	1.4%
- 91-180 days overdue	1,474	19	1,455	1.3%
- 181-270 days overdue	74,881	973	73,908	1.3%
Total mortgage loans	**9,271,134**	**120,525**	**9,150,609**	**1.3%**
Credit cards				
- not overdue	7,101,057	14,202	7,086,855	0.2%
- overdue less than 30 days	11,322	566	10,756	5.0%
- 31-90 days overdue	6,493	187	6,306	2.9%
- 91-180 days overdue	18,162	2,755	15,407	15.2%
- 181-270 days overdue	3,786	3,534	252	93.3%
Total credit cards	**7,140,820**	**21,244**	**7,119,576**	**0.3%**
Business loans				
- not overdue	4,810,645	14,913	4,795,732	0.3%
Total business loans	**4,810,645**	**14,913**	**4,795,732**	**0.3%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Auto loans				
- not overdue	2,682,543	5,365	2,677,178	0.2%
- overdue less than 30 days	1,335	48	1,287	3.6%
Total auto loans	**2,683,878**	**5,413**	**2,678,465**	**0.2%**
Consumer loans				
- not overdue	716,070	1,432	714,638	0.2%
Total consumer loans	**716,070**	**1,432**	**714,638**	**0.2%**
Other loans to retail customers				
- not overdue	452,080	903	451,177	0.2%
- overdue less than 30 days	74	-	74	0.2%
Total other loans to retail customers	**452,154**	**903**	**451,251**	**0.2%**
Total loans to retail customers	**25,074,701**	**164,430**	**24,910,271**	**0.7%**
Total loans to customers	**142,052,675**	**633,495**	**141,419,180**	**0.4%**

The following table provides information on the credit quality of loans to customers as at 31 December 2011:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Loans corporate customers				
Loans to large corporates				
Loans without individual signs of impairment	93,255,228	460,410	92,794,818	0.5%
Overdue or impaired loans:				
- overdue more than 90 days and less than 180 days	327,368	196,421	130,947	60.0%
Total overdue or impaired loans	**327,368**	**196,421**	**130,947**	**60.0%**
Total loans to large corporates	**93,582,596**	**656,831**	**92,925,765**	**0.7%**
Loans to small and medium size companies				
Loans without individual signs of impairment	19,136,145	142,339	18,993,806	0.7%
Overdue or impaired loans:				
- not overdue	1,812	378	1,434	20.9%
- overdue less than 90 days	66,976	6,849	60,127	10.2%
- overdue more than 90 days and less than 180 days	51,893	31,136	20,757	60.0%
Total overdue or impaired loans	**120,681**	**38,363**	**82,318**	**31.8%**
Total loans to small and medium size companies	**19,256,826**	**180,702**	**19,076,124**	**0.9%**
Total loans to corporate customers	**112,839,422**	**837,533**	**112,001,889**	**0.7%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Loans to retail customers				
Mortgage loans				
- not overdue	7,365,735	74,071	7,291,664	1.0%
- overdue less than 30 days	18,224	1,822	16,402	10.0%
- 91-180 days overdue	22,074	5,297	16,777	24.0%
Total mortgage loans	**7,406,033**	**81,190**	**7,324,843**	**1.1%**
Credit cards				
- not overdue	5,776,902	65,125	5,711,777	1.1%
- overdue less than 30 days	8,453	1,014	7,439	12.0%
- overdue 30-90 days	13,813	5,335	8,478	38.6%
- overdue 90-180 days	8,441	2,673	5,768	31.7%
Total credit cards	**5,807,609**	**74,147**	**5,733,462**	**1.3%**
Business loans				
- not overdue	5,719,896	56,889	5,663,007	1.0%
- overdue less than 30 days	308	31	277	10.1%
- overdue more than 180 days	13,648	6,824	6,824	50.0%
Total business loans	**5,733,852**	**63,744**	**5,670,108**	**1.1%**
Auto loans				
- not overdue	2,352,026	27,502	2,324,524	1.2%
- overdue less than 30 days	7,159	716	6,443	10.0%
- overdue 90-180 days	9,824	3,644	6,180	37.1%
Total auto loans	**2,369,009**	**31,862**	**2,337,147**	**1.3%**
Consumer loans				
- not overdue	660,470	6,614	653,856	1.0%
Total consumer loans	**660,470**	**6,614**	**653,856**	**1.0%**
Other loans to retail customers				
- not overdue	335,597	3,440	332,157	1.0%
Total other loans to retail customers	**335,597**	**3,440**	**332,157**	**1.0%**
Total loans to retail customers	**22,312,570**	**260,997**	**22,051,573**	**1.2%**
Total loans to customers	**135,151,992**	**1,098,530**	**134,053,462**	**0.8%**

(b) Key assumptions and judgments for estimating the loan impairment

(i) Loans to corporate customers

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in business environment or negative changes in the borrower's markets.

The Bank estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment have been identified.

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- historic annual loss rate of 0.2% for loans to large corporates and 1.3% for loans to small and medium size companies
- a discount of between 20% and 30% to the originally appraised value if the property pledged is sold
- a delay of 12 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2012 would be up to AMD 1,165,089 thousand lower/higher (2011: AMD 1,120,019 thousand lower/higher).

(ii) Loans to retail customers

The Bank estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 24 months
- loss migration rates of 0.3% applied in respect of credit card loans and 0.2% on auto and consumer loans
- historic annual loss rates of 1.3% applied in respect of mortgage loans and 0.3% on business loans.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to retail customers as at 31 December 2012 would be up to AMD 747,308 thousand lower/higher (2011: AMD 661,547 thousand).

Changes in estimates of the impairment allowance for loans to corporate and retail customers in comparison to the prior year are mainly due to a reduction in actual losses incurred by the Bank.

(c) Analysis of collateral

(i) Loans to corporate customers

The following tables provide information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2012

AMD'000	**Loans to customers, carrying amount**	**Fair value of collateral assessed as of reporting date**	**Fair value of collateral assessed as of loan inception date**
Loans without individual signs of impairment			
Cash and deposits	50,104	50,104	-
Real estate and movable property	92,210,088	-	92,210,088
State guarantee	5,196,324	-	-
Other guarantee	3,823,806	-	-
Corporate shares	6,959,121	-	6,959,121
Finished goods	3,745,059	-	3,745,059
Other collateral	3,265,106	-	3,265,106
Total loans without individual signs of impairment	115,249,608	50,104	106,179,374
Overdue or impaired loans			
Real estate	1,259,301	-	1,259,301
Total overdue or impaired loans	1,259,301	-	1,259,301
Total loans to corporate customers	**116,508,909**	**50,104**	**107,438,675**

31 December 2011

AMD'000	**Loans to customers, carrying amount**	**Fair value of collateral assessed as of reporting date**	**Fair value of collateral assessed as of loan inception date**
Loans without individual signs of impairment			
Cash and deposits	821,826	821,826	-
Real estate and movable property	81,350,708	-	81,350,708
State guarantee	7,143,624	-	-
Other guarantee	10,194,272	-	-
Corporate shares	5,696,064	-	5,696,064
Finished goods	5,556,567	-	5,556,567
Other collateral	1,025,563	-	1,025,563
Total loans without individual signs of impairment	111,788,624	821,826	93,628,902
Overdue or impaired loans			
Real estate	213,265	-	213,265
Total overdue or impaired loans	213,265	-	213,265
Total loans to corporate customers	**112,001,889**	**821,826**	**93,842,167**

The tables above exclude overcollateralization. For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed.

For loans to corporate customers which are neither past due nor impaired, the fair value of collateral was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the bank does not necessarily update the valuation of collateral as at each reporting date.

Management estimates that the impairment allowance on past due or impaired loans to corporate customers would have been AMD 1,068,095 thousand higher without any collateral (2011: AMD 130,947 thousand).

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. The Bank’s policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 80%. The fair value of real estate securing mortgage loans is at least equal to the carrying amounts of individual loans based on the values determined at the loan inception date.

Credit card overdrafts are secured by salary and cash deposits. Business loans are secured by real estate and corporate shares. Auto loans are secured by the underlying cars. Approximately 68% of consumer loans are secured by real estate and movable property, 20% are secured by salary and cash and 12% are secured by guarantees. Other retail loans are mainly secured by gold.

The fair values of the collateral were estimated at inception of the loans and were not adjusted for subsequent changes to the reporting date.

(iii) Repossessed collateral

During the year ended 31 December 2012, the Bank obtained certain assets by taking possession of collateral for loans to corporate customers with a net carrying amount of AMD 853,782 thousand (2011: AMD 2,234,280 thousand). As at 31 December 2012 and 2011, the repocessed collateral comprise real estate and are classified as assets held for sale.

The Bank’s policy is to sell these assets as soon as it is practicable.

(d) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Armenia who operate in the following economic sectors:

	2012 AMD'000	**2011 AMD'000**
Trade	33,669,792	38,833,098
Food and beverage	12,965,778	10,518,559
Manufacturing	11,960,907	10,313,963
Power generation	10,776,369	10,753,046
Transportation	9,248,249	9,312,399
Construction	7,787,961	8,114,344
Real estate	7,697,662	2,263,604
Mining/Metallurgy	5,315,705	8,908,448
Municipal authorities	4,237,590	1,359,263
Communication services	1,743,445	1,843,843
Agriculture, forestry and timber	1,498,889	2,048,211
Gemstone manufacturing	1,070,515	2,280,469
Finance	228,501	185,490
Other	8,776,611	6,104,685
Loans to retail customers	25,074,701	22,312,570
	142,052,675	**135,151,992**
Impairment allowance	(633,495)	(1,098,530)
	141,419,180	**134,053,462**

(e) Significant credit exposures

As at 31 December 2012 the Bank has six borrowers or groups of connected borrowers (2011: nine), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2012 is AMD 28,385,490 thousand (2011: AMD 41,177,063 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in note 28 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

18 Receivables from letters of credit

	2012 AMD'000	**2011 AMD'000**
Receivables from letters of credit	**9,700,484**	-

No receivables from letters of credit are impaired or past due.

As at 31 December 2012 the Bank has one customer (2011: no customer), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 is AMD 5,935,395 thousand (2011: nil).

19 Receivables from finance leases

	2012 AMD'000	2011 AMD'000
Gross investment in finance leases receivables:		
Less than one year	1,338,695	656,804
Between one and five years	2,226,499	1,518,886
	3,565,194	**2,175,690**
Unearned finance income	(514,438)	(359,904)
Net investment in finance leases	**3,050,756**	**1,815,786**
The net investment in finance leases comprises:		
Less than one year	1,259,199	619,761
Between one and five years	1,791,556	1,196,025
	3,050,756	**1,815,786**

As at 31 December 2012 and 31 December 2011 there are no contractually overdue finance lease receivables.

(a) Concentration of receivables from finance leases

As at 31 December 2012 the Bank has no customer whose balances exceed 10% of equity (2011: nil).

(b) Finance lease maturities

The maturity of the Bank's finance lease portfolio is presented in note 28 (d), which shows the remaining period from the reporting date to the contractual maturity of the receivables from finance leases.

(c) Geographical analysis of the finance lease portfolio

The majority of finance leases are with customers located within the Republic of Armenia and operating in the mining sector. The leased assets represent mainly mining equipment.

20 Held-to-maturity investments

	2012 AMD'000	2011 AMD'000
Government bonds		
- Government securities of the Republic of Armenia	7,325,533	-
Total government bonds	**7,325,533**	-

21 Property, equipment and intangible assets

AMD'000	**Land and buildings**	**Leasehold improvement**	**Computers and communication equipment**	**Fixtures and fittings**	**Motor vehicles**	**Intangible assets**	**Total**
Cost/Revalued amount							
Balance at 1 January 2012	-	1,042,454	1,675,196	304,290	171,326	468,401	3,661,667
Additions	-	140,692	224,253	116,532	9,007	134,496	624,980
Disposals/write-offs	-	-	(20,045)	(12,604)	(5,160)	(33,720)	(71,529)
Balance at 31 December 2012	**-**	**1,183,146**	**1,879,404**	**408,218**	**175,173**	**569,177**	**4,215,118**
Depreciation							
Balance at 1 January 2012	-	140,943	687,369	69,017	107,979	109,627	1,114,935
Depreciation for the year	-	123,778	310,364	84,518	32,484	86,496	637,640
Disposals/write-offs	-	-	(19,959)	(10,642)	(3,885)	(24,612)	(59,098)
Balance at 31 December 2012	**-**	**264,721**	**977,774**	**142,893**	**136,578**	**171,511**	**1,693,477**
Carrying amount							
At 31 December 2012	**-**	**918,425**	**901,630**	**265,325**	**38,595**	**397,666**	**2,521,641**

AMD'000	**Land and buildings**	**Leasehold improvement**	**Computers and communication equipment**	**Fixtures and fittings**	**Motor vehicles**	**Intangible assets**	**Total**
Cost/Revalued amount							
Balance at 1 January 2011	736,189	761,844	1,205,695	213,985	161,824	374,928	3,454,465
Additions	-	313,397	517,370	112,562	33,928	142,466	1,119,723
Disposals/write-offs	(736,189)	(32,787)	(47,869)	(22,257)	(24,426)	(48,993)	(912,521)
Balance at 31 December 2011	**-**	**1,042,454**	**1,675,196**	**304,290**	**171,326**	**468,401**	**3,661,667**
Depreciation							
Balance at 1 January 2011	12,978	57,420	466,841	30,164	82,690	79,114	729,207
Depreciation for the year	7,887	89,418	263,773	57,880	29,054	68,840	516,852
Disposals/write-offs	(20,865)	(5,895)	(43,245)	(19,027)	(3,765)	(38,327)	(131,124)
Balance at 31 December 2011	**-**	**140,943**	**687,369**	**69,017**	**107,979**	**109,627**	**1,114,935**
Carrying amount							
At 31 December 2011	**-**	**901,511**	**987,827**	**235,273**	**63,347**	**358,774**	**2,546,732**

There are no capitalised borrowing costs related to the acquisition or construction of property or equipment during 2012 (2011: nil).

22 Other assets

	2012 AMD'000	2011 AMD'000
Receivables from banking services	1,252,858	278,890
Brokerage accounts	275,858	1,127,795
Restricted accounts with clearing houses	208,205	138,677
Total other financial assets	**1,736,921**	**1,545,362**
Prepayments to suppliers	686,236	497,530
Standard bullions of precious metals	111,103	455,854
Small value assets	76,381	62,970
Repossessed assets	71,646	112,167
Other	86,934	23,196
Impairment allowance	(67,080)	(66,036)
Total other non-financial assets	**965,220**	**1,085,681**
Total other assets	**2,702,141**	**2,631,043**

Movements in the impairment allowance for other non-financial assets for the years ended 31 December 2012 and 2011 are as follows:

	2012 AMD'000	2011 AMD'000
Balance at the beginning of the year	66,036	66,036
Net charge	1,044	-
Balance at the end of the year	**67,080**	**66,036**

23 Deposits and balances from banks

	2012 AMD'000	2011 AMD'000
Liabilities for letters of credit	10,871,982	-
Loans from CBA	7,734,910	7,325,500
Loans and term deposits from commercial banks	4,556,189	12,196,505
Vostro accounts	55,880	1,410,453
	23,218,961	**20,932,458**

As at 31 December 2012 the Bank has two banks (2011: three banks) whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 is AMD 16,566,908 thousand (2011: AMD 18,421,235 thousand).

24 Current accounts and deposits from customers

	2012 AMD'000	**2011 AMD'000**
Current accounts and demand deposits		
- Retail	10,370,697	9,309,054
- Corporate	31,778,752	19,467,056
Term deposits		
- Retail	46,857,221	34,127,461
- Corporate	37,295,177	28,429,250
	126,301,847	**91,332,821**

As at 31 December 2012, the Bank maintained customer deposit balances of AMD 3,852,245 thousand (2011: AMD 4,602,254 thousand) that serve as collateral for loans and unrecognized credit instruments granted by the Bank.

As at 31 December 2012, the Bank has three customers (2011: two customers) whose balances exceed 10% of equity. These balances as at 31 December 2012 are AMD 21,383,551 thousand (2011: AMD 13,075,240 thousand).

25 Other borrowed funds

	2012 AMD'000	**2011 AMD'000**
Borrowings from international financial institutions	46,998,712	38,226,380
Borrowings from the Government of Armenia	8,427,345	11,365,196
	55,426,057	**49,591,576**

(a) Concentration of borrowings from international financial institutions

As at 31 December 2012, the Bank has six financial institutions (2011: five) whose balances exceed 10% of equity. These balances as at 31 December 2012 are AMD 46,096,820 thousand (2011: AMD 37,415,608 thousand).

(b) Borrowings from the Government of Armenia

The loans from the Government of Armenia include amounts lent under an agreement with the CBA (acting as the agent of the Government of Armenia) and the Bank. According to the agreement the CBA provides loans to the Bank, which in turn grants loans to qualifying borrowers. The monitoring and administration of the loans is performed by the "Directing Office of the "German Armenian Foundation" program".

The loans are in AMD, bear interest rates of 7.0-7.8%, are granted for period of up to five years and are to be repaid at maturity.

As at 31 December 2012, loans to customers with a gross value of AMD 8,767,056 thousand (2011: AMD 10,698,389 thousand) serve as collateral for borrowings from the Government of Armenia.

(c) Covenants

The Bank is required to meet certain covenants in connection with borrowing agreements. The Bank was in compliance with those covenants in 2012 and 2011.

26 Other liabilities

	2012 AMD'000	2011 AMD'000
Payables to staff	902,010	879,387
Liabilities for letters of credit	544,637	829,983
Accrued expenses	318,845	221,386
Other financial liabilities	693,522	162
Total other financial liabilities	**2,459,014**	**1,930,918**
Deferred income	41,777	284,574
Other taxes payable	119,287	80,129
Total other non-financial liabilities	**161,064**	**364,703**
Total other liabilities	**2,620,078**	**2,295,621**

27 Share capital and treasury shares

(a) Issued capital and share premium

On 15 October 2012 the Extraordinary Shareholder meeting voted to implement a 8 to 1 reverse share split. As a result the authorised, issued and outstanding shares decreased from 636,191 as at 31 December 2011 to 79,523.875 as at 31 December 2012, and the nominal value increased from AMD 40 thousand to AMD 320 thousand as at 31 December 2012. In addition, 0.875 fractional shares (7 pre-split shares) were purchased by the Bank and are shown as treasury shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Republic of Armenia.

During 2012 dividends declared by the Bank amounted to AMD 4,015,000 thousand (2011: AMD 1,315,054 thousand).

(c) Treasury shares

At 31 December 2012 the Bank held 0.875 (2011: nil) of its own shares.

28 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Management Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Risk Management Center is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Management Center is responsible for the overall risk management, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank has established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Center monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the General Director of the Bank. Market risk limits are approved by the Management Board based on recommendations of the Risk Management Center.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions. These are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Asset and Liabilites Department in its day-to-day monitoring activities. A summary of the interest gap position for major financial instruments is as follows:

AMD'000	**Less than 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**More than 5 years**	**Non-interest bearing**	**Carrying amount**
31 December 2012							
ASSETS							
Available-for-sale financial assets	109,645	206,457	296,240	4,659,094	403,487	96,694	5,771,617
Loans and advances to banks	3,247,392	-	7,341,938	-	-	889,357	11,478,687
Amounts receivable under reverse repurchase agreements	968,852	-	-	-	-	-	968,852
Loans to customers	14,276,182	10,336,896	22,651,360	84,631,686	9,523,056	-	141,419,180
Receivables from letters of credit	563,330	6,057,614	-	3,079,540	-	-	9,700,484
Receivables from finance leases	322,721	310,366	626,112	1,791,557	-	-	3,050,756
Receivables from factoring	958,658	733,789	-	-	-	-	1,692,447
Held-to-maturity investments	2,944,201	128,961	518,787	3,527,295	206,289	-	7,325,533
	23,390,981	**17,774,083**	**31,434,437**	**97,689,172**	**10,132,832**	**986,051**	**181,407,556**
LIABILITIES							
Deposits and balances from banks	(1,425,869)	(17,193,479)	(565,219)	(3,928,794)	(105,600)	-	(23,218,961)
Current accounts and deposits from customers	(33,820,647)	(24,070,069)	(24,513,860)	(1,663,614)	(84,208)	(42,149,449)	(126,301,847)
Other borrowed funds	(18,642,982)	(29,761,785)	(1,377,554)	(5,643,736)	-	-	(55,426,057)
	(53,889,498)	**(71,025,333)**	**(26,456,633)**	**(11,236,144)**	**(189,808)**	**(42,149,449)**	**(204,946,865)**
Effect of derivatives	18,161,100	-	-	(16,051,477)	(2,109,623)	-	-
Net position	**(12,337,417)**	**(53,251,250)**	**4,977,804**	**70,401,551**	**7,833,401**	**(41,163,398)**	**(23,539,309)**

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2011							
ASSETS							
Available-for-sale financial assets	485,662	1,037,639	695,702	10,357,043	546,828	103,113	13,225,987
Loans and advances to banks	385,844	6,341,874	-	-	-	1,908,128	8,635,846
Amounts receivable under reverse repurchase agreements	922,519	-	-	-	-	-	922,519
Loans to customers	6,838,968	19,962,894	16,447,688	81,153,485	9,650,427	-	134,053,462
Receivables from finance leases	163,113	153,488	303,160	1,196,025	-	-	1,815,786
Receivables from factoring	557,987	10,406	309	1,041	-	-	569,743
	9,354,093	**27,506,301**	**17,446,859**	**92,707,594**	**10,197,255**	**2,011,241**	**159,223,343**
LIABILITIES							
Deposits and balances from banks	(6,486,765)	(5,474,432)	(260,808)	(7,300,000)	-	(1,410,453)	(20,932,458)
Current accounts and deposits from customers	(20,656,773)	(12,464,653)	(28,133,268)	(1,239,204)	(62,813)	(28,776,110)	(91,332,821)
Other borrowed funds	(18,823,560)	(23,145,025)	(70,065)	(7,552,926)	-	-	(49,591,576)
	(45,967,098)	**(41,084,110)**	**(28,464,141)**	**(16,092,130)**	**(62,813)**	**(30,186,563)**	**(161,856,855)**
Effect of derivatives	11,573,100	-	-	(8,066,100)	(3,507,000)	-	-
Net position	**(25,039,905)**	**(13,577,809)**	**(11,017,282)**	**68,549,364**	**6,627,442**	**(28,175,322)**	**(2,633,512)**

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2012 and 2011. These interest rates are an approximation of the yields to maturity of these assets and liabilities, except for loans included in other borrowed funds of AMD 46,998,712 thousand (AMD 36,703,584 thousand), the interest rates on which are repriced on a semi-annual basis based on LIBOR as follows:

Interest rate repricing date	2012 AMD'000
15 February 2013	12,210,990
15 March 2013	6,092,725
15 April 2013	3,941,916
16 April 2013	508,930
17 May 2013	671,690
25 May 2013	398,529
18 May 2013	2,876,366
29 May 2013	8,030,090
4 June 2013	177,686
16 June 2013	12,089,790
	46,998,712

Interest rate repricing date	2011 AMD'000
2 February 2012	799,450
15 February 2012	11,389,098
15 March 2012	5,721,611
17 May 2012	1,070,882
18 May 2012	1,881,640
29 May 2012	3,811,266
4 June 2012	512,044
16 June 2012	11,517,593
	36,703,584

	2012 Average effective interest rate, %			2011 Average effective interest rate, %		
	AMD	**USD**	**Other currencies**	**AMD**	**USD**	**Other currencies**
Interest bearing assets						
Available-for-sale financial assets	13.82%	-	-	13.13%	-	-
Loans and advances to banks	-	4.94%	-	-	3.03%	-
Amounts receivable under reverse repurchase agreements	10.54%	-	-	12.37%	-	-
Loans to customers	13.25%	11.43%	12.64%	13.08%	11.50%	11.46%
Receivables from letters of credit	-	4.99%	7.27%	-	-	-
Receivables from finance leases	15.14%	11.82%	12.00%	15.81%	13.04%	12.00%
Receivables from factoring	16.01%	-	-	14.97%	-	-
Held-to-maturity investments	12.62%	-	-	-	-	-
Interest bearing liabilities						
Deposits and balances from banks						
- Liabilities for letters of credit	-	4.43%	6.94%	-	-	-
- Term deposits	7.42%	4.18%	-	7.50%	4.65%	1.83%
Current accounts and deposits from customers						
- Term deposits	10.62%	6.78%	6.19%	9.58%	7.34%	5.79%
Other borrowed funds	7.46%	5.06%	-	7.07%	5.15%	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is suplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2012 and 2011 is as follows:

	2012 AMD'000	**2011 AMD'000**
100 bp parallel fall	466,674	418,424
100 bp parallel rise	(466,674)	(418,424)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2012 and 2011 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	2012		**2011**	
	Profit or loss AMD'000	**Equity AMD'000**	**Profit or loss AMD'000**	**Equity AMD'000**
100 bp parallel fall	-	96,262	457	207,523
100 bp parallel rise	-	(96,262)	(457)	(207,523)

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2012:

	USD	EUR	Other currencies	Total
	AMD'000	AMD'000	AMD'000	AMD'000
ASSETS				
Cash and cash equivalents	26,805,367	4,594,098	1,027,499	32,426,964
Financial instruments at fair value through profit or loss (net of foreign currency derivatives)	1,444	-	-	1,444
Loans and advances to banks	10,733,688	-	-	10,733,688
Loans to customers	109,162,605	1,630,538	-	110,793,142
Receivables from finance leases	2,586,641	120,372	-	2,707,013
Receivables from letters of credit	5,976,590	3,723,894	-	9,700,484
Other financial assets	621,075	16,079	6,376	643,530
Total assets	**155,887,409**	**10,084,981**	**1,033,875**	**167,006,265**
LIABILITIES				
Deposits and balances from banks	11,729,005	3,738,861	-	15,467,866
Current accounts and deposits from customers	93,584,084	8,949,471	1,321,039	103,854,594
Other borrowed funds	47,397,350	-	-	47,397,350
Other financial liabilities	929,570	42,725	68,897	1,041,192
Total liabilities	**153,640,009**	**12,731,057**	**1,389,936**	**167,761,002**
Net position	**2,247,400**	**(2,646,076)**	**(356,061)**	**(754,737)**
The effect of derivatives held for risk management	**(2,661,200)**	**2,661,200**	**-**	**-**
Net position after derivatives held for risk management purposes	**(413,800)**	**15,124**	**(356,061)**	**(754,737)**

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2011:

	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS				
Cash and cash equivalents	10,282,962	3,614,713	1,653,641	15,551,316
Financial instruments at fair value through profit or loss (net of foreign currency derivatives)	44,010	-	-	44,010
Loans and advances to banks	6,873,267	1,396,417	-	8,269,684
Loans to customers	98,835,581	2,505,941	119,121	101,460,643
Receivables from finance leases	1,538,564	40,636	-	1,579,200
Other financial assets	1,457,604	3,096	7,967	1,468,667
Total assets	**119,031,988**	**7,560,803**	**1,780,729**	**128,373,520**
LIABILITIES				
Deposits and balances from banks	13,541,873	4,981	59,737	13,606,591
Current accounts and deposits from customers	58,989,227	12,522,263	2,246,653	73,758,143
Other borrowed funds	39,213,488	-	-	39,213,488
Other financial liabilities	906,695	2,423	1,831	910,949
Total liabilities	**112,651,283**	**12,529,667**	**2,308,221**	**127,489,171**
Net position	**6,380,705**	**(4,968,864)**	**(527,492)**	**884,349**
The effect of derivatives held for risk management	**(6,917,900)**	**4,987,200**	**-**	**(1,930,700)**
Net position after derivatives held for risk management purposes	**(537,195)**	**18,336**	**(527,492)**	**(1,046,351)**

A strengthening of the AMD, as indicated below, against the following currencies at 31 December 2012 and 2011 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2012	2011
	Profit or loss AMD'000	**Profit or loss AMD'000**
10% appreciation of AMD against USD	41,380	53,720
10% appreciation of AMD against EUR	(1,512)	(1,834)

A weakening of the AMD against the above currencies at 31 December 2012 and 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee and Risk Management Center, which actively monitor credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing control and monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Management Center and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department. Individual transactions are also reviewed by the Legal department depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Retail loan credit applications are reviewed by the Retail Lending Subdivisions.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Management Center with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2012 AMD'000	2011 AMD'000
ASSETS		
Cash and cash equivalents	51,068,575	26,754,046
Financial instruments at fair value through profit or loss	1,444	22,306
Available-for-sale financial assets	5,674,923	13,122,874
Loans and advances to banks	11,478,687	8,635,846
Amounts receivable under reverse repurchase agreements	968,852	922,519
Loans to customers	141,419,180	134,053,462
Receivables from letters of credit	9,700,484	-
Receivables from finance leases	3,050,756	1,815,786
Receivables from factoring	1,692,447	569,743
Held-to-maturity investments	7,325,533	-
Other financial assets	1,736,921	1,545,362
Total maximum exposure	**234,117,802**	**187,441,944**

The Bank holds collateral against loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 17.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 30.

As at 31 December 2012 the Bank has no debtors or groups of connected debtors (2011: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

(d) Liquidity risk

Liquidity risk is the risk that the Bank may encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the liquidty risk.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board of Directors.

The Bank seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks and international financial organisations, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Assets and Liabilities Department receives information from structural subdivisions regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Assets and Liabilities Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Assets and Liabilities Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Assets and Liabilities Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment.

The maturity analysis for financial liabilities as at 31 December 2012 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount (inflow) outflow	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	673,356	1,082,019	17,430,040	702,804	4,393,912	24,282,131	23,218,961
Current accounts and deposits from customers	58,541,334	17,663,416	24,735,965	25,904,840	2,052,446	128,898,001	126,301,847
Other borrowed funds	-	2,101,247	2,483,492	4,042,584	54,723,675	63,350,998	55,426,057
Other financial liabilities	721,185	418,953	1,104,711	-	214,165	2,459,014	2,459,014
Derivative liabilities							
- Inflow	-	(2,661,200)	-	-	(15,052)	(2,676,252)	(2,676,252)
- Outflow	-	2,668,112	-	-	364,624	3,032,736	3,032,736
Total liabilities	**59,935,875**	**21,272,547**	**45,754,208**	**30,650,228**	**61,733,770**	**219,346,628**	**207,762,363**
Credit related commitments	**19,151,914**	**-**	**-**	**-**	**-**	**19,151,914**	**19,151,914**

The maturity analysis for financial liabilities as at 31 December 2011 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	7,824,810	274,294	5,645,737	537,770	7,587,257	21,869,868	20,932,458
Current accounts and deposits from customers	39,143,635	10,442,969	12,799,959	29,776,932	1,542,060	93,705,555	91,332,821
Other borrowed funds	-	1,077,051	5,068,314	854,773	51,430,194	58,430,332	49,591,576
Other financial liabilities	21,877	367,554	765,753	-	775,734	1,930,918	1,930,918
Derivative liabilities							
- Inflow	-	-	(2,493,600)	(2,493,600)	(5,008)	(4,992,208)	(4,992,208)
- Outflow	1,252	-	2,770,021	2,560,245	50,941	5,382,459	5,382,459
Total liabilities	**46,991,574**	**12,161,868**	**24,556,184**	**31,236,120**	**61,381,178**	**176,326,924**	**164,178,024**
Credit related commitments	**22,020,172**	**-**	**-**	**-**	**-**	**22,020,172**	**22,020,172**

In accordance with Armenian legislation, individuals can withdraw their term deposits at any time, forfeiting, in most cases, the accrued interest. These deposits are classified in the table above in accordance with their stated maturity dates. The principal amount of such deposits, by each time band as at 31 December, is as follows:

- less than 1 month: AMD 4,055,641 thousand (2011: AMD 3,828,642 thousand)
- from 1 to 3 months: AMD 6,325,664 thousand (2011: AMD 5,372,975 thousand)
- from 3 to 6 months: AMD 12,217,363 thousand (2011: AMD 9,738,091 thousand)
- from 6 to 12 months: AMD 21,812,898 thousand (2011: AMD 13,387,348 thousand)
- more than 1 year: AMD 1,441,308 thousand (2011: AMD 1,065,960 thousand)

The table below shows an analysis, by expected maturities, of the non-derivative amounts recognised in the statement of financial position as at 31 December 2012.

AMD'000	**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**	**No maturity**	**Overdue**	**Total**
Non-derivative assets								
Cash and cash equivalents	57,567,215	-	-	-	-	-	-	57,567,215
Available-for-sale financial assets	56,133	53,512	502,697	4,659,094	403,487	96,694	-	5,771,617
Loans and advances to banks	3,159	3,244,233	7,341,938	-	-	889,357	-	11,478,687
Amounts receivable under reverse repurchase agreements	968,852	-	-	-	-	-	-	968,852
Loans to customers	3,741,121	10,410,893	32,988,256	84,631,686	9,523,056	-	124,168	141,419,180
Receivables from letters of credit	434,384	128,946	6,057,614	3,079,540	-	-	-	9,700,484
Receivables from finance leases	117,634	205,087	936,478	1,791,557	-	-	-	3,050,756
Receivables from factoring	383,482	575,176	733,789	-	-	-	-	1,692,447
Held-to-maturity investments	36,222	2,907,979	647,748	3,527,295	206,289	-	-	7,325,533
Assets held for sale	-	-	853,782	-	-	-	-	853,782
Property, equipment and intangible assets	-	-	-	-	-	2,521,641	-	2,521,641
Other assets	626,171	1,565,594	256,941	39,620	-	213,815	-	2,702,141
Total assets	**63,934,373**	**19,091,420**	**50,319,243**	**97,728,792**	**10,132,832**	**3,721,507**	**124,168**	**245,052,335**
Non-derivative liabilities								
Deposits and balances from banks	563,064	862,805	17,758,698	3,928,794	105,600	-	-	23,218,961
Current accounts and deposits from customers	58,508,993	17,461,103	48,583,929	1,663,614	84,208	-	-	126,301,847
Other borrowed funds	-	2,097,105	6,271,196	43,250,960	3,806,796	-	-	55,426,057
Current tax liability	-	-	307,966	-	-	-	-	307,966
Deferred tax liabilities	-	-	-	-	-	49,676	-	49,676
Other liabilities	840,474	460,729	1,104,711	214,164	-	-	-	2,620,078
Total liabilities	**59,912,531**	**20,881,742**	**74,026,500**	**49,057,532**	**3,996,604**	**49,676**	**-**	**207,924,585**
Net position	**4,021,842**	**(1,790,322)**	**(23,707,257)**	**48,671,260**	**6,136,228**	**3,671,831**	**124,168**	**37,127,750**

The table below shows an analysis, by expected maturities, of the non-derivative amounts recognised in the statement of financial position as at 31 December 2011.

AMD'000	**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**	**No maturity**	**Overdue**	**Total**
Non-derivative assets								
Cash and cash equivalents	34,200,857	-	-	-	-	-	-	34,200,857
Financial instruments at fair value through profit or loss	-	-	-	-	-	30,100	-	30,100
Available-for-sale financial assets	138,000	347,662	1,733,341	10,357,043	546,828	103,113	-	13,225,987
Loans and advances to banks	1,782,259	19,103	6,322,771	-	-	511,713	-	8,635,846
Amounts receivable under reverse repurchase agreements	922,519	-	-	-	-	-	-	922,519
Loans to customers	2,457,624	4,048,024	36,410,582	81,153,485	9,650,427	-	333,320	134,053,462
Receivables from finance leases	61,824	101,289	456,648	1,196,025	-	-	-	1,815,786
Receivables from factoring	162,910	395,137	11,242	454	-	-	-	569,743
Assets held for sale	-	-	2,234,280	-	-	-	-	2,234,280
Property, equipment and intangible assets	-	-	-	-	-	2,546,732	-	2,546,732
Deferred tax asset	-	-	-	-	-	53,924	-	53,924
Other assets	1,938,332	201,270	8,973	223,853	-	258,675	-	2,631,103
Total assets	**41,664,265**	**5,112,485**	**47,177,837**	**92,930,860**	**10,197,255**	**3,504,257**	**333,320**	**200,920,279**
Non-derivative liabilities								
Deposits and balances from banks	7,751,960	145,258	5,735,240	7,300,000	-	-	-	20,932,458
Current accounts and deposits from customers	39,118,328	10,314,555	40,597,921	1,239,204	62,813	-	-	91,332,821
Other borrowed funds	-	1,072,785	5,746,995	37,751,764	5,020,032	-	-	49,591,576
Current tax liability	-	312,861	-	-	-	-	-	312,861
Dividends payable	1,315,054	-	-	-	-			1,315,054
Other liabilities	102,005	382,017	842,866	948,144	20,589	-	-	2,295,621
Total liabilities	**48,287,347**	**12,227,476**	**52,923,022**	**47,239,112**	**5,103,434**	**-**	**-**	**165,780,391**
Net position	**(6,623,082)**	**(7,114,991)**	**(5,745,185)**	**45,691,748**	**5,093,821**	**3,504,257**	**333,320**	**35,139,888**

The key measure used by the Bank for managing liquidity risk is the ratio of highly liquid assets to demand liabilities. For this purpose highly liquid assets include cash, nostro accounts, debt securities issued by the Government of Armenia, CBA and other corporate debt securities for which there is an active and liquid market, which are not pledged or the use of which is not restricted in any way. Demand liabilities include current accounts and demand deposits of customers, as well as any other liability that is payable on demand. The reported ratios of highly liquid assets to demand liabilities as at 31 December and during the reporting period are as follows:

	2012 AMD'000	2011 AMD'000
At 31 December (unaudited)	150%	156%
Average for December (unaudited)	145%	131%

The above ratio is also used to measure compliance with the liquidity limit established by the CBA.

29 Capital management

The Central Bank of Armenia sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, which are based on Basle Accord principles, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2012 and 2011, this minimum level was 12%. The Bank is in compliance with the statutory capital ratios during the years ended 31 December 2012 and 2011.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Central Bank of Armenia, as at 31 December:

	2012 AMD'000 Unaudited	2011 AMD'000 Unaudited
Tier 1 capital		
Share capital	25,447,360	25,447,640
Share premium	28,571	29,691
General reserve	3,445,309	3,227,962
Retained earnings	6,554,483	5,547,402
Deductions	(1,049,844)	(1,042,256)
Total tier 1 capital	**34,425,879**	**33,210,439**
Tier 2 capital		
Revaluation reserve for available-for-sale financial assets	42,007	62,278
Total capital	**34,467,886**	**33,272,717**
Total risk weighted assets	**244,674,695**	**220,842,268**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**14.1%**	**15.1%**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**14.1%**	**15.0%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

30 Commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2012 AMD'000	**2011 AMD'000**
Contracted amount		
Guarantees and letters of credit	10,783,208	9,229,274
Credit card commitments	4,955,015	4,896,248
Loan and credit line commitments	2,389,847	3,383,635
Undrawn overdraft facilities	1,023,844	4,511,015
	19,151,914	**22,020,172**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Of these commitments, AMD 2,942,126 thousand (2011: AMD 3,570,965 thousand) are to one customer as at 31 December 2012 (2011: two customers). Bank is exposed to significant credit risk with respect to these commitments.

31 Operating leases

(a) Leases as lessee

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2012 AMD'000	2011 AMD'000
Less than 1 year	637,433	568,575
Between 1 and 5 years	1,426,952	1,668,897
More than 5 years	742,555	693,872
	2,806,940	**2,931,344**

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

32 Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank has up to AMD 5,683,556 thousand coverage for each type of insurance including for its premises and equipment, business interruption, third party liability in respect of accidents on the Bank's property or related to operations.

(b) Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(c) Taxation contingencies

The taxation system in the Republic of Armenia is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

These circumstances may create tax risks in the Republic of Armenia that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

33 Related party transactions

(a) Control relationships

The Bank's parent company is Ameria Group (CY) Limited, which owns 99.9% of the share capital. The party with ultimate control over the Bank is Ruben Vardanyan.

No publicly available financial statements are produced by the Bank's parent company.

(b) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December are as follows:

	2012 AMD'000	2011 AMD'000
Short-term employee benefits	**608,448**	**524,725**

These amounts include non-cash benefits in respect of the members of the Board of Directors and the Management Board.

The outstanding balances and average interest rates as at 31 December for transactions with the members of the Board of Directors and the Management Board are as follows:

	2012 AMD'000	Average interest rate, %	2011 AMD'000	Average interest rate, %
Statement of financial position				
Loans issued (gross)	472,529	6.3%	411,645	6.8%
Loan impairment allowance	(5,047)		(4,098)	
Deposits received	1,185,983	8.2%	990,200	7.9%
Guarantees	46,879	0.0%	44,459	0.0%

The loans and guarantees are in Armenian Drams and repayable by 2023.

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board for the year ended 31 December are as follows:

	2012 AMD'000	2011 AMD'000
Profit or loss		
Interest income	29,113	26,046
Interest expense	(86,845)	(89,592)

(c) Transactions with other related parties

The outstanding balances and the related average interest rates as at 31 December 2012 and related profit or loss amounts of transactions for the year ended 31 December 2012 with other related parties are as follows.

	Parent company		**Other subsidiaries of the parent company**		**Other**		
	AMD'000	**Average interest rate, %**	**AMD'000**	**Average interest rate, %**	**AMD'000**	**Average interest rate, %**	**Total AMD'000**
Statement of financial position							
ASSETS							
Loans to customers							
- Principal balance	-	-	201,506	11.0%	2,801,052	11.5 %	3,002,558
- Impairment allowance	-	-	(2,620)		(8,186)		(10,806)
LIABILITIES							
Current accounts and deposits from customers							
- Current accounts and demand deposits	431	0.0%	45,414	0.0%	1,571,886	0.0%	1,617,731
- Term deposits	-	-	-		309,988	11.1%	309,988
Other liabilities	-	-	6,795	0.0%	50	0.0%	6,845
Items not recognised in the statement of financial position							
Guarantees given	-	-	3,733	0.0%	93,744	0.0%	97,477
Profit (loss)							
Interest income	-		922		161,614		162,536
Interest expense	(1,685)		-		(46,643)		(48,328)
General administrative expenses	-		(109,374)		(4,938)		(114,312)

The outstanding balances and the related average interest rates as at 31 December 2011 and related profit or loss amounts of transactions for the year ended 31 December 2011 with other related parties are as follows.

	Parent company		**Other subsidiaries of the parent company**		**Other related parties**		
	AMD'000	**Average interest rate, %**	**AMD'000**	**Average interest rate, %**	**AMD'000**	**Average interest rate, %**	**Total AMD'000**
Statement of financial position							
ASSETS							
Loans to customers							
- Principal balance	-	-	-	-	489,215	12.2%	489,215
- Impairment allowance	-		-		(4,887)		(4,887)
LIABILITIES							
Current accounts and deposits from customers							
- Current accounts and demand deposits	334	0.0%	77,684	0.0%	475,770	0.0%	553,788
- Term deposits	-	-	19,651	5.0%	2,528,645	4.7%	2,548,296
Other liabilities	1,315,014	0.0%	6,124	0.0%	1,776	0.0%	1,322,914
Items not recognised in the statement of financial position							
Guarantees given	-	-	-	-	74,502	0.0%	74,502
Profit (loss)							
Interest income	-		1,518		53,427		54,945
Interest expense	-		(2,571)		(52,171)		(54,742)
General administrative expenses	-		-		(34,633)		(34,633)

34 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2012:

AMD'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	57,567,215	-	-	57,567,215	57,567,215
Financial instruments at fair value through profit or loss	1,444	-	-	-	-	1,444	1,444
Available-for-sale financial assets	-	-	-	5,674,923	-	5,674,923	5,674,923
Loans and advances to banks	-	-	11,478,687	-	-	11,478,687	11,478,687
Amounts receivable under reverse repurchase agreements	-	-	968,852	-	-	968,852	968,852
Loans customers:							
Loans to corporate customers	-	-	116,508,909	-	-	116,508,909	116,508,909
Loans to retail customers	-	-	24,910,271	-	-	24,910,271	24,910,271
Receivables from letters of credit	-	-	9,700,484	-	-	9,700,484	9,700,484
Receivables from finance leases	-	-	3,050,756	-	-	3,050,756	3,050,756
Receivables from factoring	-	-	1,692,447	-	-	1,692,447	1,692,447
Held-to-maturity investments	-	7,325,533	-	-	-	7,325,533	7,325,533
Other financial assets	-	-	1,736,921	-	-	1,736,921	1,736,921
	1,444	**7,325,533**	**227,614,542**	**5,674,923**	**-**	**240,616,442**	**240,616,442**
Financial instruments at fair value through profit or loss	356,484	-	-	-	-	356,484	356,484
Deposits and balances from banks	-	-	-	-	23,218,961	23,218,961	23,218,961
Current accounts and deposits from customers	-	-	-	-	126,301,847	126,301,847	126,301,847
Other borrowed funds	-	-	-	-	55,426,057	55,426,057	55,426,057
Other financial liabilities	-	-	-	-	2,459,014	2,459,014	2,459,014
	356,484	**-**	**-**	**-**	**207,405,879**	**207,762,363**	**207,762,363**

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2011:

AMD'000	Trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	34,200,857	-	-	34,200,857	34,200,857
Financial instruments at fair value through profit or loss	52,406	-	-	-	52,406	52,406
Available-for-sale financial assets	-	-	13,122,874	-	13,122,874	13,122,874
Loans and advances to banks	-	8,635,846	-	-	8,635,846	8,635,846
Amounts receivable under reverse repurchase agreements	-	922,519	-	-	922,519	922,519
Loans customers:						
Loans to corporate customers	-	112,001,889	-	-	112,001,889	112,001,889
Loans to retail customers	-	22,051,573	-	-	22,051,573	22,051,573
Receivables from finance leases	-	1,815,786	-	-	1,815,786	1,815,786
Receivables from factoring	-	569,743	-	-	569,743	569,743
Other financial assets	-	1,545,362	-	-	1,545,362	1,545,362
	52,406	**181,743,575**	**13,122,874**	**-**	**194,918,855**	**194,918,855**
Financial instruments at fair value through profit or loss	390,251	-	-	-	390,251	390,251
Deposits and balances from banks	-	-	-	20,932,458	20,932,458	20,932,458
Current accounts and deposits from customers	-	-	-	91,332,821	91,332,821	91,332,821
Other borrowed funds	-	-	-	49,591,576	49,591,576	49,591,576
Other financial liabilities	-	-	-	1,930,918	1,930,918	1,930,918
	390,251	**-**	**-**	**163,787,773**	**164,178,024**	**164,178,024**

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 3.5% and 10% - 15% are used for discounting future cash flows from loans and advances to banks and loans to customers, respectively
- discount rates of 5.5% - 12% are used for discounting future cash flows from liabilities.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

The estimated fair values of all financial instruments except for unquoted equity securities available-for-sale approximate their carrying values. As at 31 December 2012 fair value of unquoted equity securities available-for-sale with a carrying value of AMD 96,694 thousand (2011: AMD 103,113 thousand) cannot be determined.

(b) Fair value hierarchy

The Bank measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2012, by the level in the fair value hierarchy into which the fair value measurement is categorised:

AMD'000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Derivative assets	-	1,444	1,444
- Derivative liabilities	-	(356,484)	(356,484)
Available-for-sale financial assets			
- Debt instruments	-	5,674,923	5,674,923
	-	**5,319,883**	**5,319,883**

The table below analyses financial instruments measured at fair value at 31 December 2011, by the level in the fair value hierarchy into which the fair value measurement is categorised:

AMD'000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Equity investments	30,100	-	30,100
- Derivative assets	-	22,306	22,306
- Derivative liabilities	-	(390,251)	(390,251)
Available-for-sale financial assets			
- Debt instruments	-	13,122,874	13,122,874
	30,100	**12,754,929**	**12,785,029**