

“Byblos Bank Armenia” cjsc

Financial Statements

for the year ended 31 December 2012

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“Byblos Bank Armenia” cjsc
Statement of Comprehensive Income for the year ended 31 December 2012

	Notes	2012 AMD'000	2011 AMD'000
Interest income	4	3,854,701	2,918,435
Interest expense	4	(2,250,214)	(1,643,606)
Net interest income		1,604,487	1,274,829
Fee and commission income	5	83,677	76,442
Fee and commission expense	6	(45,656)	(44,476)
Net fee and commission income		38,021	31,966
Net loss on financial instruments at fair value through profit or loss		-	(46,743)
Net foreign exchange income	7	51,085	98,414
Net gain on available-for-sale financial assets		3,094	1,414
Other operating (expense)/income	8	(34,565)	21,093
Operating income		1,662,122	1,380,973
Impairment losses	9	(81,290)	(10,722)
Personnel expenses	10	(704,742)	(622,589)
Other general administrative expenses	11	(579,075)	(383,410)
Profit before income tax		297,015	364,252
Income tax expense	12	(104,864)	(97,860)
Profit for the year		192,151	266,392
Other comprehensive (loss)/income, net of income tax			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		(1,988)	25,073
- Net change in fair value transferred to profit or loss		1,132	(14,607)
Other comprehensive (loss)/income for the year, net of income tax		(856)	10,466
Total comprehensive income for the year		191,295	276,858

The financial statements as set out on pages 4 to 53 were approved by management on 22 February 2013 and were signed on its behalf by:



Ararat Ghukasyan
Chief Executive Officer





Hayk Stepanyan
Head of Finance and Administration

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

“Byblos Bank Armenia” ejsc
Statement of Financial Position as at 31 December 2012

		2012	2011
	Notes	AMD'000	AMD'000
ASSETS			
Cash and cash equivalents	13	8,971,211	4,301,241
Available-for-sale financial assets	14		
- Held by the Bank		2,198,292	2,048,323
- Pledged under sale and repurchase agreements		573,912	-
Amounts receivable under reverse repurchase agreements	15	-	804,415
Loans and advances to banks	16	12,291,540	9,303,338
Loans to customers	17	23,364,346	20,122,283
Property, equipment and intangible assets	18	1,120,249	1,144,989
Other assets	19	423,734	95,689
Total assets		48,943,284	37,820,278
LIABILITIES			
Deposits and balances from banks	20	8,062,970	7,451,441
Amounts payable under repurchase agreements		561,648	-
Current accounts and deposits from customers	21	24,945,995	16,188,674
Other borrowed funds	22	5,897,232	5,052,992
Deferred tax liability	12	66,194	26,932
Other liabilities	23	273,882	156,171
Total liabilities		39,807,921	28,876,210
EQUITY			
Share capital	24	8,125,100	8,125,100
Share premium		257,149	257,149
Revaluation reserve for available-for-sale financial assets		48,227	49,083
Retained earnings		704,887	512,736
Total equity		9,135,363	8,944,068
Total liabilities and equity		48,943,284	37,820,278

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

“Byblos Bank Armenia” ejsc
Statement of Cash Flows for the year ended 31 December 2012

	Notes	2012 AMD'000	2011 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		3,842,770	2,791,694
Interest payments		(2,145,887)	(1,346,006)
Fee and commission receipts		83,527	61,150
Fee and commission payments		(45,476)	(38,989)
Net receipts from foreign exchange		55,303	51,206
Tax payments (other than income tax)		(40,171)	(67,079)
Salaries and other payments to employees		(653,855)	(571,711)
Other general administrative expense payments		(368,789)	(319,258)
Other (payments)/receipts		(7,379)	57,783
(Increase)/decrease in operating assets			
Available-for-sale financial assets		(707,669)	(976,742)
Amounts receivable under reverse repurchase agreements		803,205	(803,205)
Loans and advances to banks		(2,631,971)	(3,058,474)
Loans to customers		(3,026,867)	(3,512,169)
Other assets		(23,963)	(6,377)
Increase/(decrease) in operating liabilities			
Financial instruments at fair value through profit or loss		-	(46,743)
Deposits and balances from banks		221,465	(315,417)
Current accounts and deposits from customers		8,129,924	4,563,628
Receipts from other borrowed funds		655,228	2,964,938
Amounts payable under repurchase agreements		561,157	-
Other liabilities		(4)	2,718
Net cash from/(used in) operating activities before income tax paid		4,700,548	(569,053)
Income tax paid		(90,435)	(146,039)
Cash flows from/(used in) operations		4,610,113	(715,092)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Net purchases of property, equipment and intangible assets		(62,814)	(407,345)
Cash flows used in investing activities		(62,814)	(407,345)
Net increase/(decrease) in cash and cash equivalents		4,547,299	(1,122,437)
Effect of changes in exchange rates on cash and cash equivalents		122,632	226,720
Cash and cash equivalents at the beginning of the year		4,300,977	5,196,694
Cash and cash equivalents at the end of the year	13	8,970,908	4,300,977

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

“Byblos Bank Armenia” cjsc
Statement of Changes in Equity for the year ended 31 December 2012

AMD'000	Share capital	Share premium	Revaluation reserve for available-for- sale financial assets	Retained earnings	Total
Balance as at 1 January 2011	8,125,100	257,149	38,617	246,344	8,667,210
Total comprehensive income					
Profit for the year	-	-	-	266,392	266,392
Other comprehensive income					
Net change in fair value of available-for-sale financial assets, net of income tax of AMD 6,268 thousand	-	-	25,073	-	25,073
Net change in fair value of available-for-sale financial assets, transferred to profit or loss, net of income tax of AMD 3,652 thousand	-	-	(14,607)	-	(14,607)
Total other comprehensive income	-	-	10,466	-	10,466
Total comprehensive income for the year	-	-	10,466	266,392	276,858
Balance as at 31 December 2011	8,125,100	257,149	49,083	512,736	8,944,068
Balance as at 1 January 2012	8,125,100	257,149	49,083	512,736	8,944,068
Total comprehensive income					
Profit for the year	-	-	-	192,151	192,151
Other comprehensive loss					
Net change in fair value of available-for-sale financial assets, net of income tax of AMD 497 thousand	-	-	(1,988)	-	(1,988)
Net change in fair value of available-for-sale financial assets, transferred to profit or loss, net of income tax of AMD 283 thousand	-	-	1,132	-	1,132
Total other comprehensive loss	-	-	(856)	-	(856)
Total comprehensive income for the year	-	-	(856)	192,151	191,295
Balance as at 31 December 2012	8,125,100	257,149	48,227	704,887	9,135,363

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

The principal activities of “Byblos Bank Armenia” cjsc (the “Bank”) are deposit taking and customer accounts maintenance, lending, 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 Bank has four branches. The registered address of the Bank’s head office is 18/3 Amiryan Street, Yerevan, Republic of Armenia. The majority of the assets and liabilities are attracted in the Republic of Armenia.

The average number of persons employed by the Bank during the year was 94 (2011: 88).

(i) Shareholders

In August 2007 Byblos Bank SAL purchased 100% of the shares of “ITB International Trade Bank” cjsc and the Bank was renamed “Byblos Bank Armenia” cjsc.

During the year ended 31 December 2008 the European Bank for Reconstruction and Development and the OPEC Fund for International Development acquired 25% and 10% of the ordinary shares of “Byblos Bank Armenia” cjsc, respectively. The current shareholder structure is as follows:

Byblos Bank SAL – 65%
European Bank for Reconstruction and Development – 25%
OPEC Fund for International Development – 10%

The Bank is ultimately controlled by a single individual Francois Bassil.

(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 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. The Armenian Dram is not a convertible currency outside the Republic of Armenia.

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 IFRSs 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

Transactions in foreign currencies are translated to the respective functional currencies 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, 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 Central Bank of Armenia and other banks. The minimum 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 loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable 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 recognised 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 amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised 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 amortised 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 amortised 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 entity 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 recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised 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 derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation 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 recognised 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 recognised 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) *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) *Property and equipment*

(i) *Owned assets*

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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) *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:

– Buildings	50 years
– computers and computer equipment	1-5 years
– fixtures and fittings	5-10 years
– motor vehicles	5 years

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

(e) 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 1-10 years.

(f) Repossessed assets

The Bank recognises repossessed assets in the statement of financial position when it has the full and final settlement rights to the collateral, and when it is entitled to retain any excess proceeds from the realisation of the collateral.

Repossessed assets are measured at the lower of the carrying amount and the fair value less costs to sell. At initial recognition repossessed assets are measured based on the carrying value of the defaulted loan, including expenditure incurred in the process of collateral foreclosure. Fair value less costs to sell is the estimated selling price of the collateral in the ordinary course of business, less the related selling costs. Subsequent to initial recognition, repossessed assets are reviewed for held for sale classification criteria and are reclassified accordingly when the criteria are met.

Repossessed assets are included in other assets.

Gains and losses on disposal of repossessed assets are recognised net in “other operating income” in profit or loss.

(g) Impairment

(i) *Financial assets carried at amortised cost*

Financial assets carried at amortised 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 by the Bank 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 recognised 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 recognised in profit or loss and cannot 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 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 recognised 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.

(h) 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.

(i) 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.

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 followings:

- 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.

(j) Share capital

(i) Ordinary shares

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.

(ii) Share premium

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

(iii) Dividends

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

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(k) 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 initial recognition of assets or liabilities that affect neither accounting nor taxable profit. 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.

(l) Income and expense recognition

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

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 amortised 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.

(m) 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 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.
- 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 has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2012 AMD'000	2011 AMD'000
Interest income		
Loans to customers	2,562,889	2,106,306
Loans and advances to banks	823,060	546,750
Available-for-sale financial assets	345,050	190,779
Cash and cash equivalents	75,633	41,247
Amounts receivable under reverse repurchase agreements	48,069	31,495
Financial instruments at fair value through profit or loss	-	1,858
	3,854,701	2,918,435
Interest expense		
Current accounts and deposits from customers	1,226,587	861,085
Deposits and balances from banks	563,953	565,196
Other borrowed funds	454,296	214,533
Amounts payable under repurchase agreements	5,378	2,102
Financial instruments at fair value through profit or loss	-	690
	2,250,214	1,643,606
Net interest income	1,604,487	1,274,829

5 Fee and commission income

	2012 AMD'000	2011 AMD'000
Credit card maintenance	24,775	19,438
Remittances	23,573	21,593
Cash entry and withdrawal	21,817	10,800
Account servicing	11,002	8,094
Guarantee and letter of credit issuance	1,184	15,698
Other	1,326	819
	83,677	76,442

6 Fee and commission expense

	2012 AMD'000	2011 AMD'000
Plastic card services	31,005	29,369
Remittances	7,418	4,062
Inquiries	4,565	3,546
Guarantee and letter of credit issuance	180	5,488
Other	2,488	2,011
	45,656	44,476

7 Net foreign exchange income

	2012 AMD'000	2011 AMD'000
Gain on spot transactions	55,303	51,205
(Loss)/gain from revaluation of financial assets and liabilities	(4,218)	47,209
	51,085	98,414

8 Other operating (expense)/income

	2012 AMD'000	2011 AMD'000
Fines and penalties	33,230	61,625
Payments to state deposit insurance fund	(31,790)	(16,452)
Other	(36,005)	(24,080)
	(34,565)	21,093

9 Impairment losses

	2012 AMD'000	2011 AMD'000
Loans to customers	(85,221)	(11,188)
Other assets	3,931	466
	(81,290)	(10,722)

10 Personnel expenses

	2012 AMD'000	2011 AMD'000
Employee compensation	659,041	581,668
Payroll related taxes	45,701	40,921
	704,742	622,589

11 Other general administrative expenses

	2012	2011
	AMD'000	AMD'000
Depreciation and amortisation	98,860	74,975
Professional services	98,411	23,217
Advertising and marketing	79,165	63,713
Maintenance of computer software	45,030	26,103
Repairs and maintenance	35,822	26,276
Taxes other than on income	34,763	11,335
Security	27,824	18,044
Insurance	27,359	22,911
Communications and information services	27,036	25,355
Trainings	19,271	4,080
Maintenance of cars	17,295	17,825
Office supplies	15,565	15,368
Travel expenses	12,780	14,294
Operating lease expense	12,039	14,700
Other	27,855	25,214
	579,075	383,410

12 Income tax expense

	2012	2011
	AMD'000	AMD'000
Current year tax expense	(65,388)	(95,815)
Deferred taxation movement due to origination and reversal of temporary differences	(39,476)	(2,045)
Total income tax expense	(104,864)	(97,860)

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

Reconciliation of effective tax rate

	2012		2011	
	AMD'000	%	AMD'000	%
Profit before tax	297,015		364,252	
Income tax at the applicable tax rate	(59,403)	(20%)	(72,850)	(20%)
Non-deductible costs	(45,461)	(15%)	(25,010)	(7%)
	(104,864)	(35%)	(97,860)	(27%)

(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 as at 31 December 2012 and 2011.

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:

AMD'000	Balance 1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2012
Cash and cash equivalents	(1,862)	(4,198)	-	(6,060)
Available-for-sale financial assets	(12,556)	286	214	(12,056)
Loans and advances to banks	(18,075)	(6,168)	-	(24,243)
Loans to customers	(7,332)	(20,026)	-	(27,358)
Property and equipment	273	383	-	656
Other assets	(189)	1,493	-	1,304
Other liabilities	12,809	(11,246)	-	1,563
	(26,932)	(39,476)	214	(66,194)

AMD'000	Balance 1 January 2011	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2011
Cash and cash equivalents	(3,754)	1,892	-	(1,862)
Available-for-sale financial assets	(9,952)	12	(2,616)	(12,556)
Loans and advances to banks	(11,311)	(6,764)	-	(18,075)
Loans to customers	(8,675)	1,343	-	(7,332)
Property and equipment	2,121	(1,848)	-	273
Other assets	(234)	45	-	(189)
Other liabilities	9,534	3,275	-	12,809
	(22,271)	(2,045)	(2,616)	(26,932)

(b) Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income for the year ended 31 December 2012 and 2011 comprise the following:

AMD'000	2012			2011		
	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	(2,485)	497	(1,988)	31,341	(6,268)	25,073
Net change in fair value of available-for-sale financial assets transferred to profit or loss	1,415	(283)	1,132	(18,259)	3,652	(14,607)
Other comprehensive (loss)/income	(1,070)	214	(856)	13,082	(2,616)	10,466

13 Cash and cash equivalents

	2012 AMD'000	2011 AMD'000
Cash on hand	488,039	498,492
Nostro accounts with the CBA	5,453,378	2,871,293
Nostro accounts with other banks		
- OECD banks	1,790,603	149,570
- Other foreign banks	182,603	315,482
- Largest 10 Armenian banks	814,111	465,572
- Small and medium size Armenian banks	242,174	568
Total nostro accounts with other banks	3,029,491	931,192
Total cash and cash equivalents as shown in the statement of cash flows	8,970,908	4,300,977
Accrued interest	303	264
Total cash and cash equivalents	8,971,211	4,301,241

The nostro accounts represent balances with the Central Bank of Armenia related to settlement activity and were available for withdrawal at the end of the year.

None of cash and cash equivalents are impaired or past due.

As at 31 December 2012 the Bank has two banks (2011: one), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 is AMD 6,984,985 thousand (2011: AMD 2,871,293 thousand).

14 Available-for-sale financial assets

	2012 AMD'000	2011 AMD'000
Held by the bank		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenia	2,185,132	2,035,163
	2,185,132	2,035,163
Equity investments		
- Corporate shares	13,160	13,160
	13,160	13,160
	2,198,292	2,048,323
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
- Government securities of the Republic of Armenia	573,912	-
	573,912	-

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

Name	Country of incorporation	Main activity	% Controlled		2012 AMD'000	2011 AMD'000
			2012 AMD'000	2011 AMD'000		
ArCa	Republic of Armenia	Payment system	2%	2%	12,143	12,143
SWIFT	Belgium	Money transfer	0%	0%	1,017	1,017
					13,160	13,160

Investment 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.

15 Amounts receivable under reverse repurchase agreements

	2012 AMD'000	2011 AMD'000
Amounts receivable under reverse repurchase agreements	-	804,415

Collateral pledged

As at 31 December 2011 Armenian Government securities with a fair value of AMD 786,148 thousand are pledged as collateral under reverse repurchase agreements.

16 Loans and advances to banks

	2012 AMD'000	2011 AMD'000
Credit card settlement deposit with the CBA	169,818	127,832
Loans and deposits		
Largest 10 Armenian banks	6,523,307	6,005,708
Small and medium size Armenian banks	5,544,136	3,117,914
OECD banks	54,279	51,884
Total loans and deposits	12,121,722	9,175,506
Total loans and advances to banks	12,291,540	9,303,338

As at 31 December 2012 included in loans and deposits with OECD banks is AMD 54,279 thousand (2011: AMD 51,884 thousand) which represents a blocked deposit in HSBC Bank Plc for membership in Europay International.

None of loans and advances to banks are impaired or past due.

Concentration of loans and advances to banks

As at 31 December 2012 the Bank has seven banks (2011: six banks), whose balances exceed 10% of equity. The gross values of these balances as at 31 December 2012 are AMD 12,067,443 thousand (2011: AMD 8,624,832 thousand).

17 Loans to customers

	2012 AMD'000	2011 AMD'000
Loans to corporate customers		
Loans to large corporate	14,981,143	14,092,845
Loans to small and medium size companies	1,039,817	758,380
Total loans to corporate customers	16,020,960	14,851,225
Loans to retail customers		
Mortgage loans	4,849,664	3,218,000
Consumer loans secured by real estate	1,447,592	1,262,386
Auto loans	807,286	808,676
Small business loans	325,194	153,698
Consumer loans with salary domiciliation	265,310	230,988
Credit card loans	236,624	194,381
Other	50,732	1,621
Total loans to retail customers	7,982,402	5,869,750
Gross loans to customers	24,003,362	20,720,975
Impairment allowance	(639,016)	(598,692)
Net loans to customers	23,364,346	20,122,283

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	480,754	117,938	598,692
Net charge	11,488	73,733	85,221
Write-offs	-	(44,897)	(44,897)
Balance at the end of the year	492,242	146,774	639,016

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	526,532	62,882	589,414
Net (reversal)/charge	(43,528)	54,716	11,188
(Write-offs)/recoveries	(2,250)	340	(1,910)
Balance at the end of the year	480,754	117,938	598,692

As at 31 December 2012, interest accrued on impaired loans amounts to AMD 67,819 thousand (2011: AMD 9,218 thousand).

(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 to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment	13,329,867	(66,649)	13,263,218	0.5%
Impaired loans:				
- overdue less than 90 days	50,000	(7,500)	42,500	15.0%
- overdue more than 90 days, but less than 1 year	1,501,031	(293,769)	1,207,262	19.6%
- overdue more than 1 year	100,245	(80,196)	20,049	80.0%
Total impaired loans	1,651,276	(381,465)	1,269,811	23.1%
Total loans to large corporates	14,981,143	(448,114)	14,533,029	3.0%
Loans to small and medium size companies				
Loans without individual signs of impairment	789,391	(3,947)	785,444	0.5%
Impaired loans:				
- not overdue	186,556	(22,387)	164,169	12.0%
- overdue less than 90 days	10,556	(1,267)	9,289	12.0%
- overdue more than 90 days, but less than 1 year	53,314	(16,527)	36,787	31.0%
Total impaired loans	250,426	(40,181)	210,245	16.0%
Total loans to small and medium size companies	1,039,817	(44,128)	995,689	4.2%
Total loans to corporate customers	16,020,960	(492,242)	15,528,718	3.1%
Loans to retail customers				
Mortgage loans				
- not overdue	4,692,649	(46,927)	4,645,722	1.0%
- not overdue, but impaired	31,508	(6,302)	25,206	20.0%
- overdue less than 30 days	8,748	(1,750)	6,998	20.0%
- overdue 30-89 days	28,851	(5,770)	23,081	20.0%
- overdue 90-179 days	38,851	(7,770)	31,081	20.0%
- overdue 180-360 days	49,057	(9,811)	39,246	20.0%
Total mortgage loans	4,849,664	(78,330)	4,771,334	1.6%
Consumer loans secured by real estate				
- not overdue	1,425,641	(14,256)	1,411,385	1.0%
- not overdue, but impaired	4,951	(990)	3,961	20.0%
- overdue less than 30 days	1,965	(393)	1,572	20.0%
- overdue 30-89 days	10,353	(2,071)	8,282	20.0%
- overdue more than 360 days	4,682	(936)	3,746	20.0%
Total consumer loans secured by real estate	1,447,592	(18,646)	1,428,946	1.3%

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Auto loans				
- not overdue	774,271	(15,485)	758,786	2.0%
- not overdue, but impaired	18,472	(7,389)	11,083	40.0%
- overdue less than 30 days	4,620	(1,848)	2,772	40.0%
- overdue 90-179 days	2,312	(925)	1,387	40.0%
- overdue 180-360 days	3,190	(1,276)	1,914	40.0%
- overdue more than 360 days	4,421	(1,768)	2,653	40.0%
Total auto loans	807,286	(28,691)	778,595	3.6%
Small business loans				
- not overdue	295,302	(1,477)	293,825	0.5%
- overdue less than 30 days	5,790	(1,158)	4,632	20.0%
- overdue 30-89 days	24,102	(4,820)	19,282	20.0%
Total small business loans	325,194	(7,455)	317,739	2.3%
Consumer loans with salary domiciliation				
- not overdue	262,080	(5,242)	256,838	2.0%
- not overdue, but impaired	453	(227)	226	50.1%
- overdue less than 30 days	1,374	(687)	687	50.0%
- overdue 90-179 days	855	(427)	428	49.9%
- overdue 180-360 days	548	(274)	274	50.0%
Total consumer loans with salary domiciliation	265,310	(6,857)	258,453	2.6%
Credit card loans				
- not overdue	232,328	(4,647)	227,681	2.0%
- not overdue, but impaired	4,296	(2,148)	2,148	50.0%
Total credit card loans	236,624	(6,795)	229,829	2.9%
Other loans to retail customers				
- not overdue	50,732	-	50,732	0.0%
Total other loans to retail customers	50,732	-	50,732	0.0%
Total loans to retail customers	7,982,402	(146,774)	7,835,628	1.8%
Total loans to customers	24,003,362	(639,016)	23,364,346	2.7%

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 to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment	12,308,322	(61,542)	12,246,780	0.5%
Impaired loans:				
- not overdue	1,437,631	(143,763)	1,293,868	10.0%
- overdue more than 90 days and less than 1 year	11,713	(3,514)	8,199	30.0%
- overdue more than 1 year	335,179	(268,143)	67,036	80.0%
Total impaired loans	1,784,523	(415,420)	1,369,103	23.3%
Total loans to large corporates	14,092,845	(476,962)	13,615,883	3.4%
Loans to small and medium size companies				
Loans without individual signs of impairment	758,380	(3,792)	754,588	0.5%
Total loans to small and medium size companies	758,380	(3,792)	754,588	0.5%
Total loans to corporate customers	14,851,225	(480,754)	14,370,471	3.2%
Loans to retail customers				
Mortgage loans				
- not overdue	3,068,604	(30,686)	3,037,918	1.0%
- overdue less than 30 days	93,838	(18,768)	75,070	20.0%
- overdue 30-89 days	21,977	(4,395)	17,582	20.0%
- overdue 90-179 days	33,581	(6,716)	26,865	20.0%
Total mortgage loans	3,218,000	(60,565)	3,157,435	1.9%
Consumer loans secured by real estate				
- not overdue	1,251,827	(12,518)	1,239,309	1.0%
- overdue less than 30 days	2,166	(433)	1,733	20.0%
- overdue 30-89 days	7,267	(1,453)	5,814	20.0%
- overdue 90-179 days	1,126	(226)	900	20.0%
Total consumer loans secured by real estate	1,262,386	(14,630)	1,247,756	1.2%
Auto loans				
- not overdue	773,433	(15,469)	757,964	2.0%
- overdue less than 30 days	6,679	(2,672)	4,007	40.0%
- overdue 30-89 days	7,806	(3,122)	4,684	40.0%
- overdue 90-179 days	3,848	(1,540)	2,308	40.0%
- overdue more than 360 days	16,910	(6,764)	10,146	40.0%
Total auto loans	808,676	(29,567)	779,109	3.7%
Small business loans				
- not overdue	153,698	(768)	152,930	0.5%
Total small business loans	153,698	(768)	152,930	0.5%

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans %
Consumer loans with salary domiciliation				
- not overdue	226,880	(4,537)	222,343	2.0%
- overdue less than 30 days	2,210	(1,105)	1,105	50.0%
- overdue 30-89 days	971	(486)	485	50.1%
- overdue 90-179 days	927	(464)	463	50.1%
Total consumer loans with salary domiciliation	230,988	(6,592)	224,396	2.9%
Credit card loans				
- not overdue	190,362	(3,807)	186,555	2.0%
- not overdue, but impaired	4,019	(2,009)	2,010	50.0%
Total credit card loans	194,381	(5,816)	188,565	3.0%
Other loans to retail customers				
- not overdue	1,621	-	1,621	0.0%
Total other loans to retail customers	1,621	-	1,621	0.0%
Total loans to retail customers	5,869,750	(117,938)	5,751,812	2.0%
Total loans to customers	20,720,975	(598,692)	20,122,283	2.9%

(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, 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 has been identified.

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

- for non-impaired loans the Bank creates a collective provision of 0.5% considering the economic environment and market loss experience
- for impaired loans a discount of 25% to 50% to the originally appraised value is applied if the property pledged is sold and a delay from 6 to 54 months in obtaining proceeds from the foreclosure of collateral is assumed.

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 AMD 155,287 thousand lower/higher (2011: AMD 143,705 thousand lower/higher).

(ii) Loans to retail customers

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

- Loans secured by real estate not past due – 1.0% allowance
- The cost associated with the collection of the past due loans secured by real estate will not exceed 20.0% of the outstanding exposure
- Auto loans not past due – 2.0% allowance
- The cost associated with the collection of the past due auto loans will not exceed 40.0% of the outstanding exposure
- Credit card and consumer loans with salary domiciliation not past due– 2.0% allowance
- The cost associated with the collection of the past due credit card and consumer loans with salary domiciliation will not exceed 50.0% of the outstanding exposure
- Small business loans not past due – 0.5% allowance
- The cost associated with the collection of the past due small business loans will not exceed 20.0% of the outstanding exposure

Changes in these estimates could affect 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 AMD 235,069 thousand lower/higher (2011: AMD 172,554 thousand lower/higher).

(c) Analysis of collateral

(i) Loans to corporate customers

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral as at 31 December 2012:

	2012	2011
	Loans to customers, net	Loans to customers, net
	AMD'000	AMD'000
Real estate	13,645,240	13,239,711
No collateral	1,609,348	576,551
Other collateral	274,130	554,209
	15,528,718	14,370,471

The amounts in the table above represent the carrying value of the loans and do not necessarily represent the fair value of the collateral.

The loan with no collateral is provided to a reputable Armenian company. The bank does not expect any adverse changes in payment status or default of the obligations by the borrower.

As at 31 December 2012 impaired or overdue loans to corporate customers are secured by collateral with a fair value of AMD 2,201,756 thousand (2011: AMD 1,831,250 thousand), excluding the effect of overcollateralisation.

Management estimates that the impairment allowance on past due or impaired loans to corporate customers would have been AMD 1,269,811 thousand higher without any collateral (2011: AMD 1,369,103 thousand).

Loans to corporate customers that are neither past due or impaired

As at 31 December 2012 the fair value of cash balances serving as collateral for loans to corporate customers with a net carrying amount of AMD 29,038 thousand (2011: AMD 30,853 thousand) is AMD 40,358 thousand (2011: AMD 38,577 thousand).

For remaining loans to corporate customers with a net carrying amount of AMD 14,019,624 thousand (2011: AMD 12,970,515 thousand) which are neither past due nor impaired, the fair value of collateral was estimated at the inception of the loans and is not adjusted for subsequent changes. 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.

As at 31 December 2012, for loans to corporate customers with net carrying amounts of AMD 14,048,662 thousand (2011: AMD 13,001,368 thousand) management estimates that the fair value of collateral is at least equal to their carrying amounts.

Collateral obtained

During the year ended 31 December 2012 the Bank obtained assets with a fair value of AMD 246,275 thousand by taking possession of real estate collateral of loans to corporate customers (2011: nil). Management intends to sell these assets as soon as possible.

(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 70%. Auto loans are secured by the underlying cars. Consumer loans with salary domiciliation and credit card loans are secured by salaries.

Mortgage loans

For mortgage loans and consumer loans secured by real estate with a net carrying amount of AMD 4,771,334 thousand and AMD 1,428,946 (2011: AMD 3,157,435 thousand and AMD 1,247,756 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

The Bank updates the appraised values of collateral at inception of the loans to the current values considering the approximate changes in property values. The Bank's policy is to update collateral value for mortgage loans every 5 years.

Auto loans

For auto loans with a net carrying amount of AMD 778,595 thousand (2011: AMD 779,109 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

The Bank updates the appraised values of collateral obtained at inception of the loans to the current values considering the approximate changes in prices and aging of cars.

Collateral obtained

During the year ended 31 December 2012 the Bank did not obtain any assets by taking possession of collateral for loans to retail customers (2011: nil).

(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	2011
	AMD'000	AMD'000
Trade	6,193,125	6,942,020
Manufacturing	3,374,696	2,842,077
Agriculture, forestry and timber	2,895,519	1,748,670
Transport	1,667,574	2,573,292
Energy and gas	1,617,435	579,448
Public catering and other services	272,611	165,718
Loans to retail customers	7,982,402	5,869,750
	24,003,362	20,720,975
Impairment allowance	(639,016)	(598,692)
	23,364,346	20,122,283

(e) Significant credit exposures

As at 31 December 2012 the Bank has six borrowers or groups of connected borrowers (2011: four), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2012 is AMD 8,140,014 thousand (2011: AMD 5,253,416 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in note 25 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

18 Property, equipment and intangible assets

AMD'000	Land and buildings	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Leasehold improvements	Intangible assets	Total
Cost							
Balance at 1 January 2012	926,946	272,418	220,893	68,800	26,961	160,230	1,676,248
Additions	1,639	40,556	30,860	-	-	1,868	74,923
Disposals	-	(25,676)	(19,758)	(15,100)	(5,768)	-	(66,302)
Balance at 31 December 2012	928,585	287,298	231,995	53,700	21,193	162,098	1,684,869
Depreciation							
Balance at 1 January 2012	(86,542)	(150,187)	(136,025)	(62,163)	(18,116)	(78,226)	(531,259)
Depreciation for the year	(18,032)	(36,054)	(27,582)	(6,638)	(2,358)	(8,196)	(98,860)
Disposals	-	25,441	19,189	15,101	5,768	-	65,499
Balance at 31 December 2012	(104,574)	(160,800)	(144,418)	(53,700)	(14,706)	(86,422)	(564,620)
Carrying amount							
Balance at 31 December 2012	824,011	126,498	87,577	-	6,487	75,676	1,120,249
Cost							
Balance at 1 January 2011	627,603	207,504	176,888	68,800	26,744	159,377	1,266,916
Additions	299,343	86,306	51,526	-	217	853	438,245
Disposals	-	(21,392)	(7,521)	-	-	-	(28,913)
Balance at 31 December 2011	926,946	272,418	220,893	68,800	26,961	160,230	1,676,248
Depreciation							
Balance at 1 January 2011	(74,337)	(147,999)	(124,741)	(51,423)	(15,767)	(69,885)	(484,152)
Depreciation for the year	(12,205)	(23,413)	(17,927)	(10,740)	(2,349)	(8,341)	(74,975)
Disposals	-	21,225	6,643	-	-	-	27,868
Balance at 31 December 2011	(86,542)	(150,187)	(136,025)	(62,163)	(18,116)	(78,226)	(531,259)
Carrying amount							
At 31 December 2011	840,404	122,231	84,868	6,637	8,845	82,004	1,144,989

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during the year ended 31 December 2012 (2011: nil).

19 Other assets

	2012	2011
	AMD’000	AMD’000
Receivables under money transfer and clearing systems	53,432	2,334
Other receivables	16,808	10,627
Total other financial assets	70,240	12,961
Repossessed assets	246,275	-
Prepayments	90,705	73,979
Other	16,514	8,749
Total other non-financial assets	353,494	82,728
Total other assets	423,734	95,689

None of other assets are impaired or past due.

The nature and net carrying value of repossessed assets as at 31 December 2012 and 2011 are as follows:

	Carrying value	Carrying value
	31 December 2012	31 December 2011
	AMD’000	AMD’000
Land and buildings	246,275	-

Management believes that the carrying amount of repossessed assets approximately equals their fair value less costs to sell as at 31 December 2012.

20 Deposits and balances from banks

	2012	2011
	AMD’000	AMD’000
Loans and term deposits	8,062,636	7,451,070
Vostro accounts	334	371
	8,062,970	7,451,441

As at 31 December 2012 the Bank has two banks (2011: two), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 is AMD 7,598,567 thousand (2011: AMD 6,722,474 thousand).

21 Current accounts and deposits from customers

	2012 AMD'000	2011 AMD'000
Current accounts and demand deposits		
- Retail	3,897,409	2,141,115
- Corporate	609,929	1,094,663
Term deposits		
- Retail	16,682,751	9,433,546
- Corporate	3,755,906	3,519,350
	24,945,995	16,188,674

As of 31 December 2012, the Bank maintained customer deposit balances of AMD 158,203 thousand that serve as collateral for loans and unrecognised credit instruments granted by the Bank (2011: AMD 51,272 thousand).

As of 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 5,402,758 thousand (2011: AMD 3,614,451 thousand).

22 Other borrowed funds

	2012 AMD'000	2011 AMD'000
Loans from European Fund for Southeast Europe (EFSE)	2,090,584	875,539
Loan from OPEC Fund for International Development (OFID)	1,684,781	1,932,708
Loans from European Bank for Reconstruction and Development (EBRD)	1,457,103	1,940,950
Loans from National Mortgage Company	664,764	303,795
	5,897,232	5,052,992

As at 31 December 2012 the Bank has three financial institutions (2011: two), whose balances exceed 10% of equity. These balances as at 31 December 2012 are AMD 5,232,468 thousand (2010: AMD 3,873,658 thousand).

(a) Breach of covenants

As at 31 December 2012, the Bank has loans from European Fund for Southeast Europe (EFSE) with principal amounts of AMD 1,210,740 thousand and AMD 875,000 thousand that are repayable on 15 June 2017 and 15 December 2014, respectively. According to the terms of first agreement, the Bank is subject to a debt covenant stating that at the end of each year the ratio of impaired loans to total loans cannot exceed 7%. Actual covenant value was 8.1% as at the reporting date.

During 2012 the Bank experienced an increase of impaired commercial loans and as such the Bank breached its maximum covenant threshold. As of the date these financial statements were authorised for issue the management did not obtain a waiver, so that the loan of AMD 1,210,740 thousand was payable on demand as at 31 December 2012.

The breach of the above mentioned covenant resulted in cross-default with respect to loan agreements with OFID and EBRD. Hence, the outstanding balances of these loans have been classified as payable on demand as at 31 December 2012.

In addition, the Bank was in breach of a non-financial covenant of the EFSE loan agreement with an outstanding principal amount of AMD 875,000 thousand. EFSE called this loan as of 31 December 2012, payable as follows: AMD 200,000 thousand, AMD 200,000 thousand and AMD 475,000 thousand payable on 31 January 2013, 28 February 2013 and 29 March 2013, respectively.

Accordingly, a total of AMD 4,355,079 thousand is classified as being due on demand and less than one month in the interest rate gap, liquidity and maturity tables in note 25.

23 Other liabilities

	2012	2011
	AMD'000	AMD'000
Payables to suppliers	104,206	25,542
Salary and similar payables	40,743	39,001
Other financial liabilities	66,959	12,339
Total other financial liabilities	211,908	76,882
Deferred income	25,153	17,574
Income taxes payable	-	35,615
Other taxes payable	28,440	17,509
Other non-financial liabilities	8,381	8,591
Total other non-financial liabilities	61,974	79,289
Total other liabilities	273,882	156,171

24 Share capital

(a) Issued capital and share premium

The authorized, issued and outstanding share capital comprises 81,251 ordinary shares (2011: 81,251). All shares have a nominal value of AMD 100,000. 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. In accordance with the legislation of the Republic of Armenia, as at the reporting date, reserves available for distribution amounted to AMD 433,071 thousand (2011: AMD 499,416 thousand).

25 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 Bank’s risk management policies aim to identify, analyze 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 Board of Directors 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 Management Committee with the support of the Assets and Liability Committee (ALCO Committee) is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters.

(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 management is vested in the ALCO Committee. Market risk limits are approved by the ALCO Committee.

The Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the ALCO Committee.

(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. 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	Total
31 December 2012						
ASSETS						
Cash and cash equivalents	3,022,992	-	-	-	-	3,022,992
Available-for-sale financial assets	26,090	36,692	-	2,199,568	496,694	2,759,044
Loans and advances to banks	1,482,550	8,567,432	2,017,461	-	-	12,067,443
Loans to customers	1,628,211	1,749,822	2,050,251	13,867,739	4,068,323	23,364,346
	6,159,843	10,353,946	4,067,712	16,067,307	4,565,017	41,213,825
LIABILITIES						
Deposits and balances from banks	779,374	4,187,104	716,759	2,379,399	-	8,062,636
Amounts payable under repurchase agreements	561,648	-	-	-	-	561,648
Current accounts and deposits from customers	10,387,119	4,339,414	5,967,931	2,765,792	60,085	23,520,341
Other borrowed funds	5,249,604	12,483	27,157	270,542	337,446	5,897,232
	16,977,745	8,539,001	6,711,847	5,415,733	397,531	38,041,857
Interest rate gap	(10,817,902)	1,814,945	(2,644,135)	10,651,574	4,167,486	3,171,968
AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total
31 December 2011						
ASSETS						
Cash and cash equivalents	928,427	-	-	-	-	928,427
Available-for-sale financial assets	-	194,291	-	1,340,234	500,638	2,035,163
Amounts receivable under reverse repurchase agreements	804,415	-	-	-	-	804,415
Loans and advances to banks	636,682	5,015,010	3,471,930	-	-	9,123,622
Loans to customers	1,015,828	1,630,324	2,669,759	11,794,857	3,011,515	20,122,283
	3,385,352	6,839,625	6,141,689	13,135,091	3,512,153	33,013,910
LIABILITIES						
Deposits and balances from banks	667,092	2,727,845	712,473	3,343,660	-	7,451,070
Current accounts and deposits from customers	6,526,754	1,498,300	3,385,122	3,088,511	-	14,498,687
Other borrowed funds	21,925	279,098	604,335	3,958,490	189,144	5,052,992
	7,215,771	4,505,243	4,701,930	10,390,661	189,144	27,002,749
Interest rate gap	(3,830,419)	2,334,382	1,439,759	2,744,430	3,323,009	6,011,161

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.

	2012			2011		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest bearing assets						
Nostro accounts with banks	-	1.6%	-	-	1.5%	0.1%
Available-for-sale financial assets	14.6%	-	-	13.6%	-	-
Amounts receivable under reverse repurchase agreements	-	-	-	11.0%	-	-
Loans and advances to banks	-	8.4%	-	-	8.4%	0.5%
Loans to customers	14.7%	10.6%	10.5%	14.6%	10.6%	19.2%
Interest bearing liabilities						
Deposits and balances from banks	8.7%	6.8%	-	7.8%	6.5%	-
Amounts payable under repurchase agreements	8.0%	-	-	-	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	1.8%	1.9%	0.6%	0.6%	1.9%	0.4%
- Term deposits	11.2%	6.4%	3.3%	11.5%	7.2%	4.4%
Other borrowed funds	10.8%	6.6%	-	10.5%	6.9%	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented 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 as follows:

	2012	2011
	AMD'000	AMD'000
100 bp parallel fall	48,101	5,750
100 bp parallel rise	(48,101)	(5,750)

An analysis of sensitivity of profit or loss and equity as a result of changes in fair value of financial assets available for sale due to changes in the interest rates based on positions existing 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	-	61,094	-	43,157
100 bp parallel rise	-	(61,094)	-	(43,157)

(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 Bank does not hedge its exposure to currency risk.

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	3,482,071	1,002,582	18,722	4,503,375
Loans and advances to banks	12,121,722	-	-	12,121,722
Loans to customers	16,676,692	139,195	-	16,815,887
Other financial assets	4,860	1,658	1	6,519
Total assets	32,285,345	1,143,435	18,723	33,447,503
Liabilities				
Deposits and balances from banks	7,598,622	266	2	7,598,890
Current accounts and deposits from customers	20,785,435	1,120,099	7,506	21,913,040
Other borrowed funds	4,355,079	-	-	4,355,079
Other financial liabilities	81,927	35,119	3,416	120,462
Total liabilities	32,821,063	1,155,484	10,924	33,987,471
Net position	(535,718)	(12,049)	7,799	(539,968)

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	1,068,929	112,078	23,223	1,204,230
Loans and advances to banks	8,676,717	498,788	-	9,175,505
Loans to customers	14,052,417	1,444	-	14,053,861
Other financial assets	11,281	144	-	11,425
Total assets	23,809,344	612,454	23,223	24,445,021
Liabilities				
Deposits and balances from banks	7,223,935	249	219	7,224,403
Current accounts and deposits from customers	12,927,152	621,050	10,594	13,558,796
Other borrowed funds	3,873,657	-	-	3,873,657
Other financial liabilities	2,631	4,290	432	7,353
Total liabilities	24,027,375	625,589	11,245	24,664,209
Net position	(218,031)	(13,135)	11,978	(219,188)

A weakening 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 AMD'000	2011 AMD'000
10% appreciation of USD against AMD	(42,857)	(17,443)
10% appreciation of EUR against AMD	(964)	(1,051)

A strengthening 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).

Corporate loan credit applications are originated and analyzed by the relevant relationship managers from the Commercial Banking 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 Department and a second opinion is given accompanied by verification that credit policy requirements are met. The Management Committee reviews the loan credit application on the basis of submissions by the Commercial Banking Department. Individual transactions are also reviewed by the Legal Unit, depending on the specific risks and pending final approval of the Management 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. The current market value of collateral is regularly assessed by either independent appraisal companies or the Bank’s specialists.

Retail loan credit applications are reviewed by the Retail Approval Unit, Retail Approval Committee and Management Committee based on the authorized limits.

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

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in 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	8,971,211	4,301,241
Available-for-sale financial assets	2,772,204	2,048,323
Amounts receivable under reverse repurchase agreements	-	804,415
Loans and advances to banks	12,291,540	9,303,338
Loans to customers	23,364,346	20,122,283
Other financial assets	70,240	12,961
Total maximum exposure	47,469,541	36,592,561

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 investments in securities, and loans and advances to banks, except when securities are held as part of reverse repurchase 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 27.

As at 31 December 2012 the bank has one debtor or group of connected debtors (2011: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure (2011: nil). This balances as at 31 December 2012 is AMD 5,453,378 thousand (2011: nil).

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty 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 risk of losses.

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 ALCO Committee.

The Bank seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks, 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 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 Treasury Unit receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Unit 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 within the Bank as a whole.

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 Treasury Unit. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on the liquidity management are made by the ALCO Committee, based on the reports of Risk Management and Treasury Unit.

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 asset, liability or commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

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 outflow	Carrying amount
31 December 2012							
Non-derivative liabilities							
Deposits and balances from banks	18,253	774,838	4,270,983	762,923	2,817,705	8,644,702	8,062,970
Amounts payable under repurchase agreements	562,755	-	-	-	-	562,755	561,648
Current accounts and deposits from customers	6,866,239	5,003,239	4,429,666	6,269,031	3,529,633	26,097,808	24,945,995
Other borrowed funds	4,558,478	711,492	12,944	29,063	879,582	6,191,559	5,897,232
Other financial liabilities	68,346	102,819	-	40,743	-	211,908	211,908
Total liabilities	12,074,071	6,592,388	8,713,593	7,101,760	7,226,920	41,708,732	39,679,753
Credit related commitments	1,601,130	-	-	-	-	1,601,130	1,601,130

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
31 December 2011							
Non-derivative liabilities							
Deposits and balances from banks	667,392	212	2,778,234	757,452	3,985,160	8,188,450	7,451,441
Current accounts and deposits from customers	4,463,517	3,797,545	1,536,462	3,581,392	3,943,619	17,322,535	16,188,674
Other borrowed funds	18,990	2,986	284,160	642,914	5,030,582	5,979,632	5,052,992
Other financial liabilities	65,289	11,593	-	-	-	76,882	76,882
Total liabilities	5,215,188	3,812,336	4,598,856	4,981,758	12,959,361	31,567,499	28,769,989
Credit related commitments	2,857,958	-	-	-	-	2,857,958	2,857,958

In accordance with Armenian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. These deposits are classified in accordance with their contractual maturity dates. As at 31 December 2012 the principal amount of such deposits, by each time band, is as follows:

- less than 1 month: AMD 1,831,829 thousand (2011: AMD 270,190 thousand)
- from 1 to 3 months: AMD 3,010,208 thousand (2011: AMD 2,118,494 thousand)
- from 3 to 6 months: AMD 3,415,396 thousand (2011: AMD 1,324,183 thousand)
- from 6 to 12 months: AMD 5,210,434 thousand (2011: AMD 2,353,870 thousand)
- more than 1 year: AMD 2,823,208 thousand (2011: AMD 3,078,512 thousand)

The table below shows an analysis, by expected maturities, of the 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	8,971,211	-	-	-	-	-	-	8,971,211
Available-for-sale financial assets	-	26,090	36,692	2,199,568	496,694	13,160	-	2,772,204
Loans and advances to banks	1,482,550	-	10,584,893	-	-	224,097	-	12,291,540
Loans to customers	551,843	1,076,368	3,800,073	13,143,963	4,068,323	-	723,776	23,364,346
Property, equipment and intangible assets	-	-	-	-	-	1,120,249	-	1,120,249
Other assets	59,558	11,596	44,724	304,139	-	3,717	-	423,734
Total assets	11,065,162	1,114,054	14,466,382	15,647,670	4,565,017	1,361,223	723,776	48,943,284
Non-derivative liabilities								
Deposits and balances from banks	18,232	761,476	4,903,863	2,379,399	-	-	-	8,062,970
Amounts payable under repurchase agreements	561,648	-	-	-	-	-	-	561,648
Current accounts and deposits from customers	6,860,443	4,951,536	10,308,139	2,765,792	60,085	-	-	24,945,995
Other borrowed funds	4,556,420	693,184	39,640	270,542	337,446	-	-	5,897,232
Deferred tax liability	-	-	-	-	-	66,194	-	66,194
Other liabilities	97,766	104,779	50,889	13,087	7,361	-	-	273,882
Total liabilities	12,094,509	6,510,975	15,302,531	5,428,820	404,892	66,194	-	39,807,921
Net position	(1,029,347)	(5,396,921)	(836,149)	10,218,850	4,160,125	1,295,029	723,776	9,135,363

The table below shows an analysis, by expected maturities, of the 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	4,301,241	-	-	-	-	-	-	4,301,241
Available-for-sale financial assets	-	-	194,291	1,340,234	500,638	13,160	-	2,048,323
Amounts receivable under reverse repurchase agreements	804,415	-	-	-	-	-	-	804,415
Loans and advances to banks	636,682	-	8,486,940	-	-	179,716	-	9,303,338
Loans to customers	371,271	644,557	4,300,083	11,486,428	3,011,515	-	308,429	20,122,283
Property, equipment and intangible assets	-	-	-	-	-	1,144,989	-	1,144,989
Other assets	11,250	43,506	32,711	5,432	-	2,790	-	95,689
Total assets	6,124,859	688,063	13,014,025	12,832,094	3,512,153	1,340,655	308,429	37,820,278
Non-derivative liabilities								
Deposits and balances from banks	667,254	209	3,440,318	3,343,660	-	-	-	7,451,441
Current accounts and deposits from customers	4,460,758	3,755,803	4,883,602	3,088,511	-	-	-	16,188,674
Other borrowed funds	18,987	2,938	883,433	3,958,490	189,144	-	-	5,052,992
Deferred tax liability	-	-	-	-	-	26,932	-	26,932
Other liabilities	83,782	13,561	26,582	24,675	7,571	-	-	156,171
Total liabilities	5,230,781	3,772,511	9,233,935	10,415,336	196,715	26,932	-	28,876,210
Net position	894,078	(3,084,448)	3,780,090	2,416,758	3,315,438	1,313,723	308,429	8,944,068

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, gold bullion, 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 for December 2012 and during the year are as follows:

	2012	2011
At December	267.3%	224.3%
Average for the year	236.6%	315.1%
Maximum for the year	276.8%	471.9%
Minimum for the year	181.0%	224.3%

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

26 Capital management

The CBA 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 CBA, 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, this minimum level is 12%. The Bank is in compliance with the statutory capital ratios during the years 2012 and 2011.

The following table shows the composition of the capital position calculated in accordance with the requirements of the CBA, as at 31 December 2012 and 2011:

	2012	2011
	AMD'000	AMD'000
	Unaudited	Unaudited
Tier 1 capital		
Share capital	8,125,100	8,125,100
Share premium	257,149	257,149
General reserve	41,684	28,364
Retained earnings	442,679	379,309
Deductions	(34,850)	(73,012)
Total tier 1 capital	8,831,762	8,716,910
Tier 2 capital		
Revaluation reserve for available-for-sale financial assets	48,227	49,083
Total tier 2 capital	48,227	49,083
Total capital	8,879,989	8,765,993
Total risk weighted assets	44,155,280	35,189,404
Total capital expressed as a percentage of risk-weighted assets	20.1%	24.9%
Total tier 1 capital expressed as a percentage of risk-weighted assets	20.0%	24.8%

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.

27 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 one year.

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		
Loan and credit line commitments	1,397,459	2,607,018
Credit card commitments	182,607	148,303
Guarantees and letters of credit	21,064	102,637
	1,601,130	2,857,958

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 1,140,759 thousand (2011: AMD 1,771,049 thousand) are to four customers as at 31 December 2012 (2011: four customers). This exposure represents a significant credit risk exposure to the Bank.

28 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 500 million coverage for each type of insurance including for its premises and equipment, business interruption, third party liability in respect of property arising from accidents on the Bank's property or related to the Bank's operations. The Bank also has up to AMD 90 million insurance coverage of cash desks against physical damage and theft.

(b) Litigation

Management is unaware of any significant actual, pending or threatened claims against the Bank.

(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 these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

29 Related party transactions

(a) Control relationships

The Bank’s parent Company is “Byblos Bank S.A.L”, which owns 65% of the share capital. The parent Company produces publicly available financial statements. The party with ultimate control over the Bank is Francois Bassil.

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

Total remuneration included in personnel expenses for the year ended 31 December 2012 and 2011 is as follows:

	2012 AMD’000	2011 AMD’000
Short-term employee benefits	283,366	261,729

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

The outstanding balances and average interest rates as at 31 December 2012 and 2011 for transactions with the members of the Board of Directors and the Management Committee are as follows:

	2012 AMD’000	Average interest rate, %	2011 AMD’000	Average interest rate, %
Statement of financial position				
Loans issued (gross)	176,754	9.7%	182,135	8.6%
Loan impairment allowance	(2,270)	-	(2,045)	-
Deposits received	436,437	7.3%	355,130	7.9%

Loans to related parties are in Armenian Dram and repayable from 1 to 15 years based on the type of the loan. Loans are secured by the appropriate type of collateral, as presented in note 17 (c) (ii).

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Committee for the years ended 31 December 2012 and 2011 are as follows:

	2012 AMD'000	2011 AMD'000
Profit or loss		
Interest income	13,331	18,064
Interest expense	(31,507)	(15,678)
Impairment losses	(225)	435

(c) Transactions with other related parties

Other related parties include the Parent company, its fellow subsidiaries and non-controlling shareholders. 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		Entity with significant influence over the Bank		Other subsidiaries of the parent company		Total
	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000
Statement of financial position							
ASSETS							
Cash and cash equivalents							
- in USD	140,846	0.1%	-	-	109,723	-	250,569
- in EUR	35,011	-	-	-	149,345	-	184,356
- in other currencies	1,763	0.2%	-	-	-	-	1,763
LIABILITIES							
Deposits and balances from banks							
- in USD	3,443,242	8.9%	-	-	-	-	3,443,242
Current accounts and deposits from customers							
- in USD	-	-	-	-	1,723,540	6.4%	1,723,540
Other borrowed funds							
- in USD	-	-	3,141,884	7.0%	-	-	3,141,884
Other liabilities							
- in USD	80,716	-	-	-	-	-	80,716
Profit or loss							
Interest income	376	-	-	-	-	-	376
Interest expense	(341,181)	-	(263,642)	-	(93,394)	-	(698,217)
Fee income	10	-	-	-	-	-	10
Fee expense	(4,244)	-	-	-	(207)	-	(4,451)
Other operating expense	-	-	(55)	-	-	-	(55)
Professional services	(80,411)	-	-	-	-	-	(80,411)

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		Entity with significant influence over the Bank		Other subsidiaries of the parent company		Total
	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000
Statement of financial position							
ASSETS							
Cash and cash equivalents							
- in USD	286,344	0.2%	-	-	9,129	-	295,473
- in EUR	8,567	0.5%	-	-	3,583	-	12,150
- in other currencies	6,955	0.3%	-	-	-	-	6,955
LIABILITIES							
Deposits and balances from banks							
- in USD	3,950,741	8.7%	-	-	-	-	3,950,741
Current accounts and deposits from customers							
- in USD	-	-	-	-	1,373,997	7.0%	1,373,997
Other borrowed funds							
- in USD	-	-	3,873,658	6.9%	-	-	3,873,658
Profit or loss							
Interest income	517		-		12		529
Interest expense	(466,667)		(198,462)		(87,428)		(752,557)
Fee expense	(6,950)		-		(50)		(7,000)
Other operating expense	-		(5,798)		-		(5,798)
Professional services	(5,217)		-		-		(5,217)

Cash and cash equivalents held with related parties are not secured.

30 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The estimated fair value of all financial instruments except for unquoted equity securities available-for-sale approximate their carrying values. As disclosed in note 14 the fair value of unquoted equity securities available-for-sale with a carrying value of AMD 13,160 thousand could not be determined.

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.

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

- discount rates of 8% and 11%-15% are used for discounting future cash flows from loans and advances to banks and loans to customers, respectively
- discount rates of 4%-11% are used for discounting future cash flows from liabilities.

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.

(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	Level 3	Total
Available-for-sale financial assets				
- Debt instruments	-	2,759,044	-	2,759,044
	-	2,759,044	-	2,759,044

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	Level 3	Total
Available-for-sale financial assets				
- Debt instruments	-	2,035,163	-	2,035,163
	-	2,035,163	-	2,035,163