

**“Byblos Bank Armenia” cjsc**

**Financial Statements**

**for the three-month period ended 31**

**March 2013**

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**“Byblos Bank Armenia” cjsc**  
*Interim Statement of Comprehensive Income for the three-month period ended 31 March 2013*

	Notes	31 March 2013 AMD'000	31 March 2012 AMD'000
Interest income	4	970,584	891,923
Interest expense	4	(656,815)	(484,356)
<b>Net interest income</b>		<b>313,769</b>	<b>407,567</b>
Fee and commission income	5	23,519	15,535
Fee and commission expense	6	(9,420)	(9,602)
<b>Net fee and commission income</b>		<b>14,099</b>	<b>5,933</b>
Net foreign exchange income	7	17,576	9,330
Net gain on available-for-sale financial assets		743	-
Other operating expense	8	(13,298)	(12,234)
<b>Operating income</b>		<b>332,889</b>	<b>410,596</b>
Impairment losses	9	(190,188)	(3,822)
Personnel expenses	10	(162,356)	(155,768)
Other general administrative expenses	11	(132,201)	(127,199)
<b>(Loss) / profit before income tax</b>		<b>(151,856)</b>	<b>123,807</b>
Income tax benefit / (expense)	12	19,840	(26,186)
<b>(Loss) / profit for the period</b>		<b>(132,016)</b>	<b>97,621</b>
<b>Other comprehensive loss, net of income tax</b>			
Revaluation reserve for available-for-sale financial assets:	12		
- Net change in fair value		(36,406)	(3,054)
- Net change in fair value transferred to profit or loss		(4,869)	-
<b>Other comprehensive loss for the period, net of income tax</b>		<b>(41,275)</b>	<b>(3,054)</b>
<b>Total comprehensive (loss) / income for the period</b>		<b>(173,291)</b>	<b>94,567</b>

The financial statements as set out on pages 3 to 53 were approved by management on 13 April 2013 and were signed on its behalf by:

Ararat Ghukasyan  
Chief Executive Officer

Hayk Stepanyan  
Head of Finance and Administration

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

**“Byblos Bank Armenia” cjsc**  
Interim Statement of Financial Position as at 31 March 2013

		<b>31 March 2013</b>	<b>31 December 2012</b>
	<b>Notes</b>	<b>AMD’000</b>	<b>AMD’000</b>
<b>ASSETS</b>			
Cash and cash equivalents	13	8,988,786	8,971,211
Available-for-sale financial assets	14		
- Held by the Bank		2,580,190	2,198,292
- Pledged under sale and repurchase agreements		-	573,912
Loans and advances to banks	15	11,615,088	12,291,540
Loans to customers	16	25,532,163	23,364,346
Property, equipment and intangible assets	17	1,099,410	1,120,249
Other assets	18	405,345	423,734
Deferred tax asset	12	31,164	-
<b>Total assets</b>		<b>50,252,146</b>	<b>48,943,284</b>
<b>LIABILITIES</b>			
Deposits and balances from banks	19	7,606,561	8,062,970
Amounts payable under repurchase agreements		-	561,648
Current accounts and deposits from customers	20	26,044,404	24,945,995
Other borrowed funds	21	7,256,369	5,897,232
Other liabilities	22	382,740	273,882
Deferred tax liability	12	-	66,194
<b>Total liabilities</b>		<b>41,290,074</b>	<b>39,807,921</b>
<b>EQUITY</b>			
Share capital	23	8,125,100	8,125,100
Share premium		257,149	257,149
Revaluation reserve for available-for-sale financial assets		6,952	48,227
Retained earnings		572,871	704,887
<b>Total equity</b>		<b>8,962,072</b>	<b>9,135,363</b>
<b>Total liabilities and equity</b>		<b>50,252,146</b>	<b>48,943,284</b>

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

**“Byblos Bank Armenia” cjsc**  
*Interim Statement of Cash Flows for the three-month period ended 31 March 2013*

	Notes	31 March 2013 AMD'000	31 March 2012 AMD'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest receipts		831,508	679,349
Interest payments		(689,198)	(587,118)
Fee and commission receipts		23,315	15,190
Fee and commission payments		(9,421)	(9,571)
Net receipts from foreign exchange		16,096	9,228
Tax payments (other than income tax)		(2,451)	(5,481)
Salaries and other payments to employees		(160,574)	(143,945)
Other general administrative expense payments		(103,642)	(91,729)
Other receipts / (payments)		12,337	(11,265)
<b>(Increase)/decrease in operating assets</b>			
Available-for-sale financial assets		179,400	(603,904)
Amounts receivable under reverse repurchase agreements		-	379,514
Loans and advances to banks		1,217,993	165,784
Loans to customers		(1,714,221)	(1,308,959)
Other assets		(28,037)	(5,535)
<b>Increase/(decrease) in operating liabilities</b>			
Deposits and balances from banks		(707,276)	642,893
Amounts payable under repurchase agreements		(561,157)	-
Current accounts and deposits from customers		411,270	1,664,473
Receipts from other borrowed funds		1,105,909	460,781
Other liabilities		23,840	-
<b>Net cash (used in) / from operating activities before income tax paid</b>		<b>(154,309)</b>	<b>1,249,705</b>
Income tax paid		(17,965)	(17,963)
<b>Cash flows (used in) / from operations</b>		<b>(172,274)</b>	<b>1,231,742</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Net purchases of property, equipment and intangible assets		(3,260)	(38,796)
<b>Cash flows used in investing activities</b>		<b>(3,260)</b>	<b>(38,796)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(175,534)</b>	<b>1,192,946</b>
Effect of changes in exchange rates on cash and cash equivalents		193,408	59,254
Cash and cash equivalents at the beginning of the period		8,970,908	4,300,977
<b>Cash and cash equivalents at the end of the period</b>	13	<b>8,988,782</b>	<b>5,553,177</b>

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

**“Byblos Bank Armenia” cjsc**  
*Interim Statement of Changes in Equity for the three-month period ended 31 March 2013*

<b>AMD'000</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Revaluation reserve for available-for-sale financial assets</b>	<b>Retained earnings</b>	<b>Total</b>
<b>Balance as at 1 January 2012</b>	<b>8,125,100</b>	<b>257,149</b>	<b>49,083</b>	<b>512,736</b>	<b>8,944,068</b>
<b>Total comprehensive income</b>					
Profit for the period	-	-	-	97,621	97,621
<b>Other comprehensive loss</b>					
Net change in fair value of available-for-sale financial assets, net of income tax of AMD 764 thousand	-	-	(3,054)	-	(3,054)
Total other comprehensive loss	-	-	(3,054)	-	(3,054)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>(3,054)</b>	<b>97,621</b>	<b>94,567</b>
<b>Balance as at 31 March 2012</b>	<b>8,125,100</b>	<b>257,149</b>	<b>46,029</b>	<b>610,357</b>	<b>9,038,635</b>
 <b>Balance as at 1 January 2013</b>	 <b>8,125,100</b>	 <b>257,149</b>	 <b>48,227</b>	 <b>704,887</b>	 <b>9,135,363</b>
<b>Total comprehensive loss</b>					
Loss for the period	-	-	-	(132,016)	(132,016)
<b>Other comprehensive loss</b>					
Net change in fair value of available-for-sale financial assets, net of income tax of AMD 9,102 thousand	-	-	(36,406)	-	(36,406)
Net change in fair value of available-for-sale financial assets, transferred to profit or loss, net of income tax of AMD 1,217 thousand	-	-	(4,869)	-	(4,869)
Total other comprehensive loss	-	-	(41,275)	-	(41,275)
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>(41,275)</b>	<b>(132,016)</b>	<b>(173,291)</b>
<b>Balance as at 31 March 2013</b>	<b>8,125,100</b>	<b>257,149</b>	<b>6,952</b>	<b>572,871</b>	<b>8,962,072</b>

The interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the interim 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 three-month period ended 31 March 2013 was 95 (31 December 2012: 94).

### **(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 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 16 “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 period, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

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.

## 4 Net interest income

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 March 2012</b> <b>AMD'000</b>
<b>Interest income</b>		
Loans to customers	648,433	597,821
Loans and advances to banks	224,671	178,657
Available-for-sale financial assets	90,176	73,450
Cash and cash equivalents	7,304	21,585
Amounts receivable under reverse repurchase agreements	-	20,410
	<b>970,584</b>	<b>891,923</b>
<b>Interest expense</b>		
Current accounts and deposits from customers	382,005	261,118
Other borrowed funds	137,220	98,229
Deposits and balances from banks	136,606	125,009
Amounts payable under repurchase agreements	984	-
	<b>656,815</b>	<b>484,356</b>
<b>Net interest income</b>	<b>313,769</b>	<b>407,567</b>

## 5 Fee and commission income

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 March 2012</b> <b>AMD'000</b>
Credit card maintenance	7,682	5,078
Cash entry and withdrawal	6,148	3,059
Remittances	5,050	4,826
Account servicing	3,996	1,909
Other	643	663
	<b>23,519</b>	<b>15,535</b>

## 6 Fee and commission expense

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 March 2012</b> <b>AMD'000</b>
Plastic card services	6,092	6,961
Remittances	1,847	1,357
Inquiries	940	960
Other	541	324
	<b>9,420</b>	<b>9,602</b>

## 7 Net foreign exchange income

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 March 2012</b> <b>AMD'000</b>
Gain on spot transactions	16,096	9,228
Gain from revaluation of financial assets and liabilities	1,480	102
	<b>17,576</b>	<b>9,330</b>

## 8 Other operating expense

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 March 2012</b> <b>AMD'000</b>
Fines and penalties	4,800	2,743
Payments to state deposit insurance fund	(10,447)	(6,191)
Other	(7,651)	(8,786)
	<b>(13,298)</b>	<b>(12,234)</b>

## 9 Impairment losses

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 March 2012</b> <b>AMD'000</b>
Loans to customers	189,851	3,039
Other assets	337	783
	<b>190,188</b>	<b>3,822</b>

## 10 Personnel expenses

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 March 2012</b> <b>AMD'000</b>
Employee compensation	162,356	145,616
Payroll related taxes	-	10,152
	<b>162,356</b>	<b>155,768</b>

## 11 Other general administrative expenses

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 March 2012</b> <b>AMD'000</b>
Professional services	27,324	25,682
Depreciation and amortisation	24,948	22,224
Advertising and marketing	17,016	15,908

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 March 2012</b> <b>AMD'000</b>
Maintenance of computer software	10,816	7,921
Repairs and maintenance	9,902	9,539
Security	7,138	6,701
Insurance	6,995	6,538
Communications and information services	5,626	6,874
Taxes other than on income	4,235	3,148
Maintenance of cars	3,798	4,119
Operating lease expense	3,013	3,000
Loan collection expenses	2,267	-
Office supplies	1,867	6,320
Membership expenses	1,305	1,305
Travel expenses	1,059	2,428
Other	4,892	5,492
	<b>132,201</b>	<b>127,199</b>

## 12 Income tax benefit / (expense)

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 March 2012</b> <b>AMD'000</b>
Current period tax expense	(67,199)	(22,297)
Deferred taxation movement due to origination and reversal of temporary differences	87,039	(3,889)
<b>Total income tax benefit / (expense)</b>	<b>19,840</b>	<b>(26,186)</b>

In 2013 applicable tax rate for current and deferred tax is 20% (31 December 2012: 20%).

### Reconciliation of effective tax rate

	<b>31 March 2013</b> <b>AMD'000</b>	<b>%</b>	<b>31 March 2012</b> <b>AMD'000</b>	<b>%</b>
(Loss) / profit before tax	<b>(151,856)</b>		<b>123,807</b>	
Income tax at the applicable tax rate	30,371	(20%)	(24,761)	(20%)
Non-deductible costs	(10,531)	7%	(1,425)	(1%)
	<b>19,840</b>	<b>(13%)</b>	<b>(26,186)</b>	<b>(21%)</b>

**(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 asset and liability as at 31 March 2013 and 31 December 2012, respectively.

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

Movements in temporary differences during the three-month period ended 31 March 2013 and 2012 are presented as follows:

AMD'000	Balance 1 January 2013	Recognised in profit or loss	Recognised in other comprehensive loss	Balance 31 March 2013
Cash and cash equivalents	(6,060)	3,376	-	(2,684)
Available-for-sale financial assets	(12,056)	-	10,319	(1,737)
Loans and advances to banks	(24,243)	1,148	-	(23,095)
Loans to customers	(27,358)	83,426	-	56,068
Property and equipment	656	212	-	868
Other assets	1,304	(262)	-	1,042
Other liabilities	1,563	(861)	-	702
	<b>(66,194)</b>	<b>87,039</b>	<b>10,319</b>	<b>31,164</b>

AMD'000	Balance 1 January 2012	Recognised in profit or loss	Recognised in other comprehensive loss	Balance 31 March 2012
Cash and cash equivalents	(1,862)	(2,142)	-	(4,004)
Available-for-sale financial assets	(12,556)	-	764	(11,792)
Loans and advances to banks	(18,075)	(708)	-	(18,783)
Loans to customers	(7,332)	(4,497)	-	(11,829)
Property and equipment	273	(243)	-	30
Other assets	(189)	(81)	-	(270)
Other liabilities	12,809	3,782	-	16,591
	<b>(26,932)</b>	<b>(3,889)</b>	<b>764</b>	<b>(30,057)</b>

**(b) Income tax recognised in other comprehensive loss**

The tax effects relating to components of other comprehensive loss for the three-month period ended 31 March 2013 and 2012 comprise the following:

AMD'000	31 March 2013			31 March 2012		
	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	(45,508)	9,102	(36,406)	(3,818)	764	(3,054)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(6,086)	1,217	(4,869)	-	-	-
<b>Other comprehensive loss</b>	<b>(51,594)</b>	<b>10,319</b>	<b>(41,275)</b>	<b>3,818</b>	<b>764</b>	<b>(3,054)</b>

## 13 Cash and cash equivalents

	31 March 2013 AMD'000	31 December 2012 AMD'000
Cash on hand	292,999	488,039
Nostro accounts with the CBA	7,353,913	5,453,378
Nostro accounts with other banks		
- OECD banks	1,150,581	1,790,603
- Other foreign banks	189,473	182,603
- Largest 10 Armenian banks	1,805	814,111
- Small and medium size Armenian banks	11	242,174
<b>Total nostro accounts with other banks</b>	<b>1,341,870</b>	<b>3,029,491</b>
<b>Total cash and cash equivalents as shown in the interim statement of cash flows</b>	<b>8,988,782</b>	<b>8,970,908</b>
Accrued interest	4	303
<b>Total cash and cash equivalents</b>	<b>8,988,786</b>	<b>8,971,211</b>

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 period.

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

As at 31 March 2013 the Bank has two banks (31 December 2012: two), whose balances exceed 10% of equity. The gross value of these balances as at 31 March 2013 is AMD 8,491,381 thousand (31 December 2012: AMD 6,984,985 thousand).

## 14 Available-for-sale financial assets

	31 March 2013 AMD'000	31 December 2012 AMD'000
<b>Held by the bank</b>		
<b>Debt and other fixed-income instruments</b>		
- Government securities of the Republic of Armenia	2,567,030	2,185,132
	<b>2,567,030</b>	<b>2,185,132</b>
<b>Equity investments</b>		
- Corporate shares	13,160	13,160
	<b>13,160</b>	<b>13,160</b>
	<b>2,580,190</b>	<b>2,198,292</b>
<b>Pledged under sale and repurchase agreements</b>		
<b>Debt and other fixed-income instruments</b>		
- Government securities of the Republic of Armenia	-	573,912
	-	<b>573,912</b>

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

Name	Country of incorporation	Main activity	% Controlled		31 March 2013	31 December 2012
			31 March 2013	31 December 2012	AMD'000	AMD'000
ArCa	Republic of Armenia	Payment system	2%	2%	12,143	12,143
SWIFT	Belgium	Money transfer	0%	0%	1,017	1,017
					<b>13,160</b>	<b>13,160</b>

### 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 Loans and advances to banks

	31 March 2013 AMD'000	31 December 2012 AMD'000
<b>Credit card settlement deposit with the CBA</b>	<b>67,500</b>	<b>169,818</b>
<b>Loans and deposits</b>		
Largest 10 Armenian banks	6,349,947	6,523,307
Small and medium size Armenian banks	5,141,345	5,544,136
OECD banks	56,296	54,279
<b>Total loans and deposits</b>	<b>11,547,588</b>	<b>12,121,722</b>
<b>Total loans and advances to banks</b>	<b>11,615,088</b>	<b>12,291,540</b>

As at 31 March 2013 included in loans and deposits with OECD banks is AMD 56,296 thousand (31 December 2012: AMD 54,279 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 March 2013 the Bank has six banks (31 December 2012: seven banks), whose balances exceed 10% of equity. The gross values of these balances as at 31 March 2013 are AMD 9,801,447 thousand (31 December 2012: AMD 12,067,443 thousand).

## 16 Loans to customers

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 December 2012</b> <b>AMD'000</b>
<b>Loans to corporate customers</b>		
Loans to large corporates	16,881,458	14,981,143
Loans to small and medium size companies	1,007,764	1,039,817
<b>Total loans to corporate customers</b>	<b>17,889,222</b>	<b>16,020,960</b>
<b>Loans to retail customers</b>		
Mortgage loans	5,321,999	4,849,664
Consumer loans secured by real estate	1,430,381	1,447,592
Auto loans	809,059	807,286
Small business loans	329,955	325,194
Credit card loans	264,912	236,624
Consumer loans with salary domiciliation	257,846	265,310
Other	44,010	50,732
<b>Total loans to retail customers</b>	<b>8,458,162</b>	<b>7,982,402</b>
<b>Gross loans to customers</b>	<b>26,347,384</b>	<b>24,003,362</b>
Impairment allowance	(815,221)	(639,016)
<b>Net loans to customers</b>	<b>25,532,163</b>	<b>23,364,346</b>

Movements in the loan impairment allowance by classes of loans to customers for the three-month period ended 31 March 2013 are as follows:

	<b>Loans to corporate customers AMD'000</b>	<b>Loans to retail customers AMD'000</b>	<b>Total AMD'000</b>
Balance at the beginning of the period	492,242	146,774	639,016
Net charge	163,311	26,540	189,851
Write-offs	-	(13,646)	(13,646)
<b>Balance at the end of the period</b>	<b>655,553</b>	<b>159,668</b>	<b>815,221</b>

Movements in the loan impairment allowance by classes of loans to customers for the three-month period ended 31 March 2012 are as follows:

	<b>Loans to corporate customers AMD'000</b>	<b>Loans to retail customers AMD'000</b>	<b>Total AMD'000</b>
Balance at the beginning of the period	480,754	117,938	598,692
Net charge / (reversal)	3,442	(403)	3,039
Recoveries	390	3,072	3,462
<b>Balance at the end of the period</b>	<b>484,586</b>	<b>120,607</b>	<b>605,193</b>

As at 31 March 2013, interest accrued on impaired loans amounts to AMD 109,572 thousand (31 December 2012: AMD 67,819 thousand).



**(a) Credit quality of loans to customers**

The following table provides information on the credit quality of loans to customers as at 31 March 2013:

	<b>Gross loans AMD'000</b>	<b>Impairment allowance AMD'000</b>	<b>Net loans AMD'000</b>	<b>Impairment allowance to gross loans %</b>
<b>Loans to corporate customers</b>				
<b>Loans to large corporates</b>				
Loans without individual signs of impairment	13,715,523	(68,578)	13,646,945	0.5%
Impaired loans:				
- overdue less than 90 days	1,458,870	(145,887)	1,312,983	10.0%
- overdue more than 90 days, but less than 1 year	1,606,820	(333,151)	1,273,669	20.7%
- overdue more than 1 year	100,245	(80,196)	20,049	80.0%
Total impaired loans	3,165,935	(559,234)	2,606,701	17.7%
<b>Total loans to large corporates</b>	<b>16,881,458</b>	<b>(627,812)</b>	<b>16,253,646</b>	<b>3.7%</b>
<b>Loans to small and medium size companies</b>				
Loans without individual signs of impairment	810,350	(4,051)	806,299	0.5%
Impaired loans:				
- overdue less than 90 days	197,414	(23,690)	173,724	12.0%
Total impaired loans	197,414	(23,690)	173,724	12.0%
<b>Total loans to small and medium size companies</b>	<b>1,007,764</b>	<b>(27,741)</b>	<b>980,023</b>	<b>2.8%</b>
<b>Total loans to corporate customers</b>	<b>17,889,222</b>	<b>(655,553)</b>	<b>17,233,669</b>	<b>3.66%</b>
<b>Loans to retail customers</b>				
<b>Mortgage loans</b>				
- not overdue	5,145,847	(51,458)	5,094,389	1.0%
- not overdue, but impaired	31,726	(6,345)	25,381	20.0%
- overdue less than 30 days	94,335	(18,867)	75,468	20.0%
- overdue 30-89 days	8,864	(1,773)	7,091	20.0%
- overdue 90-179 days	17,580	(3,516)	14,064	20.0%
- overdue 180-360 days	23,647	(4,730)	18,917	20.0%
<b>Total mortgage loans</b>	<b>5,321,999</b>	<b>(86,689)</b>	<b>5,235,310</b>	<b>1.6%</b>
<b>Consumer loans secured by real estate</b>				
- not overdue	1,392,504	(13,925)	1,378,579	1.0%
- not overdue, but impaired	2,152	(430)	1,722	20.0%
- overdue less than 30 days	21,125	(4,225)	16,900	20.0%
- overdue 30-89 days	3,783	(757)	3,026	20.0%
- overdue 90-179 days	10,022	(2,004)	8,018	20.0%
- overdue more than 360 days	795	(159)	636	20.0%
<b>Total consumer loans secured by real estate</b>	<b>1,430,381</b>	<b>(21,500)</b>	<b>1,408,881</b>	<b>1.5%</b>

	<b>Gross loans AMD'000</b>	<b>Impairment allowance AMD'000</b>	<b>Net loans AMD'000</b>	<b>Impairment allowance to gross loans %</b>
<b>Auto loans</b>				
- not overdue	777,754	(15,555)	762,199	2.0%
- not overdue, but impaired	12,285	(4,914)	7,371	40.0%
- overdue less than 30 days	2,724	(1,090)	1,634	40.0%
- overdue 30-89 days	6,372	(2,549)	3,823	40.0%
- overdue 180-360 days	5,503	(2,201)	3,302	40.0%
- overdue more than 360 days	4,421	(1,769)	2,652	40.0%
<b>Total auto loans</b>	<b>809,059</b>	<b>(28,078)</b>	<b>780,981</b>	<b>3.5%</b>
<b>Small business loans</b>				
- not overdue	300,208	(1,501)	298,707	0.5%
- not overdue, but impaired	1,504	(301)	1,203	20.0%
- overdue less than 30 days	3,575	(715)	2,860	20.0%
- overdue 90-179 days	24,668	(4,934)	19,734	20.0%
<b>Total small business loans</b>	<b>329,955</b>	<b>(7,451)</b>	<b>322,504</b>	<b>2.3%</b>
<b>Credit card loans</b>				
- not overdue	257,821	(5,156)	252,665	2.0%
- not overdue, but impaired	7,091	(3,545)	3,546	50.0%
<b>Total credit card loans</b>	<b>264,912</b>	<b>(8,701)</b>	<b>256,211</b>	<b>3.3%</b>
<b>Consumer loans with salary domiciliation</b>				
- not overdue	253,488	(5,070)	248,418	2.0%
- not overdue, but impaired	389	(195)	194	50.0%
- overdue less than 30 days	3,969	(1,984)	1,985	50.0%
<b>Total consumer loans with salary domiciliation</b>	<b>257,846</b>	<b>(7,249)</b>	<b>250,597</b>	<b>2.8%</b>
<b>Other loans to retail customers</b>				
- not overdue	44,010	-	44,010	0.0%
<b>Total other loans to retail customers</b>	<b>44,010</b>	<b>-</b>	<b>44,010</b>	<b>0.0%</b>
<b>Total loans to retail customers</b>	<b>8,458,162</b>	<b>(159,668)</b>	<b>8,298,494</b>	<b>1.89%</b>
<b>Total loans to customers</b>	<b>26,347,384</b>	<b>(815,221)</b>	<b>25,532,163</b>	<b>3.09%</b>

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

	<b>Gross loans AMD'000</b>	<b>Impairment allowance AMD'000</b>	<b>Net loans AMD'000</b>	<b>Impairment allowance to gross loans %</b>
<b>Loans to corporate customers</b>				
<b>Loans to large corporates</b>				
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 and 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%
<b>Total loans to large corporates</b>	<b>14,981,143</b>	<b>(448,114)</b>	<b>14,533,029</b>	<b>3.0%</b>
<b>Loans to small and medium size companies</b>				
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 more than 90 days and less than 1 year	10,556	(1,267)	9,289	12.0%
- overdue more than 1 year	53,314	(16,527)	36,787	31.0%
Total impaired loans	250,426	(40,181)	210,245	16.0%
<b>Total loans to small and medium size companies</b>	<b>1,039,817</b>	<b>(44,128)</b>	<b>995,689</b>	<b>4.2%</b>
<b>Total loans to corporate customers</b>	<b>16,020,960</b>	<b>(492,242)</b>	<b>15,528,718</b>	<b>3.1%</b>
<b>Loans to retail customers</b>				
<b>Mortgage loans</b>				
- 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%
<b>Total mortgage loans</b>	<b>4,849,664</b>	<b>(78,330)</b>	<b>4,771,334</b>	<b>1.6%</b>
<b>Consumer loans secured by real estate</b>				
- 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%
<b>Total consumer loans secured by real estate</b>	<b>1,447,592</b>	<b>(18,646)</b>	<b>1,428,946</b>	<b>1.3%</b>

	<b>Gross loans AMD'000</b>	<b>Impairment allowance AMD'000</b>	<b>Net loans AMD'000</b>	<b>Impairment allowance to gross loans %</b>
<b>Auto loans</b>				
- 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%
<b>Total auto loans</b>	<b>807,286</b>	<b>(28,691)</b>	<b>778,595</b>	<b>3.6%</b>
<b>Small business loans</b>				
- 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%
<b>Total small business loans</b>	<b>325,194</b>	<b>(7,455)</b>	<b>317,739</b>	<b>2.3%</b>
<b>Credit card loans</b>				
- not overdue	232,328	(4,647)	227,681	2.0%
- not overdue, but impaired	4,296	(2,148)	2,148	50.0%
<b>Total credit card loans</b>	<b>236,624</b>	<b>(6,795)</b>	<b>229,829</b>	<b>2.9%</b>
<b>Consumer loans with salary domiciliation</b>				
- 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%
<b>Total consumer loans with salary domiciliation</b>	<b>265,310</b>	<b>(6,857)</b>	<b>258,453</b>	<b>2.6%</b>
<b>Other loans to retail customers</b>				
- not overdue	50,732	-	50,732	0.0%
<b>Total other loans to retail customers</b>	<b>50,732</b>	<b>-</b>	<b>50,732</b>	<b>0.0%</b>
<b>Total loans to retail customers</b>	<b>7,982,402</b>	<b>(146,774)</b>	<b>7,835,628</b>	<b>1.8%</b>
<b>Total loans to customers</b>	<b>24,003,362</b>	<b>(639,016)</b>	<b>23,364,346</b>	<b>2.7%</b>

**(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 12 to 51 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 March 2013 would be AMD 172,337 thousand lower/higher (31 December 2012: AMD 155,287 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 March 2013 would be AMD 248,955 thousand lower/higher (31 December 2012: AMD 235,069 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 March 2013:

	<b>31 March 2013</b>	<b>31 December 2012</b>
	<b>Loans to customers, net</b>	<b>Loans to customers, net</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Real estate	13,716,031	13,645,240
No collateral	3,294,586	1,609,348
Other collateral	223,052	274,131
	<b>17,233,669</b>	<b>15,528,719</b>

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 two reputable Armenian companies. The bank does not expect any adverse changes in payment status or default of the obligations by the borrowers.

*Loans to corporate customers that are past due or impaired*

As at 31 March 2013 impaired or overdue loans to corporate customers are secured by collateral with a fair value of AMD 3,510,750 thousand (31 December 2012: AMD 2,201,756 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 2,780,425 thousand higher without any collateral (31 December 2012: AMD 1,269,811 thousand).

*Loans to corporate customers that are neither past due or impaired*

As at 31 March 2013 the fair value of cash balances serving as collateral for loans to corporate customers with a net carrying amount of AMD 33,484 thousand (31 December 2012: AMD 29,038 thousand) is AMD 41,858 thousand (31 December 2012: AMD 40,358 thousand).

For remaining loans to corporate customers with a net carrying amount of AMD 14,419,760 thousand (31 December 2012: AMD 14,019,624 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 March 2013, for loans to corporate customers with net carrying amounts of AMD 14,453,244 thousand (31 December 2012: AMD 14,048,662 thousand) management estimates that the fair value of collateral is at least equal to their carrying amounts.

*Collateral obtained*

During the three-month period ended 31 March 2013 the Bank did not obtain any assets by taking possession of collateral for loans to corporate customers (31 December 2012: AMD 246,275 thousand).

**(ii) Loans to retail customers**

Mortgage loans are secured by the underlying housing real estate. The Bank’s policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 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 5,235,310 thousand and AMD 1,408,881 (31 December 2012: AMD 4,771,334 thousand and AMD 1,428,946 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 780,981 thousand (31 December 2012: AMD 778,595 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 three-month period ended 31 March 2013 the Bank obtained asstes with a fair value of AMD 64,666 thousand by taking possession of real estate collateral of loans to retail customers (31 December 2012: 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:

	<b>31 March 2013</b> <b>AMD’000</b>	<b>31 December 2012</b> <b>AMD’000</b>
Trade	6,498,212	6,193,125
Manufacturing	3,528,810	3,374,696
Energy and gas	3,311,142	1,617,435
Agriculture, forestry and timber	2,564,695	2,895,519
Transport	1,707,872	1,667,574
Public catering and other services	278,491	272,611
Loans to retail customers	8,458,162	7,982,402
	<b>26,347,384</b>	<b>24,003,363</b>
Impairment allowance	(815,221)	(639,016)
	<b>25,532,163</b>	<b>23,364,347</b>

**(e) Significant credit exposures**

As at 31 March 2013 the Bank has eight borrowers or groups of connected borrowers (31 December 2012: six), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 March 2013 is AMD 10,734,057 thousand (31 December 2012: AMD 8,140,014 thousand).

**(f) Loan maturities**

The maturity of the loan portfolio is presented in note 24 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.



## 17 Property, equipment and intangible assets

AMD'000	Land and buildings	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Leasehold improvements	Intangible assets	Total
<b>Cost</b>							
Balance at 1 January 2013	928,585	287,298	231,995	53,700	21,193	162,098	<b>1,684,869</b>
Additions	-	446	3,457	-	-	225	4,128
Disposals	-	-	(1,081)	-	-	-	(1,081)
<b>Balance at 31 March 2013</b>	<b>928,585</b>	<b>287,744</b>	<b>234,371</b>	<b>53,700</b>	<b>21,193</b>	<b>162,323</b>	<b>1,687,916</b>
<b>Depreciation</b>							
Balance at 1 January 2013	(104,574)	(160,800)	(144,418)	(53,700)	(14,706)	(86,422)	(564,620)
Depreciation for the period	(4,659)	(11,517)	(7,043)	-	(590)	(1,139)	(24,948)
Disposals	-	-	1,062	-	-	-	1,062
<b>Balance at 31 March 2013</b>	<b>(109,233)</b>	<b>(172,317)</b>	<b>(150,399)</b>	<b>(53,700)</b>	<b>(15,296)</b>	<b>(87,561)</b>	<b>(588,506)</b>
<b>Carrying amount</b>							
<b>Balance at 31 March 2013</b>	<b>819,352</b>	<b>115,427</b>	<b>83,972</b>	<b>-</b>	<b>5,897</b>	<b>74,762</b>	<b>1,099,410</b>
<b>Cost</b>							
Balance at 1 January 2012	926,946	272,418	220,893	68,800	26,961	160,230	<b>1,676,248</b>
Additions	1,639	40,556	30,860	-	-	1,868	74,923
Disposals	-	(25,676)	(19,758)	(15,100)	(5,768)	-	(66,302)
<b>Balance at 31 December 2012</b>	<b>928,585</b>	<b>287,298</b>	<b>231,995</b>	<b>53,700</b>	<b>21,193</b>	<b>162,098</b>	<b>1,684,869</b>
<b>Depreciation</b>							
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
<b>Balance at 31 December 2012</b>	<b>(104,574)</b>	<b>(160,800)</b>	<b>(144,418)</b>	<b>(53,700)</b>	<b>(14,706)</b>	<b>(86,422)</b>	<b>(564,620)</b>
<b>Carrying amount</b>							
<b>At 31 December 2012</b>	<b>824,011</b>	<b>126,498</b>	<b>87,577</b>	<b>-</b>	<b>6,487</b>	<b>75,676</b>	<b>1,120,249</b>

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during the three-month period ended 31 March 2013 (31 December 2012: nil).

## 18 Other assets

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 December 2012</b> <b>AMD'000</b>
Receivables under money transfer and clearing systems	2,774	53,432
Other receivables	7,174	16,808
<b>Total other financial assets</b>	<b>9,948</b>	<b>70,240</b>
Reposessed assets	310,941	246,275
Prepayments	58,154	90,705
Other	26,302	16,514
<b>Total other non-financial assets</b>	<b>395,397</b>	<b>353,494</b>
<b>Total other assets</b>	<b>405,345</b>	<b>423,734</b>

None of other assets are impaired or past due.

The nature and net carrying value of reposessed assets as at 31 March 2013 and 31 December 2012 are as follows:

	<b>Carrying value</b> <b>31 March 2013</b> <b>AMD'000</b>	<b>Carrying value</b> <b>31 December 2012</b> <b>AMD'000</b>
Land and buildings	<b>310,941</b>	<b>246,275</b>

Management believes that the carrying amount of reposessed assets approximately equals their fair value less costs to sell as at 31 March 2013.

## 19 Deposits and balances from banks

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 December 2012</b> <b>AMD'000</b>
Loans and term deposits	7,606,223	8,062,636
Vostro accounts	338	334
	<b>7,606,561</b>	<b>8,062,970</b>

As at 31 March 2013 the Bank has two banks (31 December 2012: two), whose balances exceed 10% of equity. The gross value of these balances as at 31 March 2013 is AMD 7,158,125 thousand (31 December 2012: AMD 7,598,567 thousand).

## 20 Current accounts and deposits from customers

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 December 2012</b> <b>AMD'000</b>
Current accounts and demand deposits		
- Retail	3,777,378	3,897,409
- Corporate	1,298,564	609,929
Term deposits		
- Retail	17,289,234	16,682,751
- Corporate	3,679,228	3,755,906
	<b>26,044,404</b>	<b>24,945,995</b>

As of 31 March 2013, the Bank maintained customer deposit balances of AMD 164,083 thousand that serve as collateral for loans and unrecognised credit instruments granted by the Bank (31 December 2012: AMD 158,203 thousand).

As of 31 March 2013 the Bank has three customers (31 December 2012: three customers), whose balances exceed 10% of equity. These balances as at 31 March 2013 are AMD 5,637,399 thousand (31 December 2012: AMD 5,402,758 thousand).

## 21 Other borrowed funds

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 December 2012</b> <b>AMD'000</b>
Loan from International Financial Corporation (IFC)	1,907,824	-
Loan from OPEC Fund for International Development (OFID)	1,781,949	1,684,781
Loans from European Bank for Reconstruction and Development (EBRD)	1,532,471	1,457,103
Loans from European Fund for Southeast Europe (EFSE)	1,265,327	2,090,584
Loans from National Mortgage Company	768,798	664,764
	<b>7,256,369</b>	<b>5,897,232</b>

As at 31 March 2013 the Bank has four financial institutions (31 December 2012: three), whose balances exceed 10% of equity. These balances as at 31 March 2013 are AMD 6,487,571 thousand (31 December 2012: AMD 5,232,468 thousand).

### (a) Breach of covenants

As at 31 March 2013, the Bank has loans from European Fund for Southeast Europe (EFSE) with total principal amount of AMD 1,255,740 thousand that are repayable on 15 June 2017. According to the terms of agreement, the Bank is subject to a debt covenant stating that at the end of each quarter the ratio of impaired loans to total loans cannot exceed 7%. Actual covenant value was 7.99% as at the reporting date (31 December 2012: 8.1%).

During the three-month period ended 31 March 2013 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 1,255,740 thousand was payable on demand as at 31 March 2013.

The breach of the above mentioned covenant resulted in cross-default with respect to loan agreements with OFID, IFC and EBRD. Hence, the outstanding balances of these loans have been classified as payable on demand as at 31 March 2013.

In addition, the Bank was in breach of a non-financial covenant of the EFSE loan agreement with an outstanding principal amount of AMD 418,580 thousand.

Accordingly, a total of AMD 6,487,571 thousand is classified as being due on demand and less than one month in the interest rate gap, liquidity and maturity tables in note 24.

## 22 Other liabilities

	31 March 2013 AMD'000	31 December 2012 AMD'000
Payables to suppliers	137,719	104,206
Salary and similar payables	51,252	40,743
Other financial liabilities	91,851	66,959
<b>Total other financial liabilities</b>	<b>280,822</b>	<b>211,908</b>
Income taxes payable	41,761	-
Other taxes payable	29,707	28,440
Deferred income	22,121	25,153
Other non-financial liabilities	8,329	8,381
<b>Total other non-financial liabilities</b>	<b>101,918</b>	<b>61,974</b>
<b>Total other liabilities</b>	<b>382,740</b>	<b>273,882</b>

## 23 Share capital

### (a) Issued capital and share premium

The authorized, issued and outstanding share capital comprises 81,251 ordinary shares (31 December 2012: 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 563,263 thousand (31 December 2012: AMD 433,071 thousand).

## **24 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:

<b>AMD'000</b>	<b>Less than 3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>1-5 years</b>	<b>More than 5 years</b>	<b>Carrying amount</b>
<b>31 March 2013</b>						
<b>ASSETS</b>						
Cash and cash equivalents	1,340,054	-	-	-	-	1,340,054
Available-for-sale financial assets	81,220	-	7,678	2,478,132	-	2,567,030
Loans and advances to banks	3,333,293	5,228,311	-	2,929,688	-	11,491,292
Loans to customers	1,737,383	1,186,610	2,052,953	16,222,648	4,332,569	25,532,163
	<b>6,491,950</b>	<b>6,414,921</b>	<b>2,060,631</b>	<b>21,630,468</b>	<b>4,332,569</b>	<b>40,930,539</b>
<b>LIABILITIES</b>						
Deposits and balances from banks	4,393,229	718,284	737,186	1,757,524	-	7,606,223
Current accounts and deposits from customers	10,718,328	3,453,986	7,792,128	2,808,736	63,329	24,836,507
Other borrowed funds	6,546,097	14,208	29,558	299,227	367,279	7,256,369
	<b>21,657,654</b>	<b>4,186,478</b>	<b>8,558,872</b>	<b>4,865,487</b>	<b>430,608</b>	<b>39,699,099</b>
<b>Interest rate gap</b>	<b>(15,165,706)</b>	<b>2,228,443</b>	<b>(6,498,241)</b>	<b>16,764,981</b>	<b>3,901,961</b>	<b>1,231,438</b>
<b>AMD'000</b>	<b>Less than 3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>1-5 years</b>	<b>More than 5 years</b>	<b>Carrying amount</b>
<b>31 December 2012</b>						
<b>ASSETS</b>						
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
	<b>6,159,843</b>	<b>10,353,946</b>	<b>4,067,712</b>	<b>16,067,307</b>	<b>4,565,017</b>	<b>41,213,825</b>
<b>LIABILITIES</b>						
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
	<b>16,977,745</b>	<b>8,539,001</b>	<b>6,711,847</b>	<b>5,415,733</b>	<b>397,531</b>	<b>38,041,857</b>
<b>Interest rate gap</b>	<b>(10,817,902)</b>	<b>1,814,945</b>	<b>(2,644,135)</b>	<b>10,651,574</b>	<b>4,167,486</b>	<b>3,171,968</b>

### **Average interest rates**

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 March 2013 and 31 December 2012. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31 March 2013			31 December 2012		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
<b>Interest bearing assets</b>						
Nostro accounts with banks	-	-	-	-	1.6%	-
Available-for-sale financial assets	14.6%	-	-	14.6%	-	-
Loans and advances to banks	-	8.1%	-	-	8.4%	-
Loans to customers	14.7%	10.5%	10.4%	14.7%	10.6%	10.5%
<b>Interest bearing liabilities</b>						
Deposits and balances from banks	8.8%	6.6%	-	8.7%	6.8%	-
Amounts payable under repurchase agreements	-	-	-	8.0%	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	5.2%	2.0%	0.6%	1.8%	1.9%	0.6%
- Term deposits	11.4%	6.3%	3.1%	11.2%	6.4%	3.3%
Other borrowed funds	8.7%	6.4%	-	10.8%	6.6%	-

### **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 March 2013 and 31 December 2012 as follows:

	31 March 2013 AMD'000	31 December 2012 AMD'000
100 bp parallel fall	40,513	48,101
100 bp parallel rise	(40,513)	(48,101)

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 March 2013 and 31 December 2012 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	31 March 2013		31 December 2012	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
100 bp parallel fall	-	53,793	-	61,094
100 bp parallel rise	-	(53,793)	-	(61,094)

**(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 March 2013:

	<b>USD</b>	<b>EUR</b>	<b>Other</b>	<b>Total</b>
	<b>AMD'000</b>	<b>AMD'000</b>	<b>currencies</b>	<b>AMD'000</b>
			<b>AMD'000</b>	
<b>Assets</b>				
Cash and cash equivalents	4,398,205	858,530	7,718	5,264,453
Loans and advances to banks	11,547,588	-	-	11,547,588
Loans to customers	18,804,981	195,170	-	19,000,151
Other financial assets	1,331	292	1	1,624
<b>Total assets</b>	<b>34,752,105</b>	<b>1,053,992</b>	<b>7,719</b>	<b>35,813,816</b>
<b>Liabilities</b>				
Deposits and balances from banks	7,158,179	268	2	7,158,449
Current accounts and deposits from customers	21,487,639	1,064,054	1,166	22,552,859
Other borrowed funds	6,527,239	-	-	6,527,239
Other financial liabilities	173,782	4,202	106	178,090
<b>Total liabilities</b>	<b>35,346,839</b>	<b>1,068,524</b>	<b>1,274</b>	<b>36,416,637</b>
<b>Net position</b>	<b>(594,734)</b>	<b>(14,532)</b>	<b>6,445</b>	<b>(602,821)</b>

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

	<b>USD</b>	<b>EUR</b>	<b>Other</b>	<b>Total</b>
	<b>AMD'000</b>	<b>AMD'000</b>	<b>currencies</b>	<b>AMD'000</b>
			<b>AMD'000</b>	
<b>Assets</b>				
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
<b>Total assets</b>	<b>32,285,345</b>	<b>1,143,435</b>	<b>18,723</b>	<b>33,447,503</b>
<b>Liabilities</b>				
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
<b>Total liabilities</b>	<b>32,821,063</b>	<b>1,155,484</b>	<b>10,924</b>	<b>33,987,471</b>
<b>Net position</b>	<b>(535,718)</b>	<b>(12,049)</b>	<b>7,799</b>	<b>(539,968)</b>



A weakening of the AMD, as indicated below, against the following currencies at 31 March 2013 and 31 December 2012 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.

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 December 2012</b> <b>AMD'000</b>
10% appreciation of USD against AMD	(59,473)	(42,857)
10% appreciation of EUR against AMD	(1,453)	(964)

A strengthening of the AMD against the above currencies at 31 March 2013 and 31 December 2012 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:

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 December 2012</b> <b>AMD'000</b>
<b>ASSETS</b>		
Cash and cash equivalents	8,988,786	8,971,211
Available-for-sale financial assets	2,580,190	2,772,204
Loans and advances to banks	11,615,088	12,291,540
Loans to customers	25,532,163	23,364,346
Other financial assets	9,948	70,240
<b>Total maximum exposure</b>	<b>48,726,175</b>	<b>47,469,541</b>

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 16.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 26.

As at 31 March 2013 the bank has one debtor or group of connected debtors (31 December 2012: one), credit risk exposure to whom exceeds 10% of maximum credit risk exposure. This balances as at 31 March 2013 is AMD 7,421,413 thousand (31 December 2012: AMD 5,453,378 thousand).

**(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 March 2013 is as follows:

AMD'000	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Total gross amount outflow</b>	<b>Carrying amount</b>
<b>31 March 2013</b>							
<b>Non-derivative liabilities</b>							
Deposits and balances from banks	7,828	4,420,426	748,272	799,615	2,094,660	8,070,801	7,606,561
Current accounts and deposits from customers	9,476,409	2,481,163	3,542,991	8,219,790	3,542,251	27,262,604	26,044,404
Other borrowed funds	6,532,101	14,196	14,753	31,711	977,816	7,570,577	7,256,369
Other financial liabilities	175,842	32,792	-	51,252	20,929	280,815	280,822
<b>Total liabilities</b>	<b>16,192,180</b>	<b>6,948,577</b>	<b>4,306,016</b>	<b>9,102,368</b>	<b>6,635,656</b>	<b>43,184,797</b>	<b>41,188,156</b>
<b>Credit related commitments</b>	<b>1,749,275</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,749,275</b>	<b>1,749,275</b>

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

AMD'000	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Total gross amount outflow</b>	<b>Carrying amount</b>
<b>31 December 2012</b>							
<b>Non-derivative liabilities</b>							
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
<b>Total liabilities</b>	<b>12,074,071</b>	<b>6,592,388</b>	<b>8,713,593</b>	<b>7,101,760</b>	<b>7,226,920</b>	<b>41,708,732</b>	<b>39,679,753</b>
<b>Credit related commitments</b>	<b>1,601,130</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,601,130</b>	<b>1,601,130</b>

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 March 2013 the principal amount of such deposits, by each time band, is as follows:

- less than 1 month: AMD 3,285,034 thousand (31 December 2012: AMD 1,831,829 thousand)
- from 1 to 3 months: AMD 2,199,610 thousand (31 December 2012: AMD 3,010,208 thousand)
- from 3 to 6 months: AMD 2,838,382 thousand (31 December 2012: AMD 3,415,396 thousand)

- from 6 to 12 months: AMD 5,757,904 thousand (31 December 2012: AMD 5,210,434 thousand)
- more than 1 year: AMD 2,865,487 thousand (31 December 2012: AMD 2,823,208 thousand)

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 March 2013:

<b>AMD'000</b>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>No maturity</b>	<b>Overdue</b>	<b>Total</b>
<b>Non-derivative assets</b>								
Cash and cash equivalents	8,988,786	-	-	-	-	-	-	8,988,786
Available-for-sale financial assets	-	81,220	7,678	2,478,132	-	13,160	-	2,580,190
Loans and advances to banks	-	3,333,293	5,228,311	2,929,688	-	123,796	-	11,615,088
Loans to customers	627,023	1,110,360	3,239,563	15,020,295	4,332,569	-	1,202,353	25,532,163
Property, equipment and intangible assets	-	-	-	-	-	1,099,410	-	1,099,410
Other assets	5,922	15,416	51,234	332,773	-	-	-	405,345
Deferred asset	-	-	-	-	-	31,164	-	31,164
<b>Total assets</b>	<b>9,621,731</b>	<b>4,540,289</b>	<b>8,526,786</b>	<b>20,760,888</b>	<b>4,332,569</b>	<b>1,267,530</b>	<b>1,202,353</b>	<b>50,252,146</b>
<b>Non-derivative liabilities</b>								
Deposits and balances from banks	7,805	4,385,762	1,455,470	1,757,524	-	-	-	7,606,561
Current accounts and deposits from customers	9,466,189	2,459,236	11,246,914	2,808,736	63,329	-	-	26,044,404
Other borrowed funds	6,532,087	14,010	43,766	299,227	367,279	-	-	7,256,369
Other liabilities	206,496	34,686	60,902	73,347	7,309	-	-	382,740
<b>Total liabilities</b>	<b>16,212,577</b>	<b>6,893,694</b>	<b>12,807,052</b>	<b>4,938,834</b>	<b>437,917</b>	<b>-</b>	<b>-</b>	<b>41,290,074</b>
<b>Net position</b>	<b>(6,590,846)</b>	<b>(2,353,405)</b>	<b>(4,280,266)</b>	<b>15,822,054</b>	<b>3,894,652</b>	<b>1,267,530</b>	<b>1,202,353</b>	<b>8,962,072</b>

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

<b>AMD'000</b>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>No maturity</b>	<b>Overdue</b>	<b>Total</b>
<b>Non-derivative assets</b>								
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
<b>Total assets</b>	<b>11,065,162</b>	<b>1,114,054</b>	<b>14,466,382</b>	<b>15,647,670</b>	<b>4,565,017</b>	<b>1,361,223</b>	<b>723,776</b>	<b>48,943,284</b>
<b>Non-derivative liabilities</b>								
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
<b>Total liabilities</b>	<b>12,094,509</b>	<b>6,510,975</b>	<b>15,302,531</b>	<b>5,428,820</b>	<b>404,892</b>	<b>66,194</b>		<b>39,807,921</b>
<b>Net position</b>	<b>(1,029,347)</b>	<b>(5,396,921)</b>	<b>(836,149)</b>	<b>10,218,850</b>	<b>4,160,125</b>	<b>1,295,029</b>	<b>723,776</b>	<b>9,135,363</b>

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 March 2013 and during the three-month period ended at that date are as follows:

	<b>31 March 2013</b>	<b>2012</b>
At March	262.0%	267.3%
Average for the period	260.0%	236.6%
Maximum for the period	276.0%	276.8%
Minimum for the period	242.0%	181.0%

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

## 25 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 March 2013, this minimum level is 12%. The Bank is in compliance with the statutory capital ratios during the three-month period ended at 31 March 2013 and during the year 2012.

The following table shows the composition of the capital position calculated in accordance with the requirements of the CBA, as at 31 March 2013 and 31 December 2012:

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 December 2012</b> <b>AMD'000</b>
	<b>Unaudited</b>	<b>Unaudited</b>
<b>Tier 1 capital</b>		
Share capital	8,125,100	8,125,100
Share premium	257,149	257,149
General reserve	41,684	41,684
Retained earnings	657,547	442,679
Deductions	(308,090)	(34,850)
<b>Total tier 1 capital</b>	<b>8,773,390</b>	<b>8,831,762</b>
<b>Tier 2 capital</b>		
Revaluation reserve for available-for-sale financial assets	6,951	48,225
<b>Total tier 2 capital</b>	<b>6,951</b>	<b>48,225</b>
<b>Total capital</b>	<b>8,780,341</b>	<b>8,879,987</b>
<b>Total risk weighted assets</b>	<b>44,852,314</b>	<b>44,155,280</b>
<b>Total capital expressed as a percentage of risk-weighted assets</b>	<b>19.6%</b>	<b>20.1%</b>
<b>Total tier 1 capital expressed as a percentage of risk-weighted assets</b>	<b>19.6%</b>	<b>20.0%</b>

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.

## 26 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 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.

	<b>31 March 2013</b> <b>AMD'000</b>	<b>31 December 2012</b> <b>AMD'000</b>
<b>Contracted amount</b>		
Loan and credit line commitments	1,564,330	1,397,459
Credit card commitments	150,227	182,607
Guarantees and letters of credit	34,718	21,064
	<b>1,749,275</b>	<b>1,601,130</b>

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 1,293,985 thousand (31 December 2012: AMD 1,140,759 thousand) are to four customers as at 31 March 2013 (31 December 2012: four customers). This exposure represents a significant credit risk exposure to the Bank.

## 27 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.

## **28 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 three-month period ended 31 March 2013 and 2012 is as follows:

	31 March 2013 AMD’000	31 March 2012 AMD’000
Short-term employee benefits	<u>61,491</u>	<u>64,957</u>

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 March 2013 and 31 December 2012 for transactions with the members of the Board of Directors and the Management Committee are as follows:

	31 March 2013 AMD’000	Average interest rate, %	31 December 2012 AMD’000	Average interest rate, %
<b>Statement of financial position</b>				
Loans issued (gross)	240,278	9.4%	176,754	9.7%
Loan impairment allowance	(2,399)	-	(2,270)	-
Deposits received	425,244	6.4%	436,437	7.3%

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 16 (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 three-month periods ended 31 March 2013 and 2012 are as follows:

	31 March 2013 AMD'000	31 March 2012 AMD'000
<b>Profit or loss</b>		
Interest income	4,993	7,526
Interest expense	(7,778)	(15,786)
Impairment losses	(129)	528

### **(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 March 2013 and related profit or loss amounts of transactions for the three-month period ended 31 March 2013 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
<b>Statement of financial position</b>							
<b>ASSETS</b>							
Cash and cash equivalents							
- in USD	111,867	0.1%	-	-	8,467	0.1%	120,334
- in EUR	76,420	-	-	-	4,646	-	81,066
- in other currencies	232	-	-	-	-	-	232
<b>LIABILITIES</b>							
Deposits and balances from banks							
- in USD	2,795,625	8.9%	-	-	-	-	2,795,625
Current accounts and deposits from customers							
- in USD	-	-	-	-	1,804,697	6.0%	1,804,697
Other borrowed funds							
- in USD	-	-	3,314,420	7.0%	-	-	3,314,420
Other liabilities							
- in USD	104,645	-	-	-	-	-	104,645
<b>Profit or loss</b>							
Interest expense	(74,046)		(54,506)		(26,242)		(154,794)
Fee expense	(921)		-		-		(921)
Professional services	(20,574)		-		-		(20,574)

The outstanding balances and the related average interest rates as at 31 December 2012 and related profit or loss amounts of transactions for the three-month period ended 31 March 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
<b>Statement of financial position</b>							
<b>ASSETS</b>							
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
<b>LIABILITIES</b>							
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
<b>Profit or loss</b>							
Interest income	104		-		-		104
Interest expense	(84,970)		(67,013)		(22,363)		(174,346)
Fee income	10		-		-		10
Fee expense	(746)		-		(51)		(797)
Professional services	(19,532)		-		-		(19,532)

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

## **29 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 March 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised:

<b>AMD '000</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Available-for-sale financial assets				
- Debt instruments	-	2,567,030	-	2,567,030
	<b>-</b>	<b>2,567,030</b>	<b>-</b>	<b>2,567,030</b>

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:

<b>AMD '000</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Available-for-sale financial assets				
- Debt instruments	-	2,759,044	-	2,759,044
	<b>-</b>	<b>2,759,044</b>	<b>-</b>	<b>2,759,044</b>