Prometey Bank
Limited Liability Company

Financial Statements
For the year ended December 31, 2013

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

Management is responsible for the preparation of the financial statements that present fairly the financial position of Prometey Bank limited liability company (the "Bank") as of December 31, 2013, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance;
- making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Armenia;
- taking such steps that are reasonably available to them to safeguard the assets of the Bank; and
- preventing and detecting fraud and other irregularities.

The financial statements of the Bank for the year ended December 31, 2013 were approved by management on April 15, 2014.

On behalf of the Management:

Emil Soghomonyan
Chairman of the Executive Board

Prometey Bank LLC

April 15, 2014
Yerevan, Republic of Armenia

Alvard Mkrtumyan
Chief Accountant

Prometey Bank LLC

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To: Participants and the Board of Directors of Prometey Bank limited liability company

We have audited the accompanying financial statements of Prometey Bank limited liability company, which comprise the statement of financial position as at December 31, 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Prometey Bank limited liability company as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of Prometey Bank limited liability company for the year ended December 31, 2012 were audited by another auditor who expressed an unmodified opinion on those statements on April 17, 2013.

Srbuhi Hakobyan
Executive Director

«DELOITTE ARMENIA»
02612726

Arpine Ghevondyan
Audit Director

Deloitte Armenia CJSC
April 15, 2014

Statement of financial position as at December 31, 2013

in AMD '000	Notes	December 31, 2013	December 31, 2012
ASSETS:			
Cash and cash equivalents	5	16,394,988	13,217,599
Financial assets at fair value through profit or loss		-	965
Due from banks and other financial institutions	6	2,247,788	1,419,683
Reverse repurchase agreements	7	2,031,211	2,201,826
Loans to customers	8	29,746,298	28,654,441
Available-for-sale financial assets	9		
- held by the Bank		964,217	592,086
- pledged under repurchase agreements	7	5,180,686	3,560,370
Held to maturity investments	9		
- held by the Bank		-	203,433
- pledged under repurchase agreements	7	-	1,773,084
Property and equipment	10	1,956,335	1,862,120
Intangible assets	11	29,041	36,368
Other assets	12	108,497	138,868
Repossessed assets	8	4,171,909	1,707,242
TOTAL ASSETS		**62,830,970**	**55,368,085**
LIABILITIES AND EQUITY			
LIABILITIES:			
Financial liabilities at fair value through profit or loss		3,935	595
Deposits and balances by banks and other financial institutions	13	1,228,552	240,448
Repurchase agreements	7	5,059,915	5,218,742
Current accounts and deposits by customers	14	25,176,977	19,511,538
Debt securities issued	15	4,269,667	5,081,903
Other borrowed funds	16	987,279	1,034,284
Current income tax liabilities		51,355	162,177
Deferred income tax liabilities	26	119,806	9,842
Other liabilities	17	267,764	266,247
Subordinated debt	18	3,612,627	3,611,809
Total liabilities		**40,777,877**	**35,137,585**
EQUITY:			
Charter capital	19	14,400,000	14,400,000
General reserve		52,075	52,075
Available-for-sale reserve		480,429	69,136
Retained earnings		7,120,589	5,709,289
TOTAL EQUITY		**22,053,093**	**20,230,500**
TOTAL LIABILITIES AND EQUITY		**62,830,970**	**55,368,085**

The financial statements were authorised for issue on April 15, 2014 by the Board of Directors.

On behalf of the Management:

Emil Soghomonyan
Chairman of the Executive Board

Alvard Mkrtumyan
Chief Accountant

Statement of profit or loss and other comprehensive income for the year ended December 31, 2013

in AMD '000	Notes	2013	2012
Interest income	20	5,216,894	4,624,071
Interest expense	20	(2,458,805)	(1,657,330)
Net interest income before impairment losses on interest bearing assets		**2,758,089**	**2,966,741**
Impairment losses on interest bearing assets	8	(238,841)	(65,881)
Net interest income		**2,519,248**	**2,900,860**
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss		(182,134)	67,503
Net foreign exchange income	21	760,113	327,194
Fee and commission income	22	291,697	206,213
Fee and commission expense	22	(364,004)	(153,959)
Net gain on available-for-sale financial assets		245,402	35,882
Other income	23	228,952	142,973
Net non-interest income		**980,026**	**625,806**
Operating income		**3,499,274**	**3,526,666**
Staff costs	24	(1,019,747)	(958,727)
Depreciation and amortization		(153,805)	(150,886)
Other operating expenses	25	(541,914)	(502,381)
Operating expenses		**(1,715,466)**	**(1,611,994)**
Profit before income tax		1,783,808	1,914,672
Income tax expense	26	(372,508)	(411,916)
Net profit for the year		**1,411,300**	**1,502,756**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net gain resulting on revaluation of available-for-sale financial assets during the year, net of income tax		607,615	(19,914)
Reclassification adjustment relating to available-for-sale financial assets disposed of in the year, net of income tax		(196,322)	(21,206)
Other comprehensive income, net of income tax		**411,293**	**(41,120)**
Total comprehensive income		**1,822,593**	**1,461,636**

The financial statements were authorised for issue on April 15, 2014 by the Board of Directors.

On behalf of the Management:

Emil Soghomonyan
Chairman of the Executive Board

Alvard Mkrtumyan
Chief Accountant

Statement of changes in equity for the year ended December 31, 2013

in AMD '000	Charter capital	General reserve	Available-for-sale reserve	Retained earnings	Total equity
Balance at 1 January 2012	14,400,000	52,075	110,256	4,206,533	18,768,864
Total comprehensive income					
Profit for the year	-	-	-	1,502,756	1,502,756
Other comprehensive income, net of income tax					
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	(19,914)	-	(19,914)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax	-	-	(21,206)	-	(21,206)
Total other comprehensive income	**-**	**-**	**(41,120)**	**-**	**(41,120)**
Total comprehensive income for the year	**-**	**-**	**(41,120)**	**1,502,756**	**1,461,636**
Balance at December 31, 2012	**14,400,000**	**52,075**	**69,136**	**5,709,289**	**20,230,500**
Total comprehensive income					
Profit for the year	-	-	-	1,411,300	1,411,300
Other comprehensive income, net of income tax					
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	607,615	-	607,615
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax	-	-	(196,322)	-	(196,322)
Total other comprehensive income	**-**	**-**	**411,293**	**-**	**411,293**
Total comprehensive income for the year	**-**	**-**	**411,293**	**1,411,300**	**1,822,593**
Balance at December 31, 2013	**14,400,000**	**52,075**	**480,429**	**7,120,589**	**22,053,093**

The financial statements were authorised for issue on April 15, 2014 by the Board of Directors.

On behalf of the Management:

Emil Soghomonyan
Chairman of the Executive Board

Alvard Mkrtumyan
Chief Accountant

Statement of cash flows for the year ended December 31, 2013

in AMD '000	Notes	2013	2012
Cash flows from operating activities:			
Net profit for the year		1,411,300	1,502,756
Adjustments for non-cash items:			
Income tax expense recognised in profit or loss		372,508	411,916
Impairment losses on interest bearing assets		238,841	65,881
Depreciation and amortization		153,805	150,886
Loss on disposal of property and equipment		3,160	46
(Gains)/loss from foreign exchange translation		(35,408)	11,521
Interest income accrued on assets held for investment activates		(838,764)	(577,149)
Net gain on available-for-sale financial assets		(245,402)	(35,882)
Net loss/ (gain) from change in fair value of derivative financial instruments		3,935	(370)
Cash flows from operating activities before changes in operating assets and liabilities		**1,063,975**	**1,529,605**
Changes in operating assets and liabilities			
Due from banks and other financial institutions		(743,457)	(927,684)
Reverse repurchase agreements		170,615	(832,452)
Loans to customers		(3,853,507)	(3,823,092)
Other assets		32,066	39,287
Deposits and balances by banks		228,912	(677,108)
Repurchase agreements		(158,827)	4,184,883
Current accounts and deposits by customers		5,602,389	8,304,940
Other liabilities		(5,186)	87,082
Cash flows from operating activities before taxation		**2,336,980**	**7,885,461**
Income tax paid		(476,189)	(455,676)
Net cash from operating activities		**1,860,791**	**7,429,785**
Cash flows from investing activities:			
Purchase of available-for-sale financial assets		(4,555,030)	(4,287,906)
Proceeds from sale of available-for-sale financial assets		5,386,349	2,479,965
Interest income received		751,034	283,766
Purchase of property and equipment		(242,623)	(290,365)
Purchase of intangible assets		(1,230)	(3,150)
Net cash from/ (used in) investing activities		**1,338,500**	**(1,817,690)**
Cash flows from financing activities:			
Proceeds from loans from banks and other financial institutions		821,159	-
Proceeds from other borrowed funds		-	921,859
Repayment of other borrowed funds		(46,912)	-
Repayment of debt securities issued		(812,236)	-
Net cash (used in) /from financing activities		**(37,989)**	**921,859**
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		16,087	187,509
Net increase in cash and cash equivalents		**3,177,389**	**6,721,463**
CASH AND CASH EQUIVALENTS, beginning of period	5	**13,217,599**	**6,496,136**
CASH AND CASH EQUIVALENTS, end of period	5	**16,394,988**	**13,217,599**

The financial statements were authorised for issue on April 15, 2014 by the Board of Directors.

On behalf of the Management:

Emil Soghomonyan
Chairman of the Executive Board

Alvard Mkrtumyan
Chief Accountant

Notes to the financial statements for the year ended December 31, 2013

1. Organization

Prometey Bank LLC (the "Bank") is a limited liability company, which was incorporated in the Republic of Armenia on June 1, 1990. The Bank is regulated by the Central Bank of Armenia (the "CBA") and conducts its business under general license number 27. The Bank is a member of the state deposit insurance system in the Republic of Armenia. The majority of the Bank's assets and liabilities are located in Armenia.

The Bank's primary business consists of commercial activities, customer accounts maintenance, cash and settlement operations, operations with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The registered office of the Bank is located at 44/2 Hanrapetutyan str. Yerevan 0010, Republic of Armenia.

As at December 31, 2013 the Bank had 10 branches operating in the Republic of Armenia (December 31, 2012: 9 branches).

As at December 31, 2013 and 2012 the Bank is ultimately controlled by Vazgen Gevorgyan.

2. Significant accounting policies

Statement of compliance: These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue operation for the foreseeable future.

These financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 0.

Functional currency: Items included in the financial statements are measured using the currency of the primary of the economic environment in which the entity operates ("the functional currency"). The functional currency of the Bank is the Armenian Drams ("AMD"). The presentational currency of the financial statements of the Bank is the AMD. All values are rounded to the nearest thousand AMDs ("AMD '000"), except when otherwise indicated.

Offsetting: Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

The principal accounting policies are set out below.

Interest income and expense: Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Income on repurchase and reverse repurchase agreements: Gain/loss on the sale of the above instruments is recognized as interest income or expense in the statement of profit or loss based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

Fee and commission income: Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Financial instruments

The Bank recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets: Financial assets are classified into the following specified categories: a) financial assets 'at fair value through profit or loss' ("FVTPL"), b) 'available-for-sale' ("AFS") financial assets, c) 'held to maturity' ("HTM") investments and d) 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

a) Financial assets at FVTPL: Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend and interest earned on the financial asset and is included in the 'other gains and losses' and 'interest income' line item, respectively, in the statement of profit or loss and other comprehensive income.

b) Available-for-sale financial assets: Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as a) financial assets at fair value through profit or loss, c) held to maturity investments or d) loans and receivables.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

c) Held to maturity investments: Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity, and which are not designed as at fair value through profit or loss or as available-for-sale.

Held to maturity investments are measured at amortized cost using the effective interest method less any impairment. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for sale, and would prevent the Bank from classifying investment securities as held-to-maturity for the current and following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sale or reclassification that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sale or reclassification after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- sale or reclassification that are attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

d) Loans and receivables: Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market (including due from banks and other financial institutions, loans to customers and other financial assets) are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Securities repurchase and reverse repurchase agreements and securities lending transactions. In the normal course of business, the Bank enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos"). Repos and reverse repos are utilized by the Bank as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions.

The Bank enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Republic of Armenia, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Impairment of financial assets: Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-Bank; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.

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

Write off of loans and advances: Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the statement of profit or loss and other comprehensive income in the period of recovery.

Derecognition of financial assets: The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain of loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities: Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.
A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Other financial liabilities: Other financial liabilities (including borrowed funds, subordinated debt and other financial liabilities) are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities: The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Financial guarantee contracts: A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Derivative financial instruments
Forwards and futures: Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the

over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk.

The Bank has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange help ensure that these contracts are always honoured. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

Swaps: Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Bank with other financial institutions in which the bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Credit default swaps are contractual agreements between two parties to make payments with respect to defined credit events, based on specified notional amounts.

Options: Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Options purchased by the bank provide the Bank with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed–-upon value either on or before the expiration of the option. The Bank is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written by the Bank provide the purchaser the opportunity to purchase from or sell to the bank the underlying asset at an agreed-upon value either on or before the expiration of the option.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.
The fair values are estimated based on pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses from transactions in the above instruments are reported in the statement of profit or loss as gains less losses arising from transactions in financial assets/ liabilities at fair value through profit or loss. Changes in the fair value of derivative instruments are included in gain/loss.

In the normal course of business the Bank enters into various derivative financial instruments to manage its exposure to foreign exchange rate risk, including currency swaps and currency exchange contracts. Such financial instruments are held for trading.

The Bank as lessee: Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Cash and cash equivalents: Cash and cash equivalents consist of cash on hand and amounts due from credit institutions with original maturity of less or equal to 90 days, which may be converted to cash within a short period of time and are free from contractual encumbrances.

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

Property and equipment: Property and equipment is carried at historical cost less accumulated depreciation and any recognized impairment loss, if any.

Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives. Land is not depreciated. Depreciation is calculated on a straight line basis at the following useful lives:

- buildings	—	40 years;
- computers and related equipment	—	3 years;
- vehicles	—	5 years;
- office equipment	—	5 years;

Leasehold improvements are depreciated over the shorter of the lease term and 10 years on a straight-line basis.
An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets acquired separately: Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 10 years. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Derecognition of intangible assets: An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets other than goodwill: At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.
Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation
Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax: The tax currently payable is based on taxable profit for the year. Taxable profit before tax differs from profit before income tax as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax: Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with property and equipment and loans to customers, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the assets realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year: Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

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

Provisions: Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies: Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Foreign currencies: In preparing the financial statements, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.
Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

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

	Average Rate		Spot Rate	
	2013	**2012**	**December 31, 2013**	**December 31, 2012**
AMD/1 US Dollar	409.55	401.76	405.64	403.58

Collateral: The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

Equity reserves: The reserve recorded in equity (other comprehensive income) on the Bank's statement of financial position is "Available-for-sale" reserve which comprises changes in fair value of available-for-sale financial assets.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Bank's accounting policies the Bank management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty: The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans: The Bank regularly reviews its loans and receivables to assess for impairment. The Bank's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

The Bank uses a combination of individual assessment and group assessment in determining the allowance for impairment required at any reporting date.

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the collectively assessed loans and receivables are grouped based on similar credit risk characteristics and on their past-due status and assessed accordingly. The Bank estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data. The collectively assessed methodology strives to ensure the allowance for impairment reflects the loss events that have occurred, but have not yet been identified on an individual basis.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the Armenia and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at December 31, 2013 and 2012 the gross loans totalled AMD 30,060,089 thousand and AMD 28,974,113 thousand respectively, and allowance for impairment losses amounted to AMD 313,791 thousand and AMD 319,672 thousand, respectively.

Useful lives of property and equipment: Items of property and equipment are stated at cost less accumulated depreciation and less any accumulated depreciation losses. The Bank reviews the estimated useful lives of property and equipment at the end of each annual reporting period. The estimation of the useful life of an item of property and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any one of these conditions or estimates may result in adjustments to future depreciation rates.

Valuation of financial instruments: The Bank uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 29 provides detailed information about key assumptions used in the determination of the fair values of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The Bank's management believes that the chosen valuation techniques and assumptions used are appropriate in determining fair values of financial instruments.

Measurement of repossessed assets: The management of the Bank determines fair value of these assets for subsequent measurement at lower of carrying amount and fair value less cost to sell. The management believes that fair values, and techniques used to determine fair values, for the purpose of measurement of repossessed assets at reporting dates are appropriate. The carrying value of repossessed assets amounted to AMD 4,171,909 thousand and AMD 1,707,242 thousand as at December 31, 2013 and 2012, respectively.

4. Application of new and revised International Financial Reporting Standards

4.1 Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

Standards affecting the financial statements

Amendments to IAS 1 Presentation of financial statements (amended June 2011): The Bank has applied the amendments to IAS 1 titled Presentation of Items of Other Comprehensive Income. The amendment increases the required level of disclosure within the statement of comprehensive income.

The impact of this amendment has been to analyse items within the statement of comprehensive income between items that will not be reclassified subsequently to profit or loss and items that will be reclassified subsequently to profit or loss in accordance with the respective IFRS standard to which the item relates. The financial statements have also been amended to analyse income tax on the same basis. The amendments have been applied retrospectively, and hence the presentation of items of comprehensive income has been restated to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 do not result in any impact on profit or loss, comprehensive income and total comprehensive income.

IFRS 13 Fair Value Measurement: The Bank has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

Standards not affecting the reported results nor the financial position.
The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements.

New and revised Standards on consolidation, joint arrangements, associates and disclosures: In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, the Bank has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance.
IAS 27 (as revised in 2011) is not applicable to the Bank as it deals only with separate financial statements.
IAS 19 Employee Benefits (revised June 2011): In the current year, the Bank has applied IAS 19 (as revised in June 2011) Employee Benefits, and the related consequential amendments in advance of their effective dates.

Bank has applied IAS 19 (as revised in June 2011) retrospectively and in accordance with the transitional provisions as set out in IAS 19.173. These transitional provisions do not have an impact on future periods. The amendments to IAS 19 change the accounting for defined benefit schemes and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and scheme assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of scheme assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the balance sheet to reflect the full value of the scheme deficit or surplus. Furthermore, the interest cost and expected return on scheme assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount under IAS 19 (as revised in June 2011), which is calculated by applying a discount rate to the net defined benefit liability or asset. IAS 19 (as revised in June 2011) also introduces more extensive disclosures in the presentation of the defined benefit cost.

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012): The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Bank are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

Amendments to IAS 12 Income Taxes: The Bank has applied the amendments to IAS 12 (December 2010) titled Deferred tax: Recovery of underlying assets. The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in IAS 40 Investment Property. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

4.2 New and revised IFRSs in issue but not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	*Financial Instruments* Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities.* Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

IFRS 9 Financial Instruments: IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to

changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The management of the Bank anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed. The Bank does not intend to adopt this standard early.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.
The management of the Bank do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Bank's financial statements as the Bank does not have any financial assets and financial liabilities that qualify for offset.

5. Cash and cash equivalents

in AMD '000	December 31, 2013	December 31, 2012
Cash on hand	5,940,356	4,381,509
Correspondent account with the CBA	9,083,447	7,509,911
Correspondent accounts with banks	1,371,185	1,326,179
Total cash and cash equivalents	**16,394,988**	**13,217,599**

The correspondent account with Central Bank of Armenia include non-interest bearing mandatory minimum reserve deposits calculated at relevant rate in accordance with regulations by the CBA for obligations of the Bank denominated in Armenian drams and foreign currency. As at December 31, 2013 the mandatory deposits total to AMD 3,271,617 thousand (December 31, 2012: AMD 2,940,346 thousand). Withdrawal of such reserves is not restricted; however, if minimum average requirement is not met, the Bank could be subject to penalties.

As at December 31, 2013 and 2012 the balances with the Central Bank of Armenia exceed 10% of Bank's equity.

6. Due from banks and other financial institutions

in AMD '000	December 31, 2013	December 31, 2012
Loans	1,820,568	1,004,395
Credit card settlement deposit with the CBA	292,500	312,500
Deposits	80,164	48,509
Other accounts	54,556	54,279
Total amounts due from banks and other financial institutions	**2,247,788**	**1,419,683**

7. Transfers of financial assets and financial liabilities

The Bank has transactions under repurchase or reverse repurchase agreements. The securities lent or sold under repurchase agreements are transferred to a third party in exchange for cash received by the Bank. These financial assets may be repledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Bank acts as intermediary.

Reverse repurchase agreements

At December 31, 2013 the Bank had reverse repurchase agreements signed with entities in financial services sector for the amount of AMD 2,031,211 thousand (December 31, 2012: AMD 2,201,826), which included accrued interest of AMD 5,413 thousand (December 31, 2012: AMD 7,944 thousand). As at December 31, 2013 the fair value of assets received as collateral for these reverse repurchase agreements amounted to AMD 2,111,660 thousand (2012: AMD 2,296,608 thousand), representing Government debt securities of the RA. The Bank is obliged to return equivalent securities.

Repurchase agreements

Transferred financial assets that are not derecognised in their entirety

in AMD '000	December 31, 2013	December 31, 2012
Fair value of own financial assets available-for-sale transferred and pledged under repurchase agreements	5,180,686	3,560,370
Carrying value of own financial assets held-to-maturity transferred and pledged under repurchase agreements	-	1,773,084
Fair value of repledged assets that were received as collateral for reverse repurchase agreements	-	-
Total financial assets transferred and pledged under repurchase agreements	**5,180,686**	**5,333,454**
Carrying amount of associated liabilities	**5,059,915**	**5,218,742**

At December 31, 2013 carrying amount of associated liabilities for repurchase agreements of AMD 5,059,915 thousand (2012: AMD 5,218,742 thousand) include interest accrued in the amount of AMD 4,684 thousand (2012: AMD 4,573 thousand). Of these amounts, AMD 4,560,852 thousand (2012: AMD 5,218,742 thousand) were repurchase agreements signed with the Central Bank of Armenia. Financial assets transferred under repurchase agreements represent Government debt securities of the RA.

8. Loans to customers

in AMD '000	December 31, 2013	December 31, 2012
Loans to governmental agencies		
Governmental agency	202,137	-
Total loans to governmental agencies	**202,137**	**-**
Loans to legal entities		
Large enterprises	11,849,223	11,416,993
Small and medium size enterprises	12,291,154	12,932,499
Overdrafts	109,268	32,538
Total loans to legal entities	**24,249,645**	**24,382,030**
Loans to individuals		
Mortgage loans	1,875,564	1,721,363
Consumer loans	1,364,780	766,240
Auto loans	911,218	825,154
Overdrafts	443,505	443,487
Other	1,013,240	835,839
Total loans to individuals	**5,608,307**	**4,592,083**
Gross loans to customers	**30,060,089**	**28,974,113**
Less: allowance for impairment losses	(313,791)	(319,672)
Total loans to customers	**29,746,298**	**28,654,441**

As at December 31, 2013 and 2012 nearly all loans to customers (more than 99% of total portfolio) are granted to individuals and companies operating in Republic of Armenia, which represents a significant geographical concentration in one region. Included in loans to small and medium size enterprises are loans to sole proprietors. Analysis by credit quality of loans to customers outstanding as at December 31, 2013 is as follows:

As at December 31, 2013 in AMD ’000	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Loans to governmental agencies				
Not past due	202,137	2,021	200,116	1.0%
Total loans to governmental agencies	**202,137**	**2,021**	**200,116**	**1.0%**
Loans to large enterprises				
Not past due	11,849,223	118,492	11,730,731	1.0%
Total loans to large enterprises	**11,849,223**	**118,492**	**11,730,731**	**1.0%**
Loans to small and medium size enterprises				
Not past due	12,269,467	127,104	12,142,363	1.0%
Overdue:				
- 91 to 180 days	21,687	4,461	17,226	20.6%
Total loans to small and medium size enterprises	**12,291,154**	**131,565**	**12,159,589**	**1.1%**
Overdrafts to legal entities				
Not past due	109,268	1,093	108,175	1.0%
Total overdrafts to legal entities	**109,268**	**1,093**	**108,175**	**1.0%**
Total loans to legal entities	**24,249,645**	**251,150**	**23,998,495**	**1.0%**
Loans to individuals				
Mortgage loans				
Not past due	1,850,012	18,500	1,831,512	1.0%
Overdue:				
- up to 30 days	25,552	2,555	22,997	10.0%
Total mortgage loans	**1,875,564**	**21,055**	**1,854,509**	**1.1%**
Consumer loans				
Not past due	1,352,762	13,528	1,339,234	1.0%
Overdue:				
- up to 30 days	4,296	430	3,866	10.0%
- 31 to 60 days	4,420	442	3,978	10.0%
- 61 to 90 days	1,417	142	1,275	10.0%
- 91 to 180 days	1,885	377	1,508	20.0%
Total consumer loans	**1,364,780**	**14,919**	**1,349,861**	**1.1%**
Auto loans				
Not past due	907,716	9,077	898,639	1.0%
Overdue:				
- up to 30 days	3,038	304	2,734	10.0%
- over 180 days	464	232	232	50.0%
Total auto loans	**911,218**	**9,613**	**901,605**	**1.1%**
Overdrafts to individuals				
Not past due	440,944	4,409	436,535	1.0%
Overdue:				
- 61 to 90 days	1,165	116	1,049	10.0%
- 91 to 180 days	1,396	279	1,117	20.0%
Total overdrafts to individuals	**443,505**	**4,804**	**438,701**	**1.1%**
Other loans to individuals				
Not past due	1,012,158	10,121	1,002,037	1.0%
Overdue:				
- up to 30 days	1,082	108	974	10.0%
Total other loans to individuals	**1,013,240**	**10,229**	**1,003,011**	**1.0%**
Total loans to individuals	**5,608,307**	**60,620**	**5,547,687**	**1.1%**
Total loans to customers	**30,060,089**	**313,791**	**29,746,298**	**1.0%**

Analysis by credit quality of loans to customers outstanding as at December 31, 2012 is as follows:

As at December 31, 2012 in AMD '000	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Loans to large enterprises				
Not past due	11,416,993	127,411	11,289,582	1.1%
Total loans to large enterprises	**11,416,993**	**127,411**	**11,289,582**	**1.1%**
Loans to small and medium size enterprises				
Not past due	12,836,255	128,363	12,707,892	1.0%
Overdue:				
- 61 to 90 days	89,791	8,979	80,812	10.0%
- 91 to 180 days	6,453	1,291	5,162	20.0%
Total loans to small and medium size enterprises	**12,932,499**	**138,633**	**12,793,866**	**1.1%**
Overdrafts to legal entities				
Not past due	32,538	325	32,213	1.0%
Total overdrafts to legal entities	**32,538**	**325**	**32,213**	**1.0%**
Total loans to legal entities	**24,382,030**	**266,369**	**24,115,661**	**1.1%**
Loans to individuals				
Mortgage loans				
Not past due	1,700,015	17,000	1,683,015	1.0%
Overdue:				
- up to 30 days	200	20	180	10.0%
- 91 to 180 days	21,148	4,229	16,919	20.0%
Total mortgage loans	**1,721,363**	**21,249**	**1,700,114**	**1.2%**
Consumer loans				
Not past due	762,951	7,352	755,599	1.0%
Overdue:				
- up to 30 days	30	3	27	10.0%
- 91 to 180 days	2,361	472	1,889	20.0%
- over 180 days	898	449	449	50.0%
Total consumer loans	**766,240**	**8,276**	**757,964**	**1.1%**
Auto loans				
Not past due	817,698	8,177	809,521	1.0%
Overdue:				
- up to 30 days	730	73	657	10.0%
- 91 to 180 days	4,662	932	3,730	20.0%
- over 180 days	2,064	1,032	1,032	50.0%
Total auto loans	**825,154**	**10,214**	**814,940**	**1.2%**
Overdrafts to individuals				
Not past due	441,996	4,420	437,576	1.0%
Overdue:				
- 91 to 180 days	1,491	298	1,193	20.0%
Total overdrafts to individuals	**443,487**	**4,718**	**438,769**	**1.1%**
Other loans to individuals				
Not past due	835,839	8,846	826,993	1.1%
Total other loans to individuals	**835,839**	**8,846**	**826,993**	**1.1%**
Total loans to individuals	**4,592,083**	**53,303**	**4,538,780**	**1.2%**
Total loans to customers	**28,974,113**	**319,672**	**28,654,441**	**1.1%**

The analysis of changes for loan impairment is presented in the table below:

in AMD '000	Governmental agencies	Large enterprises	Small and medium size enterprises	Overdrafts to legal entities	Mortgage loans	Consumer loans	Auto loans	Overdrafts to individuals	Other	Total
January 1, 2013	-	127,411	138,633	325	21,249	8,276	10,214	4,718	8,846	**319,672**
Provision charge/release	2,021	54,262	130,626	768	23,147	9,828	(3,100)	18,407	2,882	**238,841**
Write off of assets	-	(63,181)	(137,743)	-	(23,647)	(3,212)	(2,255)	(18,321)	(2,639)	**(250,998)**
Recovery of assets previously written off	-	-	49	-	306	27	4,754	-	1,140	**6,276**
December 31, 2013	**2,021**	**118,492**	**131,565**	**1,093**	**21,055**	**14,919**	**9,613**	**4,804**	**10,229**	**313,791**
Individual impairment	-	-	9,999	-	2,555	4,077	1,374	-	1,157	**19,162**
Collective impairment	2,021	118,492	121,566	1,093	18,500	10,842	8,239	4,804	9,072	**294,629**
	2,021	**118,492**	**131,565**	**1,093**	**21,055**	**14,919**	**9,613**	**4,804**	**10,229**	**313,791**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**-**	**-**	**60,216**	**-**	**25,552**	**28,983**	**11,887**	**-**	**6,730**	**133,368**
January 1, 2012	-	119,418	105,808	456	11,146	3,945	9,879	2,512	5,031	**258,195**
Provision charge/release	-	7,993	32,825	(131)	9,566	4,331	5,276	2,206	3,815	**65,881**
Write off of assets	-	-	-	-	(894)	-	(5,016)	-	-	**(5,910)**
Recovery of assets previously written off	-	-	-	-	1,431	-	75	-	-	**1,506**
December 31, 2012	**-**	**127,411**	**138,633**	**325**	**21,249**	**8,276**	**10,214**	**4,718**	**8,846**	**319,672**
Individual impairment	-	11,271	11,113	-	4,253	1,479	2,963	298	542	**31,919**
Collective impairment	-	116,140	127,520	325	16,996	6,797	7,251	4,420	8,304	**287,753**
	-	**127,411**	**138,633**	**325**	**21,249**	**8,276**	**10,214**	**4,718**	**8,846**	**319,672**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	-	56,353	96,245	-	21,348	8,696	9,311	1,491	5,417	**198,861**

The table below summarizes carrying value of loans to customers analysed by type of collateral obtained by the Bank:

in AMD '000	December 31, 2013	December 31, 2012
Loans collateralized by pledge of real estate	20,317,878	21,180,909
Loans collateralized by cars (vehicles)	1,380,583	1,238,765
Loans collateralized by pledge of inventories	4,167,852	4,073,323
Loans collateralized by pledge of gold	1,011,855	835,837
Loans collateralized by cash	129,335	205,903
Loans collateralized by guarantees	511,407	170,605
Other collateral	294,654	841,364
Unsecured loans	2,246,525	427,406
Less: allowance for impairment losses	(313,791)	(319,671)
Total loans to customers	**29,746,298**	**28,654,441**

Loans to customers per industry groups are presented below:

in AMD '000	December 31, 2013	December 31, 2012
Manufacturing	6,923,586	7,210,717
Trade	6,763,679	6,664,616
Individuals	5,608,307	4,592,083
Construction	3,790,302	5,872,680
Transport and communication	1,708,438	1,155,618
Energy	1,660,725	2,346
Food	1,287,834	1,645,643
Hotel business	369,757	131,443
Governmental agencies	202,137	-
Agriculture	100,816	470,985
Other	1,644,508	1,227,982
Less: allowance for impairment losses	(313,791)	(319,672)
Total loans to customers	**29,746,298**	**28,654,441**

Repossessed assets

During the years ended December 31, 2013 and 2012 the Bank obtained non-financial assets by taking possession of collateral it held as security as follows:

	Carrying amount	
in AMD '000	**2013**	**2012**
Nature of the asset		
Residential and commercial property		
January 1	1,707,242	153,127
Repossessed during the year	2,464,667	1,554,115
December 31	**4,171,909**	**1,707,242**

The Bank holds a portfolio of repossessed assets (primarily representing land and buildings). The Bank does not occupy repossessed properties for business use. The Bank intends to recover the carrying amount of the repossessed assets through it sale. Repossessed assets are sold as soon as practicable.

Repossessed assets are carried at minimum of cost and fair value. Fair value is determined at the time of repossessing the asset and transferring the title to the Bank. Fair values are determined by an independent, professionally qualified valuer who has extensive experience in valuing similar properties in the Armenian market. Fair value determinations involve application of income capitalisation (income approach), cost replacement method (cost approach) and comparative sales (market approach) methods. The market approach is based on analysis of comparative sales of similar premises. The income capitalisation method includes key assumptions such as capitalisation rate, effective interest rate for discounting income from individual assets being valued (taking into account location, purpose, condition and other factors). The cost approach is based on replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

Fair value determination involves management judgment regarding the reliability and completeness of information used in each of the valuation methods, individual characteristics of the asset and other significant factors. Fair value determinations involve a number of management assumptions and estimates regarding future economic benefits from these assets and are based on external and internal information sources. Under the sales comparison method the fair value was determined based on discount factor 10% to 25% adjustment for location comparable purposes, as applicable, and up to 10% discount for size adjustments in relation to market comparables. Under the income approach method fair value was determined by applying discount rates of 7 % to 8.5% (determined based on capitalisation rate of 5.5% to 7.5%).

As at the reporting date Management uses additional time value of money and liquidity discount factors as considerations in relation to determined fair values to take into account expected timeperiods of sale. These include application of liquidity discount rates from 10% to 50% and discount rate of 10%. As at 31 December 2013, had the Management's estimated timeperiods of sale increase by plus one year, the carrying value of repossessed assets at discount rate of 10% would reduce by AMD 345,514 thousand (31 December 2012: AMD 96,356 thousand); the effect of increasing the discount rate by 1.0% applied to expected timeperiods of sale, the carrying value of repossessed assets would decrease by AMD 38,371 thousand (31 December 2012: AMD 10,598 thousand).

9. Available-for-sale financial assets

in AMD '000	December 31, 2013	December 31, 2012
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	6,102,078	4,109,631
Equity investments		
Corporate shares, note 29	42,825	42,825
Total available-for-sale financial assets	**6,144,903**	**4,152,456**

Pledged available-for-sale assets are discussed in note 7.

Reclassifications out from held to maturity to available-for-sale financial assets

In 11 October 2013 the Bank sold held-to-maturity investments with nominal amount of AMD 200,000 thousand and carrying amount AMD 198,847 thousand which did do not constitute an other than insignificant portion of the asset class and as a result reclassified the whole category of these assets to asset available-for-sale category. The assets reclassified represent Government securities of the Republic of Armenia. After the transfer recognition of interest was continued in profit or loss in respect of these reclassified financial assets.

The table below provides the financial assets reclassified and their carrying and fair values:

in AMD '000	Carrying value at reclassification	Fair value at reclassification
Held to maturity investments reclassified to available-for-sale assets	1,739,212	1,763,924

Had the assets not been reclassified during the year, the amounts recognised in available-for-sale reserve and other comprehensive income for the year would have been less by AMD 194,707 thousand, net of income tax.

10. Property and Equipment

in AMD '000	Land and buildings	Leasehold improvement	Computers and related equipment	Vehicles	Office equipment	Construction in progress	Total
Cost							
January 1, 2012	**1,786,916**	**115,874**	**219,805**	**95,542**	**360,568**	**82,233**	**2,660,938**
Additions	139,285	23,897	70,950	1,288	54,945	-	**290,365**
Disposals	-	-	(2,864)	-	(2,150)	-	**(5,014)**
Transfers	111,646	(29,413)	-	-	-	(82,233)	-
December 31, 2012	**2,037,847**	**110,358**	**287,891**	**96,830**	**413,363**	**-**	**2,946,289**
Additions	125,901	7,231	38,186	86	71,219	-	**242,623**
Disposals	-	-	(13,411)	(4,223)	(2,427)	-	**(20,061)**
December 31, 2013	**2,163,748**	**117,589**	**312,666**	**92,693**	**482,155**	**-**	**3,168,851**
Accumulated depreciation							
January 1, 2012	**417,057**	**32,529**	**137,542**	**75,553**	**283,727**	**-**	**946,408**
Depreciation charge	45,437	18,304	42,905	10,364	25,719	-	**142,729**
Disposals	-	-	(2,864)	-	(2,104)	-	**(4,968)**
December 31, 2012	**462,494**	**50,833**	**177,583**	**85,917**	**307,342**	**-**	**1,084,169**
Depreciation charge	50,869	15,490	41,908	3,608	33,373	-	**145,248**
Disposals	-	-	(13,411)	(1,618)	(1,872)	-	**(16,901)**
December 31, 2013	**513,363**	**66,323**	**206,080**	**87,907**	**338,843**	**-**	**1,212,516**
Net book value							
As at January 1, 2012	**1,369,859**	**83,345**	**82,263**	**19,989**	**76,841**	**82,233**	**1,714,530**
As at December 31, 2012	**1,575,353**	**59,525**	**110,308**	**10,913**	**106,021**	**-**	**1,862,120**
As at December 31, 2013	**1,650,385**	**51,266**	**106,586**	**4,786**	**143,312**	**-**	**1,956,335**

As at December 31, 2013 and 2012 fully depreciated assets in use amounted AMD 445,894 thousand and AMD 427,474 thousand, respectively.

The Bank did not have any pledged property and equipment as at December 31, 2013 and 2012.

11. Intangible assets

in AMD '000	Licenses	Acquired software licenses	Other	Total
Cost				
January 1, 2012	**17,060**	**33,067**	**53,077**	**103,204**
Additions	1,810	1,340	-	3,150
December 31, 2012	**18,870**	**34,407**	**53,077**	**106,354**
Additions	-	1,230	-	1,230
December 31, 2013	**18,870**	**35,637**	**53,077**	**107,584**
Accumulated amortisation				
January 1, 2012	**2,166**	**26,913**	**32,750**	**61,829**
Amortization charge	1,779	1,079	5,299	8,157
December 31, 2012	**3,945**	**27,992**	**38,049**	**69,986**
Amortization charge	2,084	1,174	5,299	8,557
December 31, 2013	**6,029**	**29,166**	**43,348**	**78,543**
Net book value				
As at January 1, 2012	**14,894**	**6,154**	**20,327**	**41,375**
As at December 31, 2012	**14,925**	**6,415**	**15,028**	**36,368**
As at December 31, 2013	**12,841**	**6,471**	**9,729**	**29,041**

12. Other assets

in AMD '000	December 31, 2013	December 31, 2012
Other financial assets		
Other receivables	41,787	37,303
Receivables from money transfer system	33,221	85,323
	75,008	**122,626**
Other non-financial assets		
Inventory	13,428	8,586
Prepayments to budget	7,177	5,431
Other	12,884	2,225
	33,489	**16,242**
Total other assets	**108,497**	**138,868**

13. Deposits and balances by banks and other financial institutions

in AMD '000	December 31, 2013	December 31, 2012
Loans from banks and other financial institutions	817,718	-
Term deposits of banks and other financial institutions	322,559	223,301
Correspondent accounts of banks and other financial institutions	88,275	17,147
Total deposits and balances by banks	**1,228,552**	**240,448**

14. Current accounts and deposits from customers

in AMD '000	December 31, 2013	December 31, 2012
Legal entities		
- Current/settlement accounts	6,628,421	7,191,271
- Term deposits	582,523	513,890
Individuals		
- Current/settlement accounts	2,609,776	1,369,621
- Term deposits	15,356,257	10,436,756
Total current accounts and deposits by customers	**25,176,977**	**19,511,538**

15. Debt securities issued

Debt securities in the amount of 10,000 thousand US dollars were issued in 2009, at an annual interest rate of 10.1% and maturity of up to 7 years. All debt securities were issued in USD.

As at December 31, 2013 debt securities issued amounted to AMD 4,269,667 thousand (December 31, 2012: AMD 5,081,903 thousand) and included accrued interest of AMD 213,267 thousand (December 31, 2012: AMD 242,037 thousand).

The Bank's issued debt securities are not intended for circulation in secondary market.

16. Other borrowed funds

Other borrowed funds are from the Government of the RA within the scope of "Economy stabilization fund". The loans were lent under an agreement with the CBA (acting as the agent of the Government of Armenia) and the Bank. According to the agreement the CBA refinances loans granted by the Bank to qualifying borrowers. Only loans denominated in AMD are refinanced. Repayment of the other borrowed funds is done in the similar fashion as for the underlying loans. The monitoring and administration of the loans is performed by the "Directing Office of the "German Armenian Foundation" program".

As at December 31, 2013 other borrowed funds amounted to AMD 987,297 thousand (December 31, 2012: AMD 1,034,284 thousand) and included accrued interest of AMD 3,093 thousand (December 31, 2012: AMD 3,186 thousand).

17. Other liabilities

in AMD '000	December 31, 2013	December 31, 2012
Other financial liabilities		
Accounts payable	22,021	15,177
	22,021	**15,177**
Other non-financial liabilities		
Taxes payable, other than income tax	76,047	116,834
Vacation reserve	70,436	65,643
Grants related to assets	58,076	60,150
Other	41,184	8,443
	245,743	**251,070**
Total other liabilities	**267,764**	**266,247**

18. Subordinated debt

In 2011 the Bank received subordinated loan from Central Bank of Armenia in the amount of AMD 3,600,000 thousand. The loan is provided for 5 years with a maturity date of December 31, 2016 and an interest rate of 8%.

As at December 31, 2013 subordinated debt amounted to AMD 3,612,627 thousand (December 31, 2012: AMD 3,611,809) and included accrued interest of AMD 12,627 thousand (December 31, 2012: AMD 11,809 thousand).
In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

19. Equity

As at December 31, 2013 and 2012 Bank's registered and fully paid-in charter capital was AMD 14,400,000 thousand. As at December 31, 2013 and 2012 the following are the respective participants of the Bank:

	December 31, 2013	December 31, 2012
"Prometey City" LLC	49.975 %	49.975 %
"ZakNefteGazStroy Prometey" OJSC	46.125 %	46.125 %
Vazgen Gevorgyan	3.900 %	3.900 %
Total	**100%**	**100%**

The charter capital of the Bank was contributed by the participants in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams. In 2013 and 2012 the Bank did not declare dividends.
The Bank's distributable reserves among participants are limited to the amount of its accumulated retained earnings as disclosed in its statutory accounts in accordance with the legislation of the Republic of Armenia.

Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Charter of the Bank that provide for the creation of a reserve for these purposes of 5% of Charter capital.

20. Net interest income

in AMD '000	2013	2012
Interest income:		
Financial assets recorded at amortized cost:		
- Loans to customers	3,997,193	3,784,408
- Reverse repurchase agreements	213,032	167,225
- Held to maturity investments	206,002	82,718
- Due from banks and other financial institutions	158,504	35,724
- Other interest income	9,401	6,923
Total interest income on financial assets recorded at amortized cost	**4,584,132**	**4,076,998**
Financial assets recorded at fair value:		
- Financial assets at fair value through profit or loss	-	52,642
- Available-for-sale financial assets	632,762	494,431
Total interest income on financial assets at fair value	**632,762**	**547,073**
Total interest income	**5,216,894**	**4,624,071**
Interest expense:		
Interest expense on financial liabilities recorded at amortized cost		
- Current accounts and deposits from customers	1,296,767	704,317
- Debt securities issued	435,766	463,284
- Repurchase agreements	352,423	131,692
- Subordinated debt	287,996	288,006
- Deposits and balances from banks	85,853	70,031
Total interest expense	**2,458,805**	**1,657,330**
Net interest income before provision for impairment losses on interest bearing financial assets	**2,758,089**	**2,966,741**

21. Net foreign exchange income

in AMD '000	2013	2012
Net gain from trading in foreign currencies	724,705	338,715
Foreign exchange translation gain/ (loss)	35,408	(11,521)
Total net foreign exchange income	**760,113**	**327,194**

22. Fee and commission income and expense

in AMD '000	2013	2012
Fee and commission income:		
Wire transfer fees	165,572	106,272
Plastic cards operations	65,279	43,744
Cash withdrawal and account service	20,680	20,012
Other	40,166	36,185
Total fee and commission income	**291,697**	**206,213**
Fee and commission expense:		
Cash operations and wire transfer	264,662	87,105
Plastic cards commissions	54,842	39,103
Corresponding and other banking accounts commissions	43,937	27,371
Other	563	380
Total fee and commission expense	**364,004**	**153,959**

23. Other Income

in AMD ’000	2013	2012
Fines and penalties received	217,906	123,427
Income from issue of warranties and letters of credit	6,603	12,157
Income from operating lease	2,220	5,057
Other income	2,223	2,332
Total other income	**228,952**	**142,973**

24. Staff Costs

in AMD ’000	2013	2012
Salaries, bonuses and other employee benefits	1,019,747	889,451
Social security costs	-	69,276
Total staff cost	**1,019,747**	**958,727**

Effective January 1, 2013 as a result of legislative amendment the employers were relieved from social security payments obligations, which together with employee’s income tax and social security contribution payment were replaced with unified income tax.

25. Other operating expenses

in AMD ’000	2013	2012
Operating lease	91,836	86,996
Communications	91,103	78,589
Repair and maintenance expenses of tangible assets	57,535	50,462
Security	52,227	43,294
Advertising costs	42,671	43,546
Representative and public relations expenses	30,424	56,268
Office supplies	30,078	29,960
Deposit guarantee fund expenses	30,036	17,454
Cash collection services	23,340	24,246
Taxes, other than income tax, duties	18,573	28,021
Business trip expenses	17,804	14,800
Consulting and other services	13,340	17,340
Financial system mediator expenses	5,663	4,279
Other expenses	37,284	7,126
Total other operating expenses	**541,914**	**502,381**

26. Income tax

The Bank measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Armenia, which may differ from IFRS.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2013 and 2012 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases’ differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the Republic of Armenia on taxable profits (as defined) under tax law of the Republic of Armenia.

Temporary differences as at December 31, 2013 and 2012 comprise:

in AMD '000	**December 31, 2013**	**December 31, 2012**
Deferred tax assets/ (liabilities) in relation to:		
Due from banks and other financial institutions	(8,388)	-
Loans and advances to customers	(923)	(9,521)
Other assets	(4,526)	(443)
Available for sale financial assets	(120,107)	(17,284)
Other liabilities	14,372	13,909
Property and equipment	(234)	3,497
Net deferred tax asset	**(119,806)**	**(9,842)**

	December 31, 2013	**December 31, 2012**
Profit before income tax	**1,783,808**	**1,914,672**
Tax at the statutory tax rate (20%)	356,762	382,934
Tax effect of permanent differences	15,746	24,749
Adjustment of current income tax of previous years	-	4,233
Income tax expense	**372,508**	**411,916**
Current income tax expense	365,367	415,489
Adjustment of current income tax of previous years	-	4,233
Deferred tax expense/(benefit) recognized in the current year	7,141	(7,806)
Income tax expense	**372,508**	**411,916**

Deferred income tax assets/(liabilities)	**December 31, 2013**	**December 31, 2012**
As at January 1 – deferred tax assets	(9,842)	(27,928)
Changes in deferred tax balances recognized in profit or loss	(7,141)	7,806
Change in deferred tax balances recognized in other comprehensive income	(102,823)	10,280
As at December 31- deferred tax assets	**(119,806)**	**(9,842)**

27. Commitments and contingencies

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

The Bank's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The Bank has no provision for losses on contingent liabilities as at December 31, 2013 and 2012.

As at December 31, 2013 and 2012 contingent liabilities comprise:

	December 31, 2013	**December 31, 2012**
Contingent liabilities and credit commitments		
Commitments on loans and unused credit lines	841,390	774,946
Guarantees issued and similar commitments	272,379	372,479
Total contingent liabilities and credit commitments	**1,113,769**	**1,147,425**

The amounts reflected in the table for commitments assume that amounts are fully advanced. The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional commitment by the Bank.

Capital commitments: The Bank did not have capital commitments as at December 31, 2013 and 2012.

Operating lease commitments: the Bank leases a number of offices under operating leases. The leases typically run for a period of 3-5 years, with an option to renew the lease after that date. Lease payments are increased every 2-3 years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases of rented offices are as follows:

in AMD '000	December 31, 2013	December 31, 2012
Less than 1 year	91,752	89,040
Later than 1 year and not later than 5 years	294,123	121,898
Later than 5 years	10,560	5,945
Total operating lease commitments	**396,435**	**216,883**

Legal proceeding: In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank. No provision has been made in these financial statements in these aspects.

Taxation: Commercial legislation of the Republic of Armenia, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit.

Operating environment: Emerging markets such as Armenia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Armenia continue to change rapidly; tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Armenia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The global financial turmoil that has negatively affected the Republic of Armenia's financial and capital markets in 2009 and 2010 has receded and the Republic of Armenia's economy returned to growth rates post crisis. However significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt the Republic of Armenia's economy, adversely affect the Bank's access to capital and cost of capital for the Bank and, more generally, its business, results of operations, financial condition and prospects.

28. Transactions with related parties

Details of transactions between the Bank and other related parties are disclosed below:

	Note	December 31, 2013		December 31, 2012	
in AMD '000		Related party balances	Total category as per the financial statements caption	Related party balances	Total category as per the financial statements caption
Loans to customers	11				
- *participants*		221,438	29,746,298	951,234	28,654,441
- *key management personnel of the Bank*		100,966	29,746,298	104,437	28,654,441
Current accounts and deposits by customers					
- *participants*		798,483	25,176,977	753,481	19,511,538
- *key management personnel of the Bank*		511,658	25,176,977	378,346	19,511,538

Included in the statement of profit or loss for the years ended December 31, 2013 and 2012 are the following amounts which were recognized in transactions with related parties:

in AMD '000	Note	December 31, 2013 Related party transactions	December 31, 2013 Total category as per the financial statements caption	December 31, 2012 Related party transactions	December 31, 2012 Total category as per the financial statements caption
Interest income					
- *participants*		43,054	5,216,894	175,558	4,624,071
- *key management personnel of the Bank*		10,235	5,216,894	7,671	4,624,071
Interest expense					
- *participants*		(63,004)	(2,458,805)	(59,602)	(1,657,330)
- *key management personnel of the Bank*		(36,401)	(2,458,805)	(19,514)	(1,657,330)
Fee and commission income					
- *participants*		754	291,697	1,682	206,213
- *key management personnel of the Bank*		1,007	291,697	537	206,213
Other income					
- *participants*		1,140	228,952	937	142,973
- *key management personnel of the Bank*		329	228,952	135	142,973
Other operating expenses					
- *participants*		(180)	(541,914)	(121)	(502,381)
- *key management personnel of the Bank*		(390)	(541,914)	(77)	(502,381)

The remuneration of management was as follows:

in AMD '000	Note	December 31, 2013 Related party transactions	December 31, 2013 Total category as per the financial statements caption	December 31, 2012 Related party transactions	December 31, 2012 Total category as per the financial statements caption
Key management personnel compensation:	24				
Short-term employee benefits		410,108	1,019,747	366,284	958,727
Social security costs		-	1,019,747	21,295	958,727
		410,108		**387,579**	

29. Fair value of financial instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis
Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	December 31, 2013	December 31, 2012				
Derivative financial assets	-	965	Level 2	Discounted cash flows. Future cash flows are estimated based on estimated forward exchange rates and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Available-for-sale financial assets	6,102,078	4,109,631	Level 2	Discounted cash flows. The predetermined cash flows are discounted at a rate that reflects market yield for specific time to maturity.	N/A	N/A
Derivative financial liabilities	3,935	595	Level 2	Discounted cash flows. Future cash flows are estimated based on estimated forward exchange rates and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument. However, judgment is required to interpret market data to determine the estimated fair value. Republic of Armenia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)
Management consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values. The fair values of most of the short term financial assets and financial liabilities are determined to be equal to their fair values, for other non-current financial assets and financial liabilities; management used discounted cash flows to estimate fair value. Interest rates used to discount these estimated cash flows are based on the government yield curve at the reporting date plus currency, maturity of the instrument and credit risk of the counterparty.

As at December 31, 2013 available-for-sale assets include equity investments of AMD 42,825 thousand (December 31, 2012: AMD 42,825 thousand) stated at cost comprising 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. The Bank intends to hold it for the long term. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry.

All gain and losses included in other comprehensive income relate to government debt securities of the Republic of Armenia held at the end of the reporting period and are reported as changes of ‘Available-for-sale reserve’.

30. Capital risk management

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Bank consists of debt, which includes subordinated debt disclosed (see Note 18), and equity attributable to equity holders, comprising issued capital, reserves and retained earnings as disclosed in statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. The adequacy of the Bank's capital is set and monitored using the ratios established by CBA. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Bank balances its overall capital structure through payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. In addition the Bank manages its capital in order to meet covenant requirements.

The CBA sets and monitors capital requirements for the Bank. Under the current capital quantitative requirements set by the CBA, the Bank as at December 31, 2013 has to maintain a minimum equity of AMD 5,000,000 thousand (December 31, 2012: 5,000,000 thousand) and ratios of total capital to risk weighted assets of 12% (December 31, 2012: 12%).

The calculation of statutory capital ratio based on requirements set by the Central Bank of Armenia is as follows:

in AMD '000	**December 31, 2013 Unaudited**	**December 31, 2012 Unaudited**
Tier 1 capital	19,111,822	20,095,605
Tier 2 capital	2,061,390	2,184,803
Total capital	**21,173,212**	**22,280,408**
Risk weighted assets	**56,391,562**	**49,152,785**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	38%	45%
Compliance with the minimum share capital and total capital requirements	**No breaches during the year**	**No breaches during the year**

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.

Regulatory capital consists of Tier 1 capital, which comprises charter capital, retained earnings including current year profit, and general reserve. Regulatory capital is calculated in accordance with the requirements of the Central Bank of Armenia and accounting standards of the Republic of Armenia. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves and subordinated debt, limited to 50% of Tier 1 capital.

31. Risk management

Management of risk is fundamental to the Bank's business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to:

- Credit exposures;
- Liquidity risk;
- Market risk.

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives.

The Board of Directors has overall responsibility for the determination of the Bank's risk management objectives, policies and oversight of the Bank's risk management framework. The overall objective of the Board of Directors is to set polices that seek to reduce risks as far as possible without unduly affecting the Bank's competitiveness and flexibility. Whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Bank.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aim to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and Executive Board. Executive Board is responsible for developing, monitoring risk management policies and exercising control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Republic of Armenia.

Credit Risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The main business of the Bank is to provide loans. Respectively credit risk is of crucial importance in the banking risk management. To avoid significant financial damage caused by this the Bank uses various methods to identify and manage effectively the credit risks.

The banking industry is generally exposed to credit risk through its loans to customers and bank deposits. With regard to the loans to customers this risk exposure is concentrated within the Republic of Armenia.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Executive Board and the Bank's Board of Directors. Before any application is approved by the Executive Board, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Credit Department. Daily risk management is performed by the Head of Credit Departments and Internal Control Departments.

The Bank's credit policy is determined by the Credit Manual, where all the related procedures and requirements, along with respective controls are clearly defined, including loan disbursement, monitoring of delinquent loans, etc.

The Executive Board is the analytical body responsible for analysing the information in the loan applications, assessing and reducing the credit risks as far as possible. The Executive Board is the ultimate managerial body within the Bank authorized to make the final decision about financing or rejecting the loan application.

Accuracy and correctness of information presented to the Executive Board is the responsibility of the credit officer, who fills in the initial application after the due scrutiny of the applicant's business and its credit risks. Eventually the Executive Board members assess the application against the established criteria (applicant's credit history, financial condition, competitive ability, etc.).

Each branch is required to implement Bank's credit policies and procedures, with credit approval authorities delegated from the Bank's Executive Board. Each branch manager reports on all credit related matters to management and the Executive Board. Each branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. Internal Audit undertakes regular audits of branches and Bank's credit processes.

The Bank's credit department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved monthly by the Management Board. The exposure to any one borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

Where appropriate, and in the case of most loans, the Bank obtains collateral and personal guarantee. However, a significant portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and are subject to annual or more frequent reviews.

Loans with renegotiated terms: Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring.

Allowances for impairment: The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main component of this allowance is a collective loan loss allowance established for the Bank; homogeneous assets in respect of losses that have been incurred but not been identified on loans.

Maximum exposure of credit risk: The Bank's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet financial assets. For the financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral.

in AMD '000	December 31, 2013	December 31, 2012
Cash and cash equivalents	10,454,632	8,836,090
Financial assets at fair value through profit or loss	-	965
Due from banks and other financial institutions	2,247,788	1,419,683
Reverse repurchase agreements	2,031,211	2,201,826
Loans to customers	29,746,298	28,654,441
Available-for-sale financial assets	6,144,903	4,152,456
Held to maturity investments	-	1,976,517
Other assets	75,008	122,626
	50,699,840	**47,364,604**

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

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

Off-balance sheet risk

The Bank applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks.

The geographical concentration of the Bank's assets as at December 31, 2013 is set out below:

in AMD '000	Republic of Armenia	Other non-OECD countries	OECD countries	Total
Non-derivative financial assets				
Cash and cash equivalents	16,394,988	-	-	**16,394,988**
Due from banks and other financial institutions	807,083	500,799	939,906	**2,247,788**
Reverse repurchase agreements	2,031,211	-	-	**2,031,211**
Loans to customers	29,534,969	211,329	-	**29,746,298**
Available-for-sale financial assets	6,144,903	-	-	**6,144,903**
Other assets	40,242	33,221	1,545	**75,008**
Total non-derivative financial assets	**54,953,396**	**745,349**	**941,451**	**56,640,196**

The geographical concentration of the Bank's assets as at December 31, 2012 is set out below:

in AMD '000	Republic of Armenia	Other non-OECD countries	OECD countries	Total
Non-derivative financial assets				
Cash and cash equivalents	13,217,599	-	-	**13,217,599**
Due from banks and other financial institutions	65,390	213,898	1,140,395	**1,419,683**
Reverse repurchase agreements	2,201,826	-	-	**2,201,826**
Loans to customers	28,415,713	238,728	-	**28,654,441**
Available-for-sale financial assets	4,152,456	-	-	**4,152,456**
Held to maturity investments	1,976,517	-	-	**1,976,517**
Other assets	103,176	9,399	10,051	**122,626**
Total non-derivative financial assets	**50,132,677**	**462,025**	**1,150,446**	**51,745,148**

Liquidity risk

Liquidity risk management: Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Executive Board controls these types of risks by means of maturity analysis and determining the Bank's strategy for the next financial period. In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' operations, which is a part of assets/liabilities management process. Current liquidity is managed by Treasurer, so Treasury maintains a portfolio of short-term liquid assets, largely made up of short-term deposits, to ensure that sufficient liquidity is maintained for current liquidity support and cash flow optimization.

An analysis of liquidity and interest rate risk is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the entity

in AMD '000	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2013 Total
NON-DERIVATIVE FINANCIAL ASSETS								
Fixed interest rate instruments								
Cash and cash equivalents		1,371,185	-	-	-	-	-	1,371,185
Due from banks and other financial institutions	9.14%-9.5%	80,163	820,569	250,000	750,000	-	347,056	2,247,788
Reverse repurchase agreements	9.15%	2,031,211	-	-	-	-	-	2,031,211
Loans to customers	14.28%	161,109	468,855	2,518,023	18,856,425	7,741,886	-	29,746,298
Available-for-sale financial assets	15.50%	6,102,078	-	-	-	-	-	6,102,078
Total fixed interest bearing financial assets		**9,745,746**	**1,289,424**	**2,768,023**	**19,606,425**	**7,741,886**	**347,056**	**41,498,560**
Non-interest bearing financial assets								
Cash and cash equivalents		15,023,803	-	-	-	-	-	15,023,803
Available-for-sale financial assets		-	-	-	-	-	42,825	42,825
Other financial assets		75,008	-	-	-	-	-	75,008
Total non-interest bearing financial assets		**15,098,811**	**-**	**-**	**-**	**-**	**42,825**	**15,141,636**
Total non-derivative financial assets		**24,844,557**	**1,289,424**	**2,768,023**	**19,606,425**	**7,741,886**	**389,881**	**56,640,196**
NON-DERIVATIVE FINANCIAL LIABILITIES AND COMMITMENTS								
Fixed interest rate instruments								
Deposits and balances by banks	8.82%-11.8%	71,465	841,748	143,137	172,202	-	-	1,228,552
Repurchase agreements	7.87%	5,059,915	-	-	-	-	-	5,059,915
Current accounts and deposits by customers	8.82%-11.8%	9,003,893	1,425,941	10,186,605	4,560,538	-	-	25,176,977
Debt securities issued	10.36%	204,849	-	381,732	3,683,086	-	-	4,269,667
Other borrowed funds	9.25%	15,474	37,855	274,899	659,051	-	-	987,279
Subordinated debt	7.90%	12,627	-	-	3,600,000	-	-	3,612,627
Total fixed interest bearing financial liabilities		**14,368,223**	**2,305,544**	**10,986,373**	**12,674,877**	**-**	**-**	**40,335,017**
Non-interest bearing financial liabilities								
Other financial liabilities		22,021	-	-	-	-	-	22,021
Total non-interest bearing financial liabilities		**22,021**	**-**	**-**	**-**	**-**	**-**	**22,021**
Total non-derivative financial liabilities		**14,390,244**	**2,305,544**	**10,986,373**	**12,674,877**	**-**	**-**	**40,357,038**
Interest sensitivity gap		(4,622,477)	(1,016,120)	(8,218,350)	6,931,548	7,741,886		
Cumulative interest sensitivity gap		**(4,622,477)**	**(5,638,597)**	**(13,856,947)**	**(6,925,399)**	**816,487**		
Derivative financial instruments								
Foreign exchange spot transactions; gross settled		(3,935)	-	-	-	-		
Total derivative financial instruments		**(3,935)**	**-**	**-**	**-**	**-**		
Liquidity gap		10,450,378	(1,016,120)	(8,218,350)	6,931,548	7,741,886		
Cumulative liquidity gap		**10,450,378**	**9,434,258**	**1,215,908**	**8,147,456**	**15,889,342**		

in AMD '000	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2012 Total
NON-DERIVATIVE FINANCIAL ASSETS								
Fixed interest rate instruments								
Cash and cash equivalents		1,326,179	-	-	-	-	-	1,326,179
Due from banks and other financial institutions	9%-10.4%	-	52,904	200,000	800,000	-	366,779	1,419,683
Reverse repurchase agreements	10%	2,201,826	-	-	-	-	-	2,201,826
Loans to customers	12.83%	926,712	1,132,849	5,312,898	12,938,276	8,343,706	-	28,654,441
Available-for-sale financial assets	14.90%	4,109,631	-	-	-	-	-	4,109,631
Held to maturity investments	14.15%	-	118,263	110,748	776,971	970,535	-	1,976,517
Total fixed interest bearing financial assets		**8,564,348**	**1,304,016**	**5,623,646**	**14,515,247**	**9,314,241**	**366,779**	**39,688,277**
Non-interest bearing financial assets								
Cash and cash equivalents		11,891,420	-	-	-	-	-	11,891,420
Available-for-sale financial assets		-	-	-	-	-	42,825	42,825
Other financial assets		122,626	-	-	-	-	-	122,626
Total non-interest bearing financial assets		**12,014,046**	**-**	**-**	**-**	**-**	**42,825**	**12,056,871**
Total non-derivative financial assets		**20,578,394**	**1,304,016**	**5,623,646**	**14,515,247**	**9,314,241**	**409,604**	**51,745,148**
NON-DERIVATIVE FINANCIAL LIABILITIES AND COMMITMENTS								
Fixed interest rate instruments								
Deposits and balances by banks	8.30%	17,147	53,962	169,339	-	-	-	240,448
Repurchase agreements	8.03%	5,218,742	-	-	-	-	-	5,218,742
Current accounts and deposits by customers	8.92%-11.86%	8,579,297	1,542,464	5,045,398	4,344,379	-	-	19,511,538
Debt securities issued	9.70%	-	-	833,920	4,247,983	-	-	5,081,903
Other borrowed funds	9.10%	19,387	43,001	397,858	574,038	-	-	1,034,284
Subordinated debt	7.90%	11,809	-	-	3,600,000	-	-	3,611,809
Total fixed interest bearing financial liabilities		**13,846,382**	**1,639,427**	**6,446,515**	**12,766,400**	**-**	**-**	**34,698,724**
Non-interest bearing financial liabilities								
Other financial liabilities		15,177	-	-	-	-	-	15,177
Total non-interest bearing financial liabilities		**15,177**	**-**	**-**	**-**	**-**	**-**	**15,177**
Total non-derivative financial liabilities		**13,861,559**	**1,639,427**	**6,446,515**	**12,766,400**	**-**	**-**	**34,713,901**
Interest sensitivity gap		(5,282,034)	(335,411)	(822,869)	1,748,847	9,314,241		
Cumulative interest sensitivity gap		**(5,282,034)**	**(5,617,445)**	**(6,440,314)**	**(4,691,467)**	**4,622,774**		
Derivative financial instruments								
Foreign exchange spot transactions; gross settled		370	-	-	-	-		
Total derivative financial instruments		**370**	**-**	**-**	**-**	**-**		
Liquidity gap		6,717,205	(335,411)	(822,869)	1,748,847	9,314,241		
Cumulative liquidity gap		**6,717,205**	**6,381,794**	**5,558,925**	**7,307,772**	**16,622,013**		

In the table above, the terms to maturity correspond to the contractual terms. However, individuals are entitled to terminate the deposit agreement ahead of schedule according to effective Armenian legislation, individuals can withdraw their term deposits at any time, forfeiting, in most cases, the accrued interest. These deposits are classified in the table above in accordance with their stated maturity dates.

Cumulative liquidity gap: The tables above show the expected maturity analysis of non-derivative financial assets and liabilities at their carrying amounts and based on their contractual maturities. The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period. Impaired loans are included at their carrying amounts net of allowance for impairment and based on the expected timing of cash inflows. Financial assets available-for-sale are represented in the column ‘up to 1 month’ as the Bank’s management believes that these are highly liquid assets which may be sold on demand to meet the requirements for cash outflows of financial liabilities.

The following tables detail the Bank’s remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities on the basis of their earliest possible contractual maturity. It is not expected that cash flows included in the table below could occur significantly earlier, or at significantly different amounts. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

in AMD ’000	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total gross amount	December 31, 2013 Carrying amount
Fixed interest rate instruments						
Deposits and balances by banks	138,600	459,670	757,987	-	**1,356,257**	**1,228,552**
Repurchase agreements	5,067,548	-	-	-	**5,067,548**	**5,059,915**
Current accounts and deposits by customers	9,019,517	1,493,072	11,089,194	6,106,919	**27,708,702**	**25,176,977**
Debt securities issued	-	-	409,696	4,670,945	**5,080,641**	**4,269,667**
Other borrowed funds	15,629	38,991	299,640	804,042	**1,158,302**	**987,279**
Subordinated debt	-	-	288,000	4,176,000	**4,464,000**	**3,612,627**
Total fixed interest bearing financial liabilities	**14,241,294**	**1,991,733**	**12,844,517**	**15,757,906**	**44,835,450**	**40,335,017**
Non-interest bearing financial liabilities						
Other financial liabilities	22,021	-	-	-	**22,021**	**22,021**
Commitments on loans and unused credit lines	1,113,769	-	-	-	**1,113,769**	**-**
Total non-interest bearing financial liabilities and commitments	**1,135,790**	**-**	**-**	**-**	**1,135,790**	**22,021**
Total financial liabilities and commitments	**15,377,084**	**1,991,733**	**12,844,517**	**15,757,906**	**45,971,240**	**40,357,038**

in AMD ’000	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total gross amount	December 31, 2012 Carrying amount
Fixed interest rate instruments						
Deposits and balances by banks	19,580	55,014	172,096	-	**246,690**	**240,448**
Repurchase agreements	5,248,495	-	-	-	**5,248,495**	**5,218,742**
Current accounts and deposits by customers	8,802,802	1,601,323	6,802,347	5,320,637	**22,527,109**	**19,511,538**
Debt securities issued	-	-	1,289,965	5,470,831	**6,760,796**	**5,081,903**
Other borrowed funds	19,581	43,861	437,644	711,807	**1,212,893**	**1,034,284**
Subordinated debt	-	-	288,000	4,464,000	**4,752,000**	**3,611,809**
Total fixed interest bearing financial liabilities	**14,090,458**	**1,700,198**	**8,990,052**	**15,967,275**	**40,747,983**	**34,698,724**
Non-interest bearing financial liabilities						
Other financial liabilities	15,177	-	-	-	**15,177**	**15,177**
Commitments on loans and unused credit lines	1,147,425	-	-	-	**1,147,425**	**-**
Total non-interest bearing financial liabilities and commitments	**1,162,602**	**-**	**-**	**-**	**1,162,602**	**15,177**
Total financial liabilities and commitments	**15,253,060**	**1,700,198**	**8,990,052**	**15,967,275**	**41,910,585**	**34,713,901**

Market risk: Market risk is the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk and currency risk that the Bank is exposed to. There have been no changes as to the way the Bank measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

Interest rate risk: The Bank's cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates and the fair value interest rate risk is the risk that the value of financial instruments will fluctuate because of changes in the prevailing levels of market interest rates on both the value and cash flow risks.

Interest rate sensitivity: The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Bank's management conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Bank's profit for the year ended December 31, 2013 and 2012 would increase/ decrease by AMD 8,901 thousand and AMD 37,587 thousand, respectively.

Currency risk: Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Executive Board controls currency risk by management of the open currency position on the estimated basis of USD devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasurer performs daily monitoring of the Bank's open currency position.

The Bank's exposure to foreign currency exchange rate risk as at December 31, 2013 is presented in the table below:

in AMD '000	AMD	USD	Other	Total
Non-derivative financial assets				
Cash and cash equivalents	4,856,690	9,944,312	1,593,986	**16,394,988**
Due from banks and other financial institutions	1,296,933	880,965	69,890	**2,247,788**
Reverse repurchase agreements	2,031,211	-	-	**2,031,211**
Loans to customers	14,493,789	15,224,391	28,118	**29,746,298**
Available-for-sale financial assets	6,144,903	-	-	**6,144,903**
Other assets	15,005	36,127	23,876	**75,008**
Total non-derivative financial assets	**28,838,531**	**26,085,795**	**1,715,870**	**56,640,196**
Non-derivative financial liabilities				
Deposits and balances by banks	238,319	990,233	-	**1,228,552**
Repurchase agreements	5,059,915	-	-	**5,059,915**
Current accounts and deposits by customers	2,880,571	21,589,349	707,057	**25,176,977**
Debt securities issued	-	4,269,667	-	**4,269,667**
Other borrowed funds	987,279	-	-	**987,279**
Other liabilities	18,561	830	2,630	**22,021**
Subordinated debt	3,612,627	-	-	**3,612,627**
Total non-derivative financial liabilities	**12,797,272**	**26,850,079**	**709,687**	**40,357,038**
OPEN BALANCE SHEET POSITION	**16,041,259**	**(764,284)**	**1,006,183**	**16,283,158**
Total effect of derivative financial instruments	-	1,001,931	(1,005,866)	**(3,935)**
OPEN POSITION	**16,041,259**	**237,647**	**317**	**16,279,223**

The Bank's exposure to foreign currency exchange rate risk as at December 31, 2012 is presented in the table below:

in AMD '000	AMD	USD	Other	Total
Non-derivative financial assets				
Cash and cash equivalents	3,943,523	7,669,730	1,604,346	**13,217,599**
Due from banks and other financial institutions	1,316,894	62,351	40,438	**1,419,683**
Reverse repurchase agreements	2,201,826	-	-	**2,201,826**
Loans to customers	15,646,811	12,964,480	43,150	**28,654,441**
Available-for-sale financial assets	4,152,456	-	-	**4,152,456**
Held to maturity investments	1,976,517	-	-	**1,976,517**
Other assets	72,462	46,995	3,169	**122,626**
Total non-derivative financial assets	**29,310,489**	**20,743,556**	**1,691,103**	**51,745,148**
Non-derivative financial liabilities				
Deposits and balances by banks	240,448	-	-	**240,448**
Repurchase agreements	5,218,742	-	-	**5,218,742**
Current accounts and deposits by customers	2,629,721	16,477,820	403,997	**19,511,538**
Debt securities issued	-	5,081,903	-	**5,081,903**
Other borrowed funds	1,034,284	-	-	**1,034,284**
Other liabilities	10,726	4,451	-	**15,177**
Subordinated debt	3,611,809	-	-	**3,611,809**
Total non-derivative financial liabilities	**12,745,730**	**21,564,174**	**403,997**	**34,713,901**
OPEN BALANCE SHEET POSITION	**16,564,759**	**(820,618)**	**1,287,106**	**17,031,247**
Total effect of derivative financial instruments	-	1,279,349	(1,278,979)	370
OPEN POSITION	**16,564,759**	**458,731**	**8,127**	**17,031,617**

Currency risk sensitivity

The following table details the Bank's sensitivity to a 10% increase and decrease in the AMD against the USD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit and equity where the AMD strengthens 10% against USD.

in AMD '000	As at December 31, 2013	As at December 31, 2012
Impact on profit or loss	(23,765)	(45,873)
Impact on equity	(23,765)	(45,873)

A weakening of the AMD against USD at December 31, 2013 and 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.

Limitations of sensitivity analysis: The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in Bank's equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Price risks: Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Bank is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Operational risk: Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.