

CENTRAL BANK OF  
THE REPUBLIC OF ARMENIA

ARMENIAN  
FINANCIAL  
SYSTEM

2009

DEVELOPMENT  
REGULATION  
SUPERVISION

2010

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## INTRODUCTION

The 2009 was full of crisis challenges for the financial system of Armenia. Negative indications of global crisis penetrated the financial system already in the fourth quarter of 2008, when economic growth rate declined almost in all areas of real sector.

While implementing policy for mitigating negative impacts of global crisis on Armenian financial system, the Central Bank of Republic of Armenia (hereinafter CBA) considered combination of price stability and financial stability as high priority objective of monetary policy. Because of foreign exchange pressures and conversion of dram denominated deposits to USD, the probability of emergence of foreign exchange liquidity and capital adequacy risks rose. For neutralizing those risks the CBA expanded its intervention in foreign exchange market at the beginning of the year (January and February) with the view of stabilizing foreign exchange rate. At the same time the CBA was quite active in the financial market allowing banks to strengthen their financial positions and withstand challenges rising from the global financial crisis. At the beginning of March, when the financial system was already sufficiently capitalized, liquid and ready to withstand challenges of financial crisis, the CBA stopped the intervention. As a result, the national currency depreciated and average annual nominal exchange rate of Armenian dram against US dollar depreciated for 18.8 percent (while end of 2009 to end of 2008 19.4 percent). Because of economic slump, decline of remittances and factor returns, and also because of depreciation of national currency, the risk-related expenses increased. It is notable, however, that the risks stayed at manageable level and the financial system didn't have liquidity and solvency issues. At the same time, because of comparably small volume of short-term external liabilities, Armenian financial system didn't face the problem of resource outflow from the local economy. In the result of anti-crisis activities implemented by the CBA and other financial institutions none of the financial institutions (as well as non-bank institutions) of Armenia faced insolvency problem. The largest participant of the financial system is the banking system<sup>1</sup> which accounts 92 percent of the assets.

From the point of view of the banking system developments the year can be divided into two halves. The first half of the year was the period for identifying and assessing the risks caused by the crisis, adjustment of the financial positions and development of risk mitigation mechanisms. During the first half of 2009 both Armenian banking system and borrowers exhibited cautious behavior, which brought to decline of credit market activity. As a result, in the first half loans to economy declined for one percent. In the same period the share of non-performing loans ("watched", "sub-standard" and "doubtful" loans) totaled 10 percent. At the beginning of the second half the credit market significantly activated (14 percent growth of loans to economy on annual basis), which was facilitated by stable income expectations of borrowers by banks and borrowers themselves and also by expanding monetary policy and government facilitated programs. In the second half the share of

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<sup>1</sup> During the observed time period banking system consisted of 22 banks

non-performing loans declined and by the end of the year totaled only 4.8 percent of total loans. During 2009, change of the loans structure was one of the distinctive developments according to which loans were mainly issued to legal entities expanding their share in loan portfolio, which in its turn contributed to the economic activity in the second half of 2009.

It is also important that during 2009 capital investments (including also leasing, factoring, credit risk bearing other assets) of the banking system stayed at the same level as in 2008 totaling around 970 billion drams. But since in 2007 and 2008 credit investments rapidly increased, and consequently during 2009 in comparison with the previous year the volume of repayments increased, the growth of credit investments (difference between allocated and repaid credits) during 2009 was less than in 2008 (in 2008 the growth totaled 202 billion drams).

One of the specific developments of the year is the surge of dollarization level. The shares of dram assets and liabilities dropped by 12.5 percentage points and respectively totaled 46.9 percent and 32.4 percent.

Overall, despite various challenges in 2009, the banking system has preserved growth and development tendencies and demonstrated high level of flexibility under the crisis conditions. The banking system ensured 29.5 percent growth of assets, 18.2 percent growth of capital and even though low, but profitability (Return on Assets 0.74 percent, Return on Equity 3.43 percent).

The level of financial intermediation increased in 2009, but it is still less than in many other CIS countries. Parallel to the growth of assets decrease of nominal GDP was registered. As a result, the ratio of banking system assets to GDP increased by 13.8 percentage points and totaled 41.9 percent. The ratio of loans issued by banking system to GDP increased by 5.3 percentage points and totaled 22.2 percent.

In 2009 the CBA took number of measures in order to mitigate the impact of financial crisis on Armenian financial system. The CBA proceeded with reforms to ensure sustainable development of the banking, securities and insurance markets aiming at ensuring financial stability of Armenian financial system, improving clearing systems and sustainable development of financial system.

## CHANGES IN FINANCIAL SYSTEM REGULATORY FRAMEWORK IN 2009

Given the on-going developments in the real and financial sectors of domestic and foreign economy, it is necessary to constantly strengthen and revise the financial system regulatory framework. In 2009, the CBA continued the process of implementing legislative reforms related to the activities of the Armenian financial system.

### Changes in the financial system regulatory framework

#### *Legislative changes*

In 2009, draft laws of *amendments and addenda to the law "On Guarantee of Remuneration of Bank Deposits of Individuals"*, *amendments to the law "On the Central Bank of Republic of Armenia"*, *amendments to the law "On Budget System of Republic of Armenia"* were presented to the Government of Armenia by the CBA. Those amendments were aimed at warding off the financial system from shocks coming from financial crisis and also they were aimed at maximum harmonization of regulatory framework with EU legislative standards.

By the draft law of *amendments and addenda to the law "On Guarantee of Remuneration of Bank Deposits of Individuals"* the limit of guaranteed amount is intended to be increased. In particular

- a) If the depositor has only a dram deposits in the insolvent bank, then the guaranteed amount is four million drams instead of two million drams,
- b) If the depositor has only a foreign exchange deposits in the insolvent bank, then the guaranteed amount is two million drams instead of one million drams,
- c) If the depositor has both dram and foreign exchange deposits in the insolvent bank and the dram deposit is more than two million drams (instead of one million drams), then only dram deposit is guaranteed up to four million drams (instead of two million drams),
- d) If the depositor has both dram and foreign exchange deposits in the insolvent bank and the dram deposit is less than two million drams (instead of one million drams), then dram deposit is fully guaranteed and foreign exchange deposit is guaranteed for the difference of two million and remuneration amount of dram deposit (instead of the difference of one million and remuneration amount of dram deposit).

*Amendments to the law "On the Central Bank of Republic of Armenia"* and to the law *"On Budget System of Republic of Armenia"* were introduced, for the case, if at the stage of remuneration the financial stability (liquidity and/or solvency) of financial system is undermined, the Central Bank would be able to provide the Deposit guarantee fund with loans with budgetary guarantee in accordance with terms, conditions and maturity defined by the Board of the CBA.

In 2009 the CBA in cooperation with deputy groups and individual deputies of the Parliament continued the enhancement of the legislative initiatives presented by the CBA in previous years, in particular, amendments and addenda to the laws *“On Compulsory Motor Third Party Liability Insurance”*, *“On Investment Funds”*, *“On Payment and Settlement Systems and Payment and Settlement Organizations”*, *“On Restriction of Cash Operations”*, *“On Bankruptcy”* and to Civil Code.

### ***Regulatory changes***

***In 2009 the CBA developed and revised a number of regulations relating to banking activities, as follows:***

- Amendments and addenda to Regulation No1 “Registration and licensing of banks and branches of foreign banks, registration of bank branches and representative offices, qualification and registration of heads of banks and branches of foreign banks” were endorsed. In particular:
  - a) A unified form for providing information about managers (chairman, board members, head and members of internal audit, general manager and deputies, chief accountant and deputies etc.) of banks for their registration was defined. It was maximally simplified to make it more comprehensible for the users.
  - b) For the purpose of ensuring more operative submission of the information the data relating to managers of banks for their registration will be submitted in electronic form.
  - c) In the cases when the data concerning the managers is changed, only altered and identification data (first and last names, date of birth) will be submitted instead of filling in a new form.
- The board of the CBA approved amendments and addenda to Regulation No2 “Regulation of Banking; Main Prudential Standards for Banking” according to which:
  - a) Funds of the B 1 component of economic stability credit program (approved by the Government of Armenia on 26<sup>th</sup> of June 2009, 717 A decree) and mortgage refinancing funds attracted from “National mortgage company” CJSC universal credit organization are not included in the reserve requirement
  - b) In addition to current prudential framework foreign exchange prudential was introduced. The prudential consists of two components: total foreign exchange position and the open position for each currency. The maximum ratio of total foreign exchange position to total regulatory capital of the bank is set at 10 percent. The maximum ratio of open positions for every currency to the total regulatory capital of the bank is set at seven percent. The foreign exchange prudential is calculated on daily basis. The prudential will enter force starting from 14<sup>th</sup> of April 2010.
  - c) It was defined, that the long-term subordinated borrowings, that are included in the calculation of the total regulatory capital, will not be included in the reserve requirement.

- For the restriction of risks of long foreign exchange positions in commercial banks by the decree of the board of the Central Bank (300 N 20<sup>th</sup> of October, 2009) special economic prudential was approved, which entered in force starting from 26<sup>th</sup> of October 2009 and lasted for six months. The prudential had two components
  - a) The maximum ratio of long position for each foreign currency to the total regulatory capital of the bank,
  - b) The maximum ratio of total for all long positions to the total regulatory capital of the bank.

The maximum threshold for the prudential is set

- a) of long position for each foreign currency to the total regulatory capital - seven percent
  - b) of total for all long positions to the total regulatory capital – ten percent
- For the purpose of data collection concerning the operations in secondary market by non-investment service providers with all type of bonds and stocks and its later usage for supervision, statistical and analytical purposes, amendments were introduced to Regulation No3 “Banks’ Reports; Submission and Publication of Banks’ Reports” and Regulation No15 “Credit Organizations’ Reports; Submission and Publication of Credit Organizations’ Reports” resulting in one additional report for both banks and credit organizations. With the introduction of these new reporting forms regulation on “Report on operations in the secondary market with bonds and its submission” was repealed.
  - By the decree of the Board of the Central Bank amendments and addenda were made to “Record keeping and management of the database of the deposits and depositors by the banks” regulation, which requires banks to submit the database of their depositors to the CBA on monthly basis and until the 5<sup>th</sup> working day of the next month. For ensuring the credibility of the data during the on-site supervision the data submitted to the CBA will be compared with the local electronic database of deposits and depositors in the inspected bank.

***The major by-laws designed and amended by the CBA in 2009, concerning the insurance market were as follows:***

- Amendments were introduced to Regulation No 3/01 "Licensing of Insurance Activities and Insurance Intermediary Activities; Accounting of Insurance Agents; Registration of Branches and Representations of Foreign Insurance Companies operating in the Republic of Armenia; Obtaining Preliminary Consent to Qualifying Holding in Statutory Capital of Insurance Company; Insurance Company's Business Plan Disclosure, Procedure and Date; Testing of Qualification of Candidates for Officials and Responsible Persons of Insurance Company and Insurance Intermediary; Professional Competency and Qualification Criteria Officials and Responsible Persons of Insurance Company and Insurance Intermediary; Themes of Qualification Test for Officials of Insurance Company and Responsible Persons of Insurance Intermediary". The main purpose of amendments was to make

the registration procedures of insurance companies' and insurance intermediaries' managers identical and simpler by reduction of submitted documents and introduction of electronic submission of the documents needed for registration.

- Amendments were made to Regulation No 3/02 "Procedure on the Size, Formation and Calculation of the Main Prudential Standards of Insurance Companies". The upper threshold of single borrower (N5) was increased. The calculation and the scope components of the prudential were revised. The main purpose of these amendments was to permit the insurance companies, with preliminary consent of the CBA, to sign large insurance contracts, accounts receivable for which can exceed 20 percent of total capital of the insurance company, only if the conditions defined by this regulation regarding sufficient level of credit risk mitigation are satisfied. Taking into consideration the variation of the previously forecasted growth trends describing the insurance market in the light of the financial crisis, delay of mandatory insurance implementation, the total regulatory capital requirement for 2010 for insurance companies was revised. The floor on total regulatory capital requirement for all non-life classes of insurance was set to 1 billion drams until 2011. Starting January 1<sup>st</sup> of 2011 for liability, loan and guarantee issuance insurance classes the floor on total regulatory capital requirement was set to 1.5 billion drams.
- The purpose of the amendments to Regulation No 3/09 "Regulation on Classification of Assets of Insurance Companies; Formation and Use of Loan Loss Provisioning" was to settle the issues and uncertainties arising from the implementation of the regulation (in particular, the structure of classified assets was clarified, new definitions were added to avoid dualities, etc.). Next purpose was to ensure the credibility of data concerning the classified assets for ensuring its usage for supervision, statistical and analytical purposes.
- By amendments to Regulation No 3/04 "Procedure and Periods of Filing Reporting Forms by Insurance Companies; Information to be Included in the Forms" (approved by the CBA decree No 271-N of 08.09.2009) new reporting forms were added. In particular, a new reporting form was introduced concerning annual state fees and payments to the office of financial ombudsmen. The purpose of this amendment is to ensure a proper supervision over the payments of the state fees and payments to the office of financial ombudsmen. A new report (on "Foreign exchange positions") was introduced, the purpose of which is to allow supervisors to get information about foreign exchange risk bearing assets, liabilities, off-balance items and foreign exchange positions during the off-site supervision and based on this information assess and analyze the sensitivity of the insurance company to foreign exchange risks. Due to amendments to Regulation No 3/09 "Regulation on Classification of Assets of Insurance Companies; Formation and Use of Loan Loss Provisioning" changes were introduced to other reporting forms, which were aimed at enhancement of supervision and analysis processes. A new reporting form was introduced for operations of insurance companies with securities (both for bonds and stocks) in secondary market. The data collected by this report is used for supervision, statistical and analytical purposes. By this decree

the scope of the reports defined in “Report on operations in the secondary market with bonds and its submission” regulation (in force prior to approval of this decree) was clarified, and the range of reports was enlarged including also bonds and stocks (with rating less than “C-”), which were not formerly included in the reports.

- The purpose of amendments to regulation No 3/08 of “The methodology for comprehensive assessment of insurance companies’ performance (CARAMELS) in the territory of Republic of Armenia” was to improve the efficiency of off-site supervision of insurance companies by the improvement of CARAMELS calculation methodology (adjustment of existing shortcomings and introduction of new ratios based on new off-site data).
- Regulation No 3/10 on “Minimum requirements of internal control system of insurance companies” (decree of the CBA board of 02.06.2009 163-N) was developed and approved. The objective of this regulation is to support the implementation of efficient internal control systems in insurance companies by introducing minimum requirements of internal control systems, which in its turn will lead to the improvement of risk assessment systems in insurance companies encouraging financial stability and development of Armenian insurance market.
- “Special regulation on guarantee issuance class activities and restrictions by insurance companies” was developed and approved. In the view of ensuring financial stability of insurance system, mitigation of risk level, protection of the rights of the insured and interested parties, activities of guarantee issuance insurance were restricted and special regulation was applied for those activities.

***In 2009, the CBA designed and revised a number of normative and legal statutes in the sphere of securities market regulation.***

- Amendments and addenda were enacted to Regulation No4/05 “Testing of Qualification of Persons Rendering Investment Services, Operator, the Central Depository Managers and Natural Persons Rendering Investment Services; Themes of Qualification and Professional Capacity Tests”. The main purpose of amendment was to make the procedures of registration of managers off CBA supervised organizations identical and simpler by reduction of submitted documents and introduction of electronic submission of the documents needed for registration.
- Regulation No 5/06 “Regulation on volume and publication of information on the website by Regulated Market Operator” was enacted, which will raise the level of transparency, hence confidence in securities market, and also it will assist market participants in accurate decision making.
- In result of amendments and addenda introduced to Regulation 4/03 “Procedure, Form and Periods of Filing Reporting Forms submitted to the CBA by Persons Rendering Investment Services” all

persons rendering investment services disclose information (for investment activities) concerning their activities through one regulation in unified manner (previously reports on the repo agreements and operations of banks, state agents and dealers in secondary market of state securities were submitted by separate regulations).

- Regulation No 4/09 on “Requirements of the entities auditing financial activities of Reporting Issuers” was approved. According to it only respectable, credible, reputable and not affiliated to reporting issuer audit companies can audit the activities of reporting issuer, if they meet requirements approved by this regulation. In the result of the implementation of this regulation confidence of potential investors and interested parties towards the auditors will increase, hence increasing confidence towards the reporting issuers, which in its turn will increase the confidence towards investing in securities.
- Amendments and addenda were introduced to Regulation No 4/02 “Main Prudential Standards of Investment Companies; Floors and Ceilings; Accounting Procedure; Components Included in the Calculation; Infringements of Prudential Standards”. The total and statutory capital requirements of investment companies were changed in accordance with the rights rising from scope of their services. Besides, capital adequacy requirement was introduced. As investment companies face the same risks as the banks, prudential supervision systems of both banks and investment companies were harmonized. The amended Regulation No 4/02 will enable the CBA to broaden the prudential supervision framework of investment companies. The amendments will increase confidence towards the investment company and in general will contribute to the financial stability.
- Amendments were introduced to Regulation 4/03 “Procedure, Form and Periods of Filing Reporting Forms Submitted to the CBA by Persons Rendering Investment Services”, Regulation 5/03 “Procedure, Form and Periods of Filing Reporting Forms Submitted to the CBA by Regulated Market Operator”, Regulation 5/04 “Procedure, Form and Periods of Filing Reporting Forms Submitted to the CBA by Central Depository”, purpose of which was to define a new reporting form for annual state fee payment and payments to the office of financial ombudsmen. The new reporting form will enable to monitor annual state fee payments and payments to the office of financial ombudsmen of investment companies, regulated market operator and the Central depository.
- Amendments and addenda were also introduced to
  - Regulation No 4/01 “Licensing and Registration of Investment Companies, Registration of Branches of Investment Companies and Foreign Investment Companies and Representations, Procedure on Preliminary Consent to Obtain Qualified Holding in Statutory Capital of Investment Companies, Procedure, Mode and Timeframe of Submission of Business Plans by Investment Companies, Provision of Advice on Investment Services Rendered by Credit Companies”,

- Regulation 5/01, "Registration and Licensing of Regulated Market Operator; Procedure for Obtaining Preliminary Consent for Qualifying Holding in Statutory Capital of Regulated Market Operator ; Procedure, Mode and Timeframe for Presentation of Business Plan",
- Regulation No 5/02 "Registration and Licensing of the Central Depository; Procedure for Obtaining Preliminary Consent for Qualifying Holding in Authorized Capital of the Central Depository; Procedure, Mode and Timeframe for Presentation of Business Plan",
- Regulation No4/05 "Testing of Qualification of Persons Rendering Investment Services, Operator, the Central Depository Managers and Natural Persons Rendering Investment Services; Themes of Qualification and Professional Capacity Tests".

The abovementioned amendments and addenda were mainly made due to the necessity of forming unified registration and qualification procedures in all financial organizations for the managers of the financial organizations. In result, parallel to other financial organizations, amendments were introduced to the registration and licensing regulations of investment companies, regulated market operator and Central depository. Main amendments and addenda were as follows:

1. It was defined, that tests of candidates' qualification and professional capacity will be carried out by the CBA testing service or other organization approved by the CBA chairman.
2. The procedure of enrollment of candidates in examination and description of the examination procedures were brought in line with "Regulation on Organization of Qualification Exam in the Central Bank of Armenia". And it was also defined, that the candidates can sign up for the exam by phone or website, instead of submitting written letter.
3. It was defined, that certificates of the successful participants are both handed in paper form and placed on the CBA web site (according to prior version of the regulation the certificates were placed only on the web site)
4. Article was excluded from respective regulations, according to which the CBA could prohibit candidates from taking exam, if their certificate was revoked in the last three years.
5. Taking into consideration that currently the CBA doesn't prolong expiration of qualification certificate without qualification test, the article, describing this process, was excluded from Regulation No 4/05 and other regulations.
6. Taking into consideration article of law on "Amendments and addenda to the law on Accounting of Republic of Armenia" stating that the financial institutions should file and publish financial reports according to IFRSs, respective changes were introduced in the themes of qualification and professional capacity tests.
7. It was defined, that the registration and professional capacity compliance test of insurance companies', investment companies', regulated market operator's and Central depositories' board members and board heads are carried out in one stage by conducting an interview at the CBA board. Besides, it was defined that head of the board and board members have the opportunity to register in the CBA without passing qualification and professional capacity compliance tests, if the CBA board doesn't find the interview necessary.

8. In order to receive licenses through postal service the parties applying for license should present information on their postal address.

At the same time amendments introduced to Regulations No 1, 13, 3/01,4/01, 5/01 and 5/02, were aimed to define the procedure of registration of the brand names of banks, credit organizations, insurance companies, investment companies, regulated market operator and Central depository. This was conditioned by the relevant changes in the law of "Brand Names".

***Major changes in the regulatory framework of other financial system participants are as follows:***

- Based on the law "On Dissemination of Credit Information and Activities of Credit Bureaus" the CBA board endorsed Regulation 9/01 "Licensing of Credit Bureaus; Requirements on the Premises, Technical, Security and Software Adequacy of Credit Bureaus". The regulation describes the list of documents needed for getting license, bases for license rejection, form, procedure and scope of information of the recordkeeping for credit bureaus, requirements on the premises, technical, security and software adequacy, etc.
- The CBA board endorsed Regulation No 9/02 "Terms and procedures of providing credit bureaus' database to the CBA or other credit bureaus". The regulation states, that credit bureau, before termination of the license by the CBA board, transfers or provides the database to the CBA or other credit bureau, if other credit bureaus refuse to accept or acquire the database. The regulation before providing or transferring the full database, credit bureau should destroy all copies of database and shouldn't keep any data.
- According to amendments introduced to Regulation No 13 "Registration and Licensing of Credit Organizations; Recording of Branches and Representations; Consenting to the Acquisition of Significant Participation in the Statutory Fund; the Qualification of Managers; the By-Laws of Credit Organizations; and Requirements on the Place of Activities and Technical Adequacy of Credit Organizations"
  - The registration procedures of credit organizations' and managers were made identical and simpler by reduction of submitted documents and introduction of electronic submission of the documents needed for registration.
  - Head of the board and board members of credit organizations have opportunity to register at CBA without passing tests on qualification and professional capacity. At the same time the Central Bank can interview candidates to ensure their compliance with qualification and professional capacity requirements.
  - It was defined, that qualification and professional capacity tests of heads of credit organizations will be carried out by CBA testing service. Paper based certificates will be handed to all successful participants, at the same time the list of qualified participants will be published on CBA homepage.

- Following amendments to Regulation 14 "Regulation of Activities of Credit organizations; Prudential Standards for Activities of Credit Organizations" were endorsed:
  - Credit organizations should have internal legal acts regulating guarantee issuance and service activities. The legal acts at least should include terms of guarantee issuance and service.
  - If credit organization, according to its charter, doesn't attract funds through public offer, outstanding amount of the guarantee issued to a single party and its affiliated parties should not exceed total regulatory capital of the credit organization, and outstanding amount of the guarantee issued to all parties should not exceed triple of the total regulatory capital of the credit organization.
- Central Bank board endorsed amendments and addenda to Regulation No 1, Regulation No 10 and Regulation No 12 regulating the licensing procedures of banks, foreign exchange offices and foreign exchange dealers. Amendments are mainly concerning the qualification and professional capacity compliance tests and the registration of the candidates. In particular it was defined
  - that the candidates can sign up for the exam only by phone or through website,
  - paper based certificates will be handed to all successful participants,
  - clause was excluded from the regulations, by which the CBA could deny the candidate to take the exam, if candidates' certificate was revoked in the last three years,
  - According to amendments to Regulation No 12, foreign exchange dealers-brokers do not have the right to operate in the premises of the organizations licensed by the CBA. Besides, financial institutions, their affiliated parties, managers and employees of financial institutions, and also shareholders and their affiliated parties are prohibited to work or be a participant in foreign exchange dealer company.
- By decree of the CBA board (84-N, 07.04.2009) amendments and addenda were introduced to Regulation 11: "Licensing, Regulation, and Supervision of the Organization of Foreign Currency Trading in the Republic of Armenia Territory" (endorsed by 444-N decree, 30.08.2005). The amendments regulate the scope and procedure of information dissemination for foreign exchange trading. The purpose of amendments is to reduce information asymmetry among market participants and also bring the scope and procedure of information dissemination for foreign exchange trading in line with scope and procedure of information dissemination for securities trading.
- Amendments were introduced to Regulation No 16: "Licensing of Money Transfer Organizations, Registration of Branches and Representations, Regulation of Activities, and Qualification of Managers" and Regulation No 17: "Licensing of Organizations Processing and Clearing Payment Instruments and Settlement Documents, Registration of Branches and Representations, and Qualification of Managers". Amendments define the requirements for branches operating in the premises of rural municipalities and offices of telecom operators. The hardware, software and premises requirements for licensing stage were clarified.

### ***Consumer Rights Protection***

- The CBA Board approved Regulation 8/02 “Calculation of Annual Percentage Yield (APY) in Banks” resulting from the law “On Attracting Bank Deposits”. The law states that any public offer concerning interest rate for attracting deposits should include note on annual percentage yield. Regulation 8/02 defines the rules for APY calculation.
- The CBA Board approved Regulation No 8/03 “Information dissemination by banks, credit organizations, insurance companies, insurance brokers, investment companies, Central depository and clearing companies making money transfers”, which defines information dissemination procedures of banks, credit organizations, insurance companies, insurance brokers, investment companies, Central depository and payment system companies through their websites, mass media, informative profiles and other channels(advertisements, posters, etc.).
- The CBA Board approved Regulation No 8/04 “Minimum requirements regulating procedure of customer claims and complaints examination”. New regulatory legal act was presented resulting from law on “Financial Ombudsmen”. According to the law, financial organizations should have internal legal acts regulating customer claims and complaints. Regulation 8/04 defines minimum requirements and principles for the examination of customer claims and complaints submitted to financial organization (except the parties with foreign exchange trade and payment system licenses).
- The CBA Board approved Regulation No 8/05 “Communication terms, procedures, forms and minimum requirements between bank and depositor, creditor and consumer”, which results from the law “On Attracting Bank Deposits” and law “On Consumer Crediting”. The laws define certain conditions for the communication between bank and depositor and between creditor and consumer. Regulation No 8/05 defines the minimum requirements for communication between abovementioned parties prior to, during and after the agreement signing and also the scope of information to be disclosed during these stages.

In the view of consumer right protection a range of activities aimed at strengthening financial and economic awareness were carried out:

1. A website for financial system consumers was launched ([www.abcfinance.am](http://www.abcfinance.am)). The website is primarily intended for the persons without finance or economic education or work experience and for sole entrepreneurs. The purpose of the website is to inform, explain and teach everyone about the world of finance. The website mainly contains educational materials, information on financial organizations and financial services. The website will continually be developed, updated and improved by the CBA.
2. The Central Bank, in cooperation with “Youth Achievement” NGO, has organized “Economics and finance” game-competition, the purpose of which was to encourage teaching of economics and finance at schools.

3. Popular brochures concerning the financial services were developed. Also electronic educational materials (CDs) were developed, which are intended to be distributed in 2010.
4. An educational movie about payment cards was made. The movie was intended to present those, who don't have deep professional knowledge in finance, what payment cards are, what type of payment cards exist, what the advantages of the cards are and in which cases and how the payment cards can be used.

## SUPERVISION IN 2009

The CBA performs an on-going supervision over the financial system participants for the purpose of identifying and preventing excessive risk levels of the financial system participants, combating money laundering and terrorism financing, protecting financial system consumer rights, preventing negative speculative tendencies in securities market and etc. For that reason, the Financial Supervision Department of the CBA performs off-site and on-site inspections of the financial institutions.

In 2009, the Financial Supervision Department performed 539 on-site inspections.

**Table 1. On-Site Inspections and Workload of the Supervisors**

	2007	2008	2009
Number of Supervisors in the Financial Supervision Department	74	74	82
Total assets of commercial banks, credit organizations, insurance companies, securities market participants and pawnshops (yearly average)	674.5 billion drams	964.3 billion drams	1.25 trillion drams
Average workload per supervisor of the Financial Supervision Department	9.1 billion drams	13 billion drams	15.2 billion drams
Number of inspections performed during the year, including:	511	243	539
Comprehensive banking inspections	5	7	5
Targeted inspections in banks	40	10	5
Inspections to ensure compliance with requirements of 13th article of regulation 1 in banks	-	-	14
Credit organizations	5	5	3
Inspections to ensure compliance with requirements of 4th and 10th articles of regulation 13 in credit organizations	-	-	3
Insurance companies	8	8	4
Insurance brokers	-	-	1
Insurance agents	-	-	2
Inspections to ensure compliance with requirements of 7th article of regulation 3/01 in insurance companies	-	-	4
Securities market participants	18	1	8
Other participants of financial market(exchange offices, pawnshops, payments system organizations and other)	435	216	490

In 2009 on-site and offsite inspections of the CBA Financial Supervision Department focused on the following areas:

- risk management system,
- system of internal control,
- combat against money laundering and terrorism financing,
- consumer rights protection,
- integrity of corporate management principles,
- IT sector,
- assessment of asset quality,
- transparency,
- assessment of asset and liability management,
- compliance of business operations with new legislative framework,
- risk level of reinsurance,
- organization and control of Prospectus and/or Trade Prospectus registration procedures,
- control over protection of transparency, integrity and consistency of information subject to dissemination by reporting issuers,
- control over compliance of the business operations carried out by persons propounding public offerings of securities with the provisions of legislation,
- issues relating to grouping of securities market participants in compliance with the requirements set forth by the law "On Securities Market", in particular, authorization of investment service rendered by commercial banks, registration and licensing of investment companies, as well as compliance of their business operations with the basic requirements of the legislation,
- issues relating to introduction of the mechanisms for control over business operations and market conduct of the securities market participants in compliance with provisions of the law "On Securities Market",
- issues on introduction of mechanisms for control and prevention of abuses in securities market (such as price abuse and misuse of insider information for business purposes),
- issues on prevention of the securities market transactions carried out by non-licensed entities,
- compliance with the requirements relating to safe and sustainable business operation,
- quality of rendered services,
- other.

In comparison with 2008 mainly number of infringements relating to legislative issues(235 cases were observed) rose in total number of infringements identified during on-site and off-site inspections performed by the CBA Financial Supervision Department in 2009.

**Table 2. Infringements of financial institutions and penalties in 2009**

	Commer- cial banks	Credit organizations	Insurance companies	Pawnshops	Payment system Companies*
<b>Area of Violation</b>					
Accounting	27	17	14	2	
Asset classification norms	11	1	4	-	
Legislation	175	98	85	198	
Prudential standards	33	1	7	-	
Incompliance with instructions	15	1	5	1	
Reporting delays	13	-	19	9	
Inconsistent data	56	9	208	28	
Total regulatory capital	5	1	1	-	
Credit register	16	11			
<b>Penalties</b>					
Revocation of License	-	-	-	30	
Fines imposed on organization	217	76	236		
Fines imposed on managers	-	-	-		
Penalty	2	-	-		
Warning	125	65	99		
Revocation of manager's professional qualification license	-	-	-		
Termination of license	-	-	-		
<b>Cessation</b>	7	-	8		
* Organizations implementing payment instruments, carrying out money transfers, processing settlement documents and performing clearing operations.					

## **STAFF TRAINING AND COOPERATION WITH SUPERVISORS OF OTHER COUNTRIES**

With the view of enhancing efficiency of the financial system regulation and supervision processes, in 2009 the CBA carried out consistent human resource development policy.

For the purpose of keeping up to date and strengthening professional skills of the staff, enhancing their qualifications, studying international best practices and their local possible implementations in Armenia, in 2009 CBA Financial Supervision Department employees participated in number of local and foreign courses, on-job meetings and conferences. In 2009 CBA staff training activities were supported by the International Monetary Fund, Toronto Center, Bank of International Settlements, banks of Switzerland, Finland, Spain, France, Joint Vienna Institute, European Bank of Reconstruction and Development, German Bundesbank, the Bank of England training center, the USA Federal Reserve System, central banks of Netherlands, Kazakhstan and Russian Federation, national banks of Poland and Czech Republic etc. Topics covered in training courses, conferences and seminars on exchange of work experience, conducted by abovementioned institutions, related to financial stability and anti-crisis management issues, actual issues related to banking, insurance, supervision of securities market participants, risk management and assessment, implementation of new supervision procedures, reforms in the financial system regulation, combating money laundering and terrorism financing.

During the year of 2009 the major topics of the CBA staff training included "Financial Crisis and Monetary Policy", "Financial Stability", "Challenges of Financial Sector", "Crisis Readiness", "Financial Supervision", "Financial Programming and Policy", "Major Supervision Issues", "Stress Testing for Banking Sector", "Macro Stress", "Risk Based Supervision", "Profound Risk management", "Trade Prospectus and Market Infrastructure", "Securities Market Development", "Supervision of Payment System Organizations", "Payment System Assessment Simulation", "Organization and Regulation of Mandatory Insurance System", "Pension Fund Supervision", "Network security", "Combat Against Money Laundering and Financial Violations", etc.

Already in 2007 in line with endorsement of international experts, the CBA took a decision, according to which highly experienced supervision specialists of the CBA have to arrange training courses in order to share their experience and knowledge with the younger colleagues. This process continued also in 2009.

In 2008 several specialists from the CBA attended the training course named "FSI connect", arranged by the Swiss Financial Stability Institute (FSI) in an on-line format, which was conducted in the CBA premises. Training included the following range of subjects: "Capital and Basel 2", "Credit Risk", "Market Risk", "Operational Risk", "Accounting", "Clearing Systems" and "Other Supervision Issues", "Insurance". Each subject is delivered at three levels – fundamental, intermediate and advanced.

The CBA employees also visited central banks of other countries, in order to get acquainted with their experience.

In 2009 CBA continued multilateral and bilateral cooperation with international and foreign organizations.

During the year IMF delegations and consultants of monetary policy, statistics, banking supervision and financial operations fields visited the CBA within the scope of IMF/WB technical support. In October 9-12 International Monetary Fund delegation of seven executive directors paid an introductory visit to CBA.

In 2009 the CBA continued the process of signing agreements and memorandums of understanding (MOUs) between each other within the framework of the intergovernmental committees. In pursuance of economic and technical cooperation agreement between Governments of Republic of Armenia and Peoples Republic of China signed on 11<sup>th</sup> of September 2009 in Beijing, Central Bank of Armenia and Chinese Development Bank Corporation signed agreement concerning banking accounting procedures.

With the view of expanding operational cooperation and conducting negotiations, in 2009 the CBA visited the vice-president of Black Sea Trade and Development Bank, USA Federal Reserve System consultant, and also experts from "Kusters Engineering BV" company, Head of Warsaw stock exchange, experts from International Financial Corporation, European Council MONEYVAL representatives, experts of NASDAQ and OMX companies, experts from "FITCH Ratings", "Moody's Investors Service Co", experts from Citibank, experts of De La Rue Cash Systems company, USAID experts, experts from IMF Statistical Mission (ROSC), experts of Spanish DFC Group, S.A.U company, etc.

In 2009 following events took place in Armenia:

- meeting of banking and finance working group of Black Sea Economic Cooperation Organization,
- IX session of council of heads of securities market regulators of CIS member countries,
- IV plenary meeting of Commonwealth of Independent States Payment Initiative working group,
- X anniversary session of council of heads of securities market regulators of CIS member countries.

The CBA employees participated in international banking and financial conferences, annual meetings, forums, "round table" sessions, consultations, exhibitions and working seminars, where they presented reports and speeches.

The events at which the CBA representatives participated include inter alia international conference "10 Years of European monetary unit, Legal prospects" held in Germany by European Central Bank, international symposium "Impact of Financial Crisis on Economies of Central Asian and South Caucasian Countries" held in Kyrgyzstan by National Bank of Kyrgyzstan and IMF, session of Coordination Council of central banks of Eurasian Economic Cooperation member countries held in

Russian Federation, meeting of EGMONT group members in Qatar, meeting of European Council Anti-Money Laundering and Combat Against Terrorism Financing MONEYVAL committee held in France, meeting of board of directors of Black Sea Trade and Development Bank (BSTDB) held in Greece, annual meeting of HSBC investors and issuers held in UAE, European banking and finance forum in Czech Republic, conference "Redefining the image of payment systems" held by World Bank in South-African Republic, central bank reserve management executive forum held by World Bank in USA within the framework of RAMP program, group meeting of Central and Eastern European banking supervisors in Belarus, the annual meeting and business forum of the European Bank of Reconstruction and Development Board of Governors in UK, "Regulation, management and investment policy of investment pension funds" symposium held by World Bank treasury in Indonesia, the session of the Club of Governors of the Central Banks of the Central Asia, the Black Sea and the Balkan countries in Kyrgyzstan and Kazakhstan, session of Intergovernmental Currency Committee in Russian Federation, the annual meeting and the technical assistance program of governors of the countries under the Netherlands umbrella of the International Monetary Fund and the World Bank in Montenegro, working meeting of Interstate bank experts in Russian Federation, the annual meeting of the Bank of International Settlements Irving Fisher Committee in South-African Republic, German-Armenian foundation board meeting in Germany, annual meeting of presidents of national associations of SWIFT users and members and SIBOS annual conference in Hong-Kong, the annual meeting of the International Monetary Fund and the World Bank Board of Governors in Turkey, conference of member countries of EU anti-corruption initiative in France.

The CBA always stressed the significance of process of lifelong training and education of the staff, in cooperation with foreign partners, which significantly facilitates development of financial regulation and supervision.

# FINANCIAL INSTITUTIONS IN 2009

## COMMERCIAL BANKS

### GENERAL PROVISIONS

#### *Domestic banks*

As of end of December 2009, there were 22 commercial banks operating in Armenia, with 394 branches (10 more branches than in the previous year).

Level of financial intermediation of banking sector has increased considerably, although it is generally lower, than the same indicator of other countries. Parallel to the growth of banking system assets, economy has encountered reduction of nominal GDP, which in 2009 resulted in rise of the Banking Assets/GDP ratio for 13.8 percentage points totaling 41.9 percent. Ratio of banking loans to GDP rose for 5.3 percentage points and totaled 22.2 percent.

#### *Banking system concentration*

Indications of banking system concentration reduction were observed in 2009. The Herfindahl-Hirschman Index of Concentration<sup>2</sup> stayed unaffected or dropped (total liabilities and loans to economy concentration indicators). According to indicators presented in Table 3, Herfindahl-Hirschman Index of Concentration is set within 0.06-0.1 range, reflecting a comparatively low level of concentration in the banking system.

*Table 3. The Herfindahl-Hirschman Index of Concentration*

Indicators	31.12.07	31.12.08	31.12.09
Total assets	0.08	0.07	0.07
Total liabilities	0.08	0.08	0.07
Total capital	0.07	0.06	0.06
Loans to economy	0.09	0.08	0.07
Time deposits of natural and legal persons	0.09	0.09	0.09
Demand deposits of natural and legal persons (including bank accounts)	0.11	0.10	0.10

<sup>2</sup> The Herfindahl - Hirschman Index of Concentration can have values within the range of 0-1 and describes the level of concentration (values close to 0 indicate low level of concentration).

Throughout the year, the polarization among the banks contracted a little. At the beginning of the year the share of the 10 largest banks' total assets in the total assets of the banking system was 76 percent and the share of the 4 largest banks' total assets within those was 44 percent, while at the end of the year those figures totaled 76 percent and 40 percent respectively. For all indicators presented in Table 4 polarization level for 4 largest banks contracted.

**Table 4. Banking sector concentration level (in %)**

Indicators	31.12.07	31.12.08	31.12.09
<b>Total assets</b>			
CC 4 (share of assets of the 4 largest banks' assets within total assets of the banking system)	45	44	40
CC 10 (share of assets of the 10 largest banks' assets within total assets of the banking system)	77	76	76
<b>Total liabilities</b>			
CC 4	46	46	41
CC 10	80	80	80
<b>Total Capital</b>			
CC 4	41	38	36
CC 10	67	66	64
<b>Loans to economy</b>			
CC 4	50	48	39
CC 10	83	79	76
<b>Time deposits of natural and legal persons</b>			
CC 4	41	40	37
CC 10	81	79	81
<b>Demand deposits of natural and legal persons (including bank accounts)</b>			
CC 4	51	47	47
CC 10	81	78	82

The level of competitiveness in the Armenian banking system during 2009 was assessed based on the model designed by Panzar and Ross<sup>3</sup>. Panzar-Ross model was used to assess the impact of expense factors on interest income, such as impact of wage expenses, fixed assets and interest expenses, using the banking system data for 2004-2009. The value of H-statistic<sup>4</sup> indicator, which is

<sup>3</sup> Panzar and Ross model is based on the theoretical models for competition, monopolistic competition and monopoly. According to the model, the growth of input factor prices in monopolistic market leads to the growth of marginal expenses, which leads to the reduction of yield and total income (because the participants are willing to reduce the acquisition of input factors at high prices). In the competitive market, the growth of input factor prices leads to the same growth of marginal expenses and income. In an oligopolistic competition environment, the growth of input prices results in a smaller non-proportional growth of income.

<sup>4</sup> The value of H-statistic, calculated using Panzar and Ross model, reflects the level of market competitiveness. Where the H-statistic value is close to 1, market is considered perfectly competitive, the 0<H<1 range reflects oligopolistic competition, while the value of H-statistic below zero means the market is monopolistic.

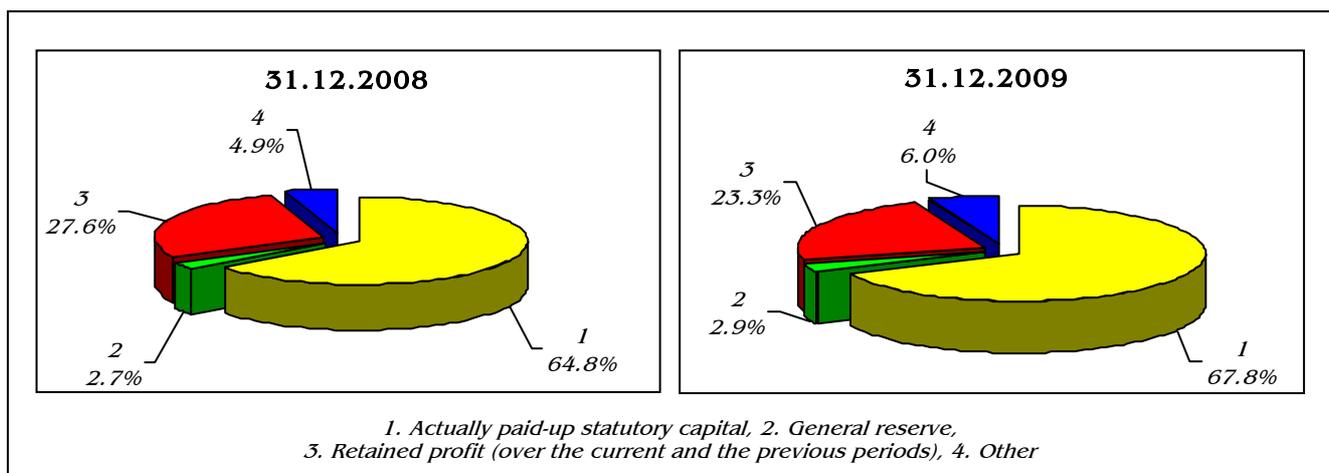
the sum of ratios assessing the impact of expense factors on interest income, is 0.3 for Armenian banking sector. This shows the existence of oligopolic competition elements.

## BANKING SYSTEM CAPITAL

### *Capital Growth Trends*

Over the reporting year, total capital of the banking system grew by 18.2 percent (42.8 billion drams), and totaled 278.4 billion drams. Growth of the total capital was mainly driven by the growth of the banking system profit and statutory capital. In 2009, 8 banks increased their statutory funds, in overall by 36.1 billion drams. Despite international financial crisis, even international investors have considerably increased their presence in Armenian banking system. The major share of the growth (28.6 billion drams) was conditioned by the financing from foreign sources, as a result of which the share of non-residents within the total statutory capital of the banking system grew for 6.3 percentage points and totaled 74.0 percent at the yearend against 58 percent in the beginning of the year.

**Chart 1. The Structure of the Banking System Total Capital**



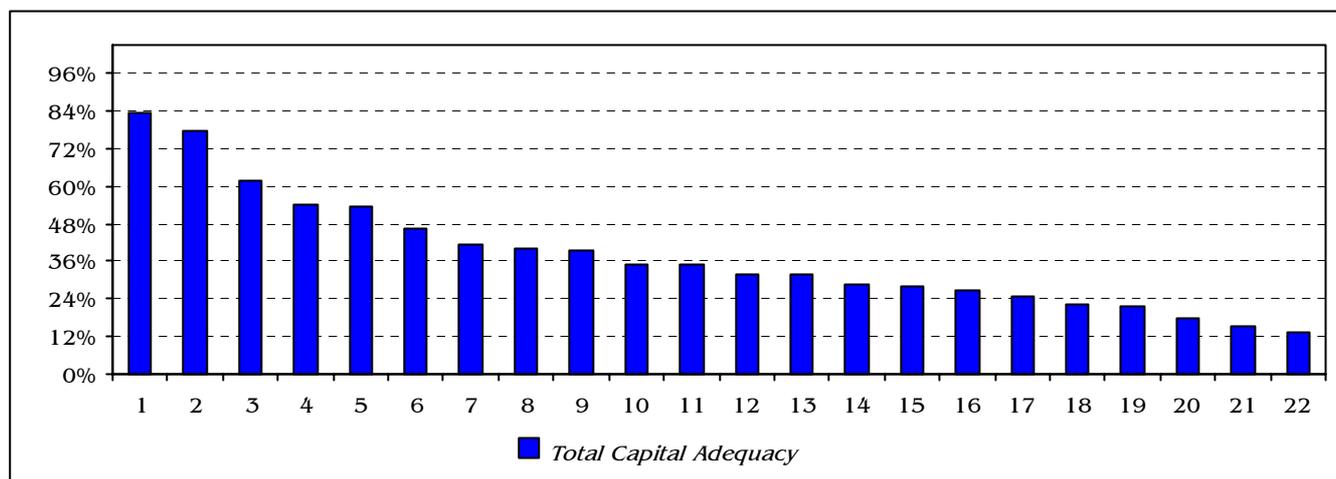
According to supervision reports in 2009, net profit of the banking sector totaled 8.6 billion drams, meanwhile, according to financial statements in compliance with IFRSs, net profit totaled 15.4 billion drams<sup>5</sup>. The growth of total liabilities was 14.6 percentage points more than the growth of total capital. As a result, total capital to total liabilities ratio (leverage) dropped by 3.3 percentage points and totaled 26.6 percent at the end of the year.

<sup>5</sup> The main difference between net profit in supervision reports and IFRS is mainly due to the fact that according to IFRS 1% allocations to reserve for possible asset losses for standards loans are not considered as an expense

### ***Banking system capital adequacy***

In comparison with number of countries capital adequacy of Armenian banking sector is considerably high. High level of capital adequacy allows the banking system to neutralize the risks using their own resources. In the light of global financial crisis none of Armenian banks faced the problems of insolvency, which was mainly due to high level of capital adequacy. Growth rate of regulatory capital of banks exceeded growth rate of assets, which resulted in increase of prudential capital adequacy ratio by 0.9 percentage points totaling 28.4 percent (prudential minimum requirement is set 12 percent)

***Chart 2. Total Capital Adequacy of Banks<sup>6</sup>***



### ***Shareholders of commercial banks***

Out of 22 commercial banks operating in Armenia, only one bank is a limited liability company, 3 are open joint-stock companies and 18 are closed joint-stock companies.

Participants (shareholders, equity holders) of the Armenian banking system are 1,642 natural and legal persons, of which 83 are non-residents. Except 3 banks, which have a status of open joint-stock company, participants of the remaining 19 banks are 66 natural and legal persons, out of which 34 are non-residents. In six banks, 100 percent of shares are owned by a single person (one resident legal person, four non-resident legal persons and one non-resident natural person), while in 10 other banks a single shareholder owns more than 50 percent of the shares.

<sup>6</sup> In charts with individual banks, the same order 1-22 banks is not preserved throughout the document

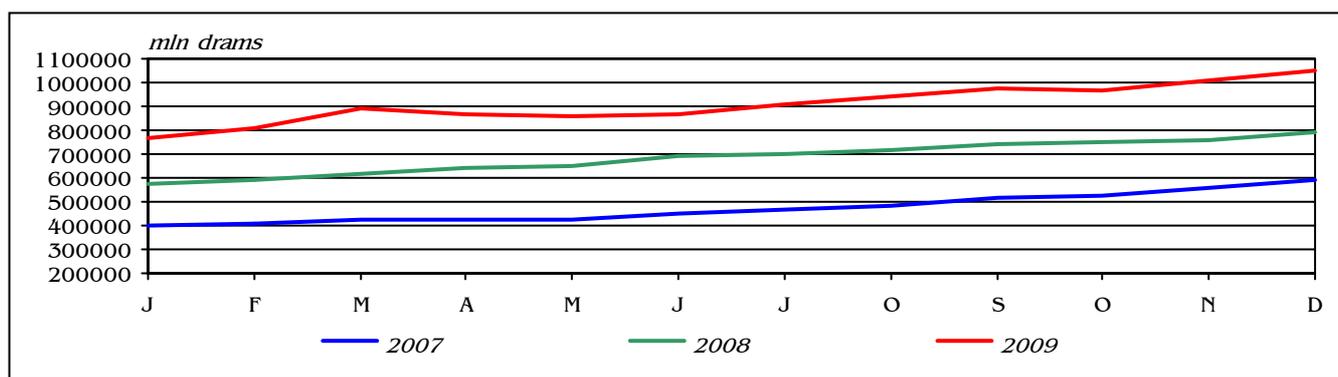
## BANKING SYSTEM LAIBILITIES

### *Borrowed funds*

In 2009, total liabilities of the banking system grew by 32.9 percent (259.3 billion drams) and at the end of the year totaled 1 trillion 47.6 billion drams.

Financial crisis noticeably contributed to dollarization growth, as the reduction of net remittances and decrease of export mainly due to fall of copper and molybdenum prices resulted in foreign exchange pressures and Armenian dram devaluation. As a result, dram liabilities dropped by 4.2 percent, while foreign exchange liabilities grew by 63.1 percent, in the aftermath of which the share of dram liabilities at the end of the year fell by 12.5 percentage points and totaled 32.4 percent.

**Chart 3. Banking System Liabilities**

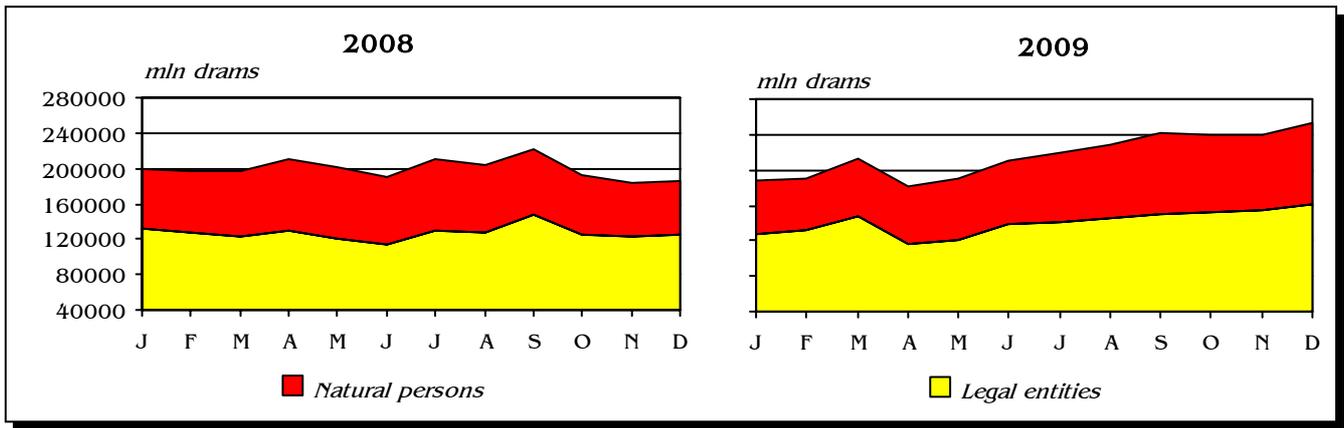


The growth of liabilities was mainly driven by the growth of total deposits (177.3 billion drams), liabilities to the government (51.4 billion drams) and liabilities to other non-bank financial organizations (27.2 billion drams). Liabilities to the government mainly grew as a result of various credit programs aimed at enhancing economic stability, which were implemented by the government through intermediary of banking system.

Total deposits (term and demand), attracted from natural and legal persons, grew by 39.5 percent and at the end of the year totaled 626.8 billion drams. The growth of foreign exchange deposits was the main source for total deposit growth. Foreign exchange deposits increased by 100.3 percent (231.8 billion drams), while dram deposits decreased by 24.9 percent (54.5 billion drams).

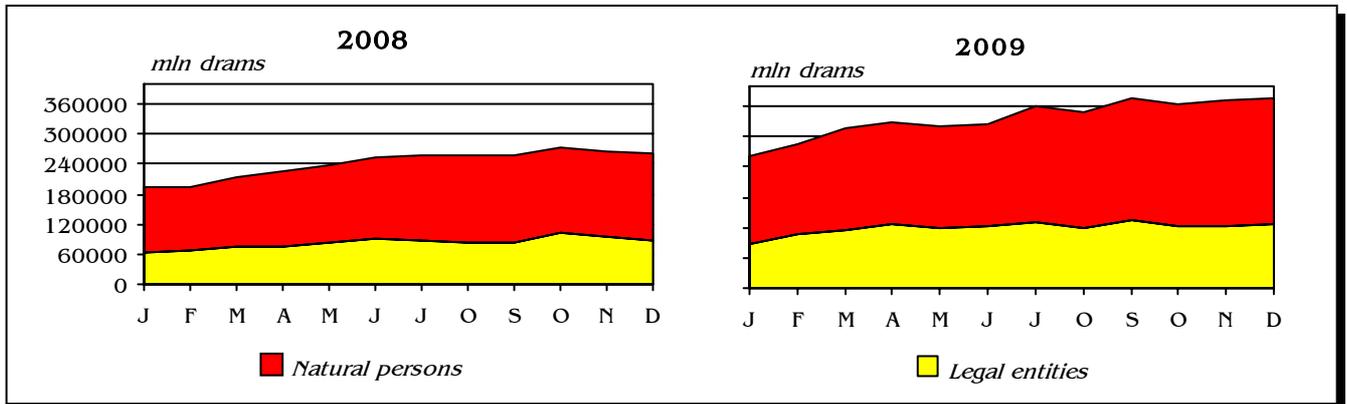
Over the reporting year, demand deposits of natural persons and legal entities grew by 29.6 percent (by 37.0 billion drams) and 46.3 percent (28.6 billion drams) respectively. The number of current accounts held by the legal entities grew by 18.7 percent, while the number of current accounts of natural persons grew only by 15.3 percent resulting in increase of the volume of natural persons' accounts.

**Chart 4. Demand Deposits**



The volumes of natural persons' and legal entities' time deposits grew by 51.6 percent (by 30.2 billion drams) and 33.6 percent (by 43.7 billion drams) respectively, while the number of term accounts grew by 31.1 percent and 13.3 percent respectively, reflecting certain trends of the time deposits enlargement both in terms of natural and legal persons.

**Chart 5. Time deposits**

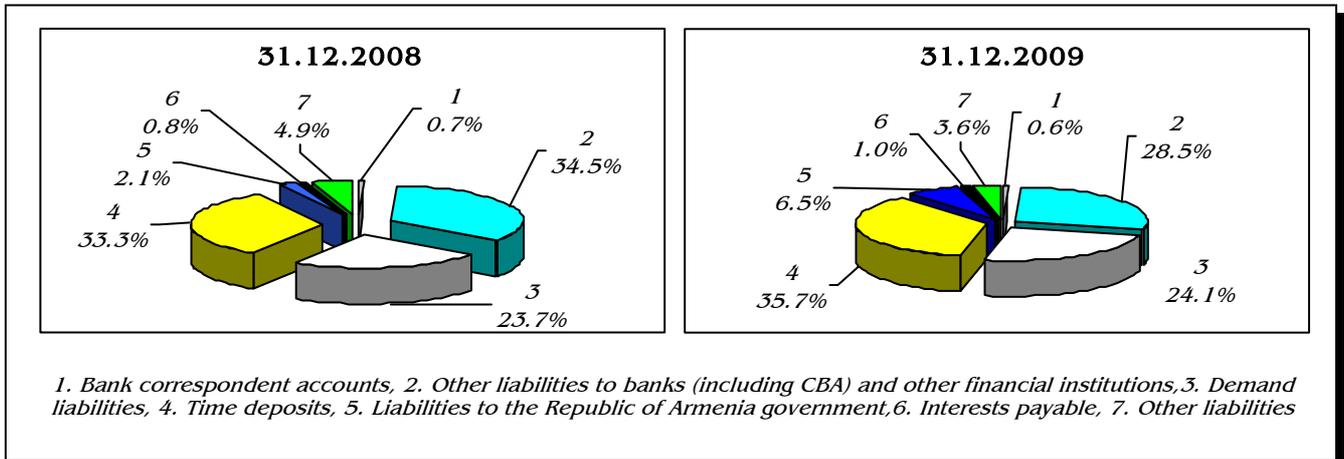


Loro correspondent accounts of the banks dropped by 24.8 percent (by 18 billion drams). At the end of the year, 46 percent of loro accounts were the share of non-resident banks. 54 percent of non-resident banks' loro accounts belonged to Russian banks, while 38 percent to the Iranian banks.

### ***Structure of banking system borrowed funds***

As of December 31, 2009, the share of the income-bearing liabilities within the total liabilities of the banking system totaled 96.1 percent (compared with 95.0 percent in the previous year). Excluding low cost demand deposits, the share of cost incurring time deposits stayed almost the same compared to the previous year, reaching 70.2 percent (70.1 percent previous year) by the end of the year.

**Chart 6. Structure of the Banking System Total Liabilities**



Within the structure of Armenian banking system's total liabilities share of liabilities to banks and other financial institutions shrank, while share of liabilities to the government increased.

At the end of 2009, 26 percent of the borrowed funds were on demand terms (deposits, banking accounts, correspondent accounts and etc.), 53 percent were time deposits with a maturity of up to 1 year, and 21 percent were time deposits with a maturity of over 1 year.

### ***Commercial banks' customers***

During 2009, the number of customers serviced by commercial banks grew by 11.9 percent (by 120.7 thousand), of which the number of legal entity customers grew by 16.0 percent (by 8.2 thousand), and the number of natural person customers grew by 11.7 percent (by 112.4 thousand).

By the end of the year, the number of natural person customers totaled 1 million 76.1 thousand, while the number of legal entity customers grew by 59.6 thousand.

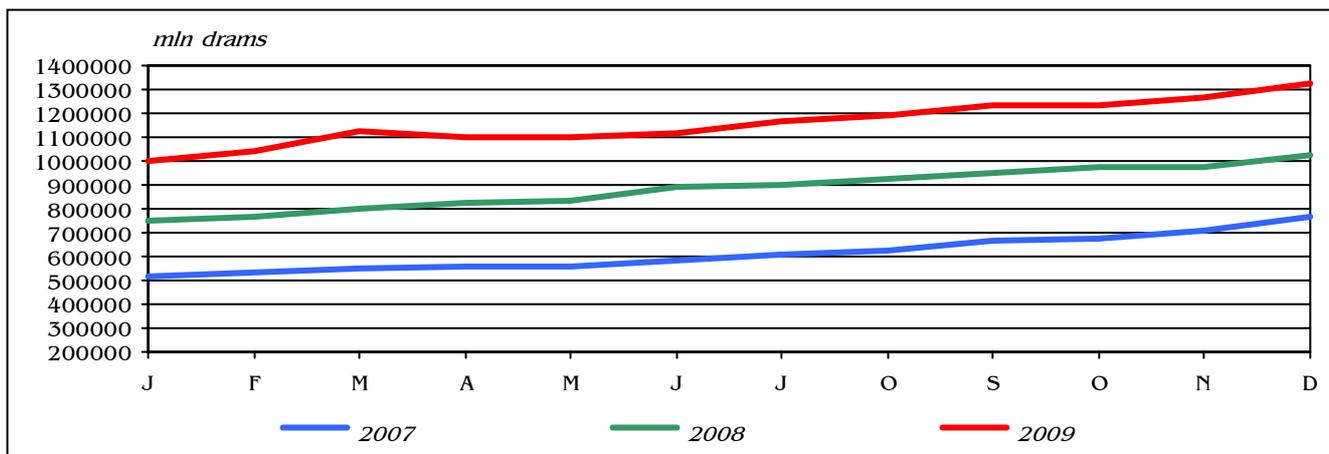
Over the year, the number of banking accounts (current and term) grew by 11.3 percent and totaled 1.5 million, out of which 77 percent were current accounts and 23 percent were term accounts. The number of accounts of legal entities grew by 11.0 percent or 11.5 thousand and totaled 1,068.1 thousand by the end of the year. The number of accounts of natural persons grew by 11.4 percent or by 145.5 thousand and by the end of the year totaled 1.4 million.

### BANKING SYSTEM ASSETS

#### *Growth trends of financing provided by the banking system*

Over 2009, total assets of the banking system grew by 29.5 percent (by 302.1 billion drams), and totaled 1 trillion 326 billion drams at the end of the year.

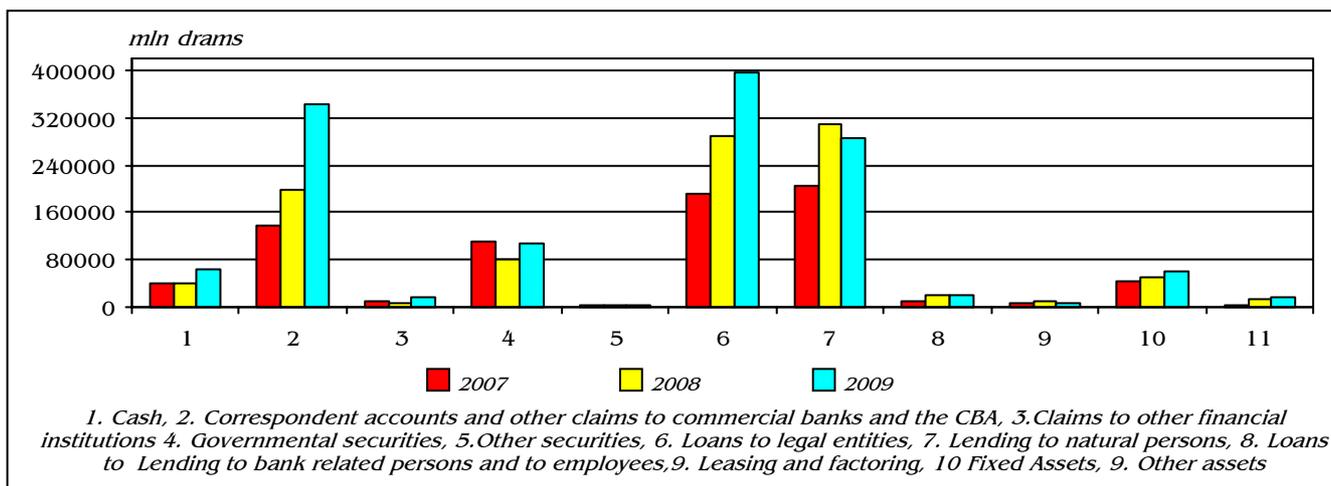
**Chart 7. Total Assets of the Banking System**



Growth of assets was mainly driven by growth of nostro accounts (including in Central Bank) and loans to economy.

During 2009, loans to economy (including loans to legal entities and natural persons) increased by 14 percent (86.6 billion drams) and totaled 703.4 billion drams. Growth was solely driven by 36.7 percent growth of loans to legal entities, whereas loans to natural persons dropped by 7.3 percent. It is notable that, the growth was observed in second half of the year. During the first half of the year banks were getting adjusted to new challenges and risks of financial crisis and showed prudence while lending. And only from second half of the year the lending market significantly livened up.

**Chart 8. Banking System Assets**



Correspondent accounts held in the CBA and other claims to CBA grew by 5.3 percent (by 88.7 billion drams); nostro correspondent accounts and other claims to other banks grew by 57.2 percent (by 54.5 billion drams). Nostro correspondent accounts had a high level of concentration, both in terms of geographic breakdown and residency. At the end of the year, 99.1 percent of correspondent accounts were kept in non-resident banks (compared with 96.2 percent in the previous year). The shares of correspondent accounts held in American, German and Russian banks within the total accounts of non-resident banks were 38, 23 and 15 percent respectively (compared with 40, 15 and 11 percent as of 31.12.2008). The rest of accounts (24 percent) are held in the banks of other countries.

Volume of investments in government securities increased by 34.6 percent during the year, and at the end of the year totaled 109.2 billion drams. The volumes of investments in other securities grew by 27.6 percent and at the end of the year totaled 4.3 billion drams.

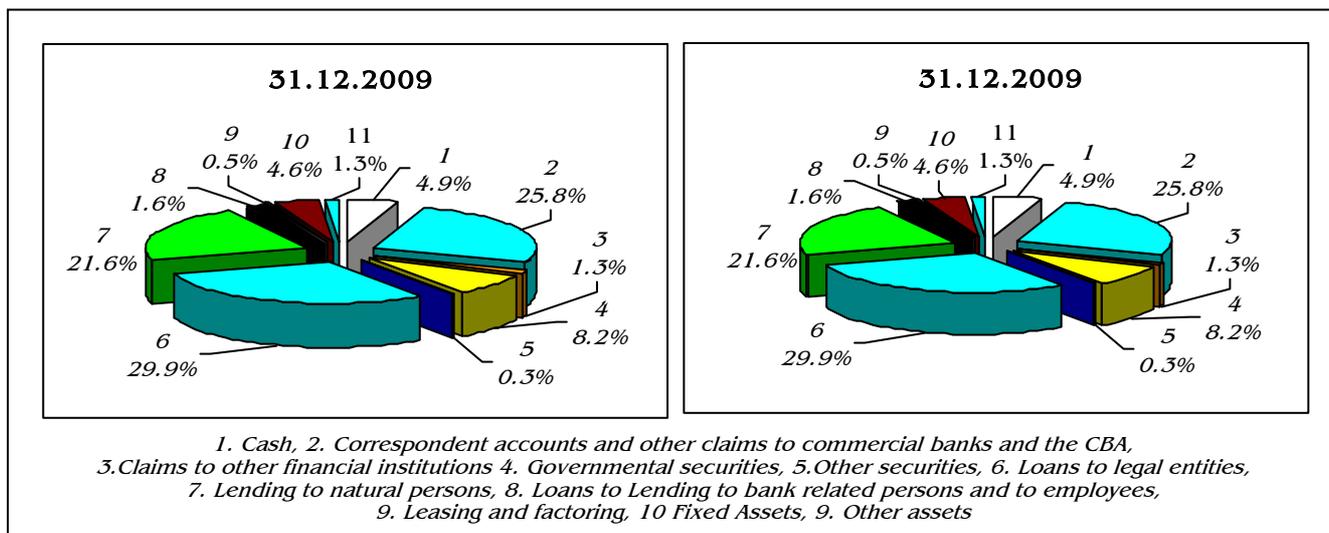
Over the year, the banking system's fixed assets grew by 18.4 percent and at the end of the year totaled 61.3 billion dram, or 22.0 percent of total capital. It is remarkable that the amount of fixed assets is considerably smaller than the amount of total capital in all Armenian commercial banks.

***Structure of the financing allocated by the banking system***

In conditions of careful lending policy adopted by banks during the crisis, as opposed to high return assets, low return and highly liquid assets registered rapid growth. As a result, as of 31.12.2009, the share of assets with high return within total assets totaled 72.6 percent (compared

with 78.3 percent as of 31.12.2008). If correspondent accounts with low return are excluded, the share of other high return assets would be 68.9 percent (compared with 72.0 percent at end-December 2008).

**Chart 9. Structure of the Banking System Assets**



Within the structure of assets, the share of claims (including correspondent accounts) to the banks (including CBA) increased considerably and the share of loans to natural persons shrank. In 2009, the maturity structure of the allocated funds remained almost unchanged. As of December 31, 2009, 25 percent of the allocated funds were on demand terms, 37 percent had a maturity of 1 to 12 months, and 38 percent had a maturity over 1 year, or were on demand terms (compared with 23, 40 and 37 percent, respectively in the previous year).

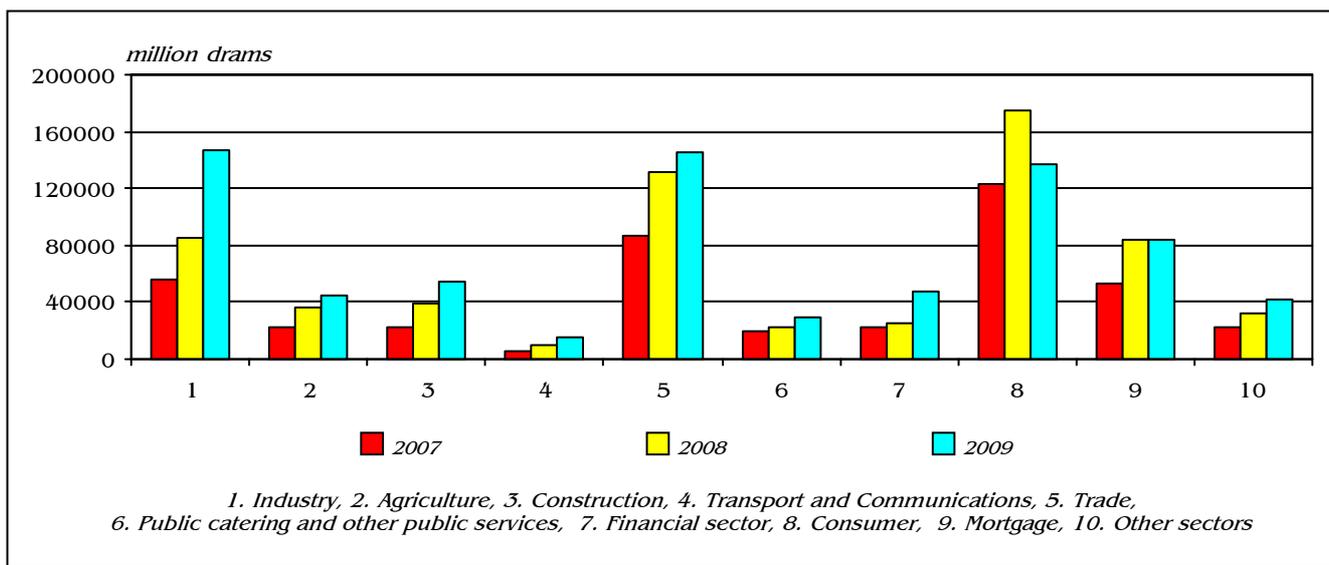
***Banking system credit investments (total loans, leasing, factoring and loans and deposits in financial organizations)***

Banking system credit investments grew by 23.9 percent (155.5 billion drams) and totaled 806.2 billion drams. Dram credit investments shrank by 7.0 percent, while foreign exchange credit investments grew by 72.9 percent. As a result, the share of dram credit investments within total credit investments decreased by 15.3 percentage points and at the end of the year reached 46.0 percent.

Credit investments to non-residents increased by 656.3 percent and totaled dram 59.9 billion, while credit investments to residents grew by 16.1 percent and totaled 746.3 billion drams.

During 2009, sector growth of credit investments was observed in all sectors except the consumer loans. In general the year was uncharacteristic from the point of view of changes of sector structure. If until 2009 consumer loans prevailed in the structure of loans, during the current year mainly industry lending rapidly grew increasing its share in loan portfolio. This trend will support the economic growth and eventually long-term development of banking system. Industry lending grew by 71.2 percent (61.1 billion drams), agriculture 21.1 percent (7.7 billion drams), construction 37.1 percent (14.7 billion drams), transport and communications 50.7 percent (5.2 billion drams), trade 10.2 percent (13.5 billion drams), public catering and other public services 30.0 percent (6.8 billion drams), mortgage loans 0.4 percent (0.3 billion drams) and other sectors 30.0 percent (1.8 billion drams). Consumer loans shrank by 21.8 percent (38.1 billion drams).

**Chart 10 Volumes of Loans Extended to Residents and Receivable Debts**

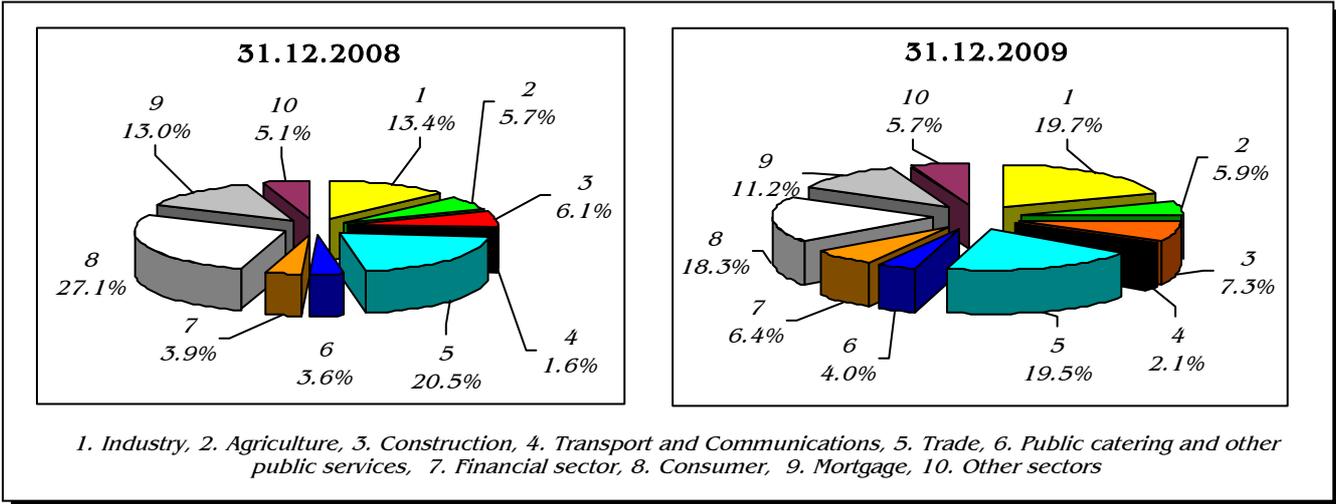


Banking system loans are mainly concentrated within industrial, trade, consumption and real estate sectors.

The Herfindahl-Hirschman concentration coefficient of banking lending to the economy dropped compared with the previous year (by 0.024) and totaled 0.141, mainly due to the decrease of consumer loans that had a large share in total loans. The average concentration by banks was 0.175, which shows a relatively high level of the sectoral concentration of lending in a number of banks.

Long-term loans (with the maturity of 1 year and more) prevailed in total credit investments and its share totaled 69.9 percent.

**Chart 11. Structure of Loans Extended to Residents and Receivable Debts by Sectors of Economy**



The share of long-term loans within loan portfolio grew. The long-term target loans, provided by the mediation of the banks within the framework of projects supported by the international financial institutions, partly contributed to the satisfaction of demand on long-term loans. As of 31.12.2009, 18 banks and 6 credit organizations operating in Armenia serviced nearly all the credit projects supported by the following international financial institutions:

- ✓ the World Bank,
- ✓ German-Armenian Fund,
- ✓ International Development and Communication Corporation,
- ✓ European Bank of Reconstruction and Development,
- ✓ International Fund of Agricultural Development,
- ✓ International Migration Organization,
- ✓ Asian Development Bank,
- ✓ Black Sea Trade and Development Bank,
- ✓ OPEC International Development Fund,
- ✓ International Financial Corporation,
- ✓ Other international financial institutions.

In 2009, loans, provided by the banks within the framework of the projects supported by foreign institutions, grew by 7 percent and at the end of the year totaled 89 billion drams. As of December 31, 2009, the share of the overdue loans within abovementioned loans was 1.3 percent. Around 86

percent of the loans had a maturity over one year, 9 percent had a maturity from 6 months to one year and 5 percent up to 6 months.

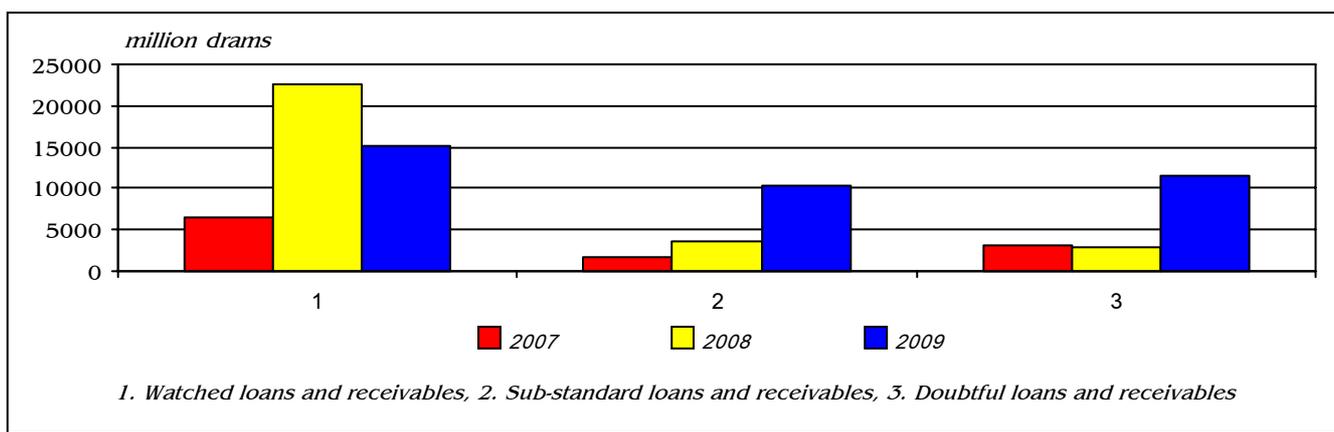
As of December 31, 2009, the major sectors that received loans were the trade sector (32 percent), industry (22 percent), agriculture (14 percent) and mortgage loans (9 percent).

**Quality of credit portfolio**

Rapid growth of loans during previous years and the impact of financial crisis created pre-conditions for deterioration of loan quality, although significant loan quality deteriorations were not observed during 2009. During 2009, the share of non-performing loans (watched, sub-standard and doubtful) grew by 0.4 percentage points and totaled 4.8<sup>7</sup> percent and the share of non-performing assets (loans and receivables) grew by 0.3 percentage points and totaled 4.2 percent. The amount of non-performing loans and receivables grew by 8.0 billion drams and totaled 36.9 billion drams, while the amount of standard assets grew by 137.1 billion drams and totaled 839.7 billion drams. During the reporting year, the share of non-performing assets within the total assets grew by 1.5 percentage points and totaled 3.9 percent.

At the end of the year, 0.4 percent of the non-performing assets belonged to non-residents, while 99.6 percent belonged to residents. Within the sectoral structure of resident loans the share of non-performing assets was relatively high in the construction sector (7.4 percent), trade (6.7 percent) and mortgage (6.8 percent).

**Chart 12. Banking System Non-Performing Assets**



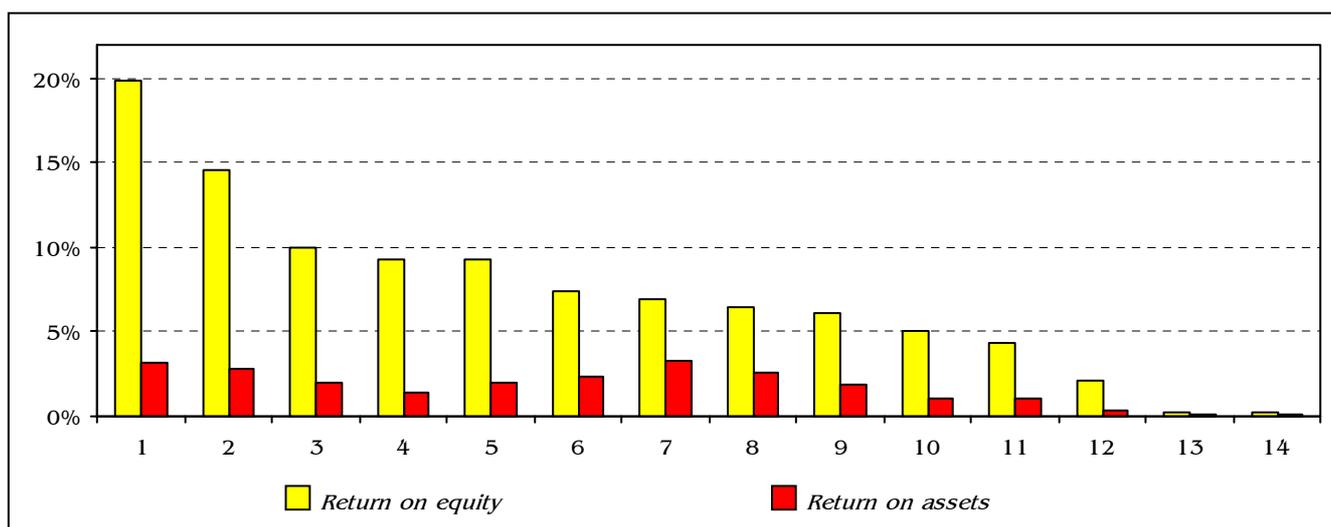
<sup>7</sup> According to IMF methodology 90 day overdue assets are included into non-performing assets (including "hopeless"). Taking into consideration this approach non-performing loans/total loans ratio would be 6.1 percent.

## BANKING SYSTEM FINANCIAL PERFORMANCE

### *Banking System Profitability*

In 2009, profit of the banking sector according to supervision reports totaled 8.6 billion drams<sup>8</sup>. During the year, 14 banks operated with profit, with the total amount of net profit totaling 12.4 billion drams. According to IFRS net profit totaled 15.4 billion drams, Return on Assets (ROA) totaled 1.3 percent and Return on Equity (ROE) 6.2 percent.

*Chart 13. Profitability for 14 Profitable Banks*



2009 was packed with crisis challenges for banking sector. Because of economic slump, decline of remittances and factor returns, depreciation of national currency the level of expenses related to credit and foreign exchange risks increased. In result, compared with the previous year, the banking system profitability indicators were considerably lower. Although it is remarkable that the risk level kept within manageable bounds and none of the banks faced liquidity and insolvency problems. In 2009 banking system return on assets (net profit to average annual assets ratio) totaled 0.7 percent, while return on equity (net profit to average annual equity ratio) totaled 3.4 percent (in 2008 3.0 percent and 13.4 percent respectively). Over the year, banking system net operational margin<sup>9</sup> dropped by 1.6 percentage points and totaled 2.9 percent.

<sup>8</sup> The main difference between net profit in supervision reports and IFRS is mainly due to the fact that according to IFRS 1% allocations to reserve for possible asset losses for standards loans are not considered as an expense.

<sup>9</sup> Net operational margin is equal to the net interest and net non-interest income to average annual total assets.

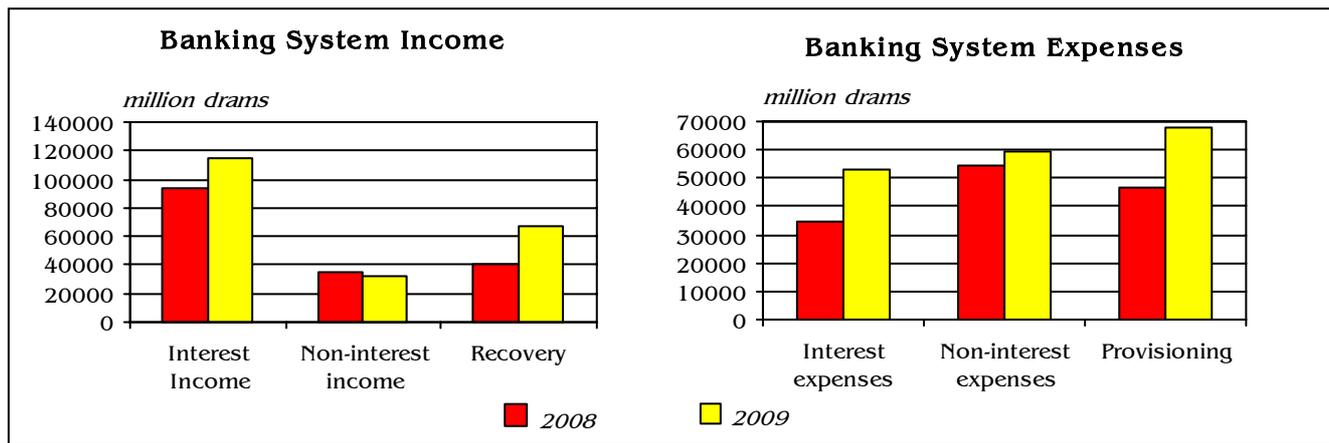
The Herfindahl-Hirschman index of concentration for 14 banks that operated with profit grew by 0.035 over the previous year and totaled 0.156. This indicator reflects a slight increase of concentration level in the banking sector in regard to profit.

**Structure of Income and Expenses**

As a result of credit risk growth in 2009 conditioned by global crisis considerable increase of the share of recoveries on the reserve for possible asset losses and the provisions to the possible asset losses reserve within the structure of income and expenses was observed.

Compared with the previous year, gross income in 2009 grew by 25.2 percent (or by 43.1 billion drams), while gross expenses grew by 47.6 percent (64.9 billion drams).

**Chart 14. Banking System Income and Expenses**



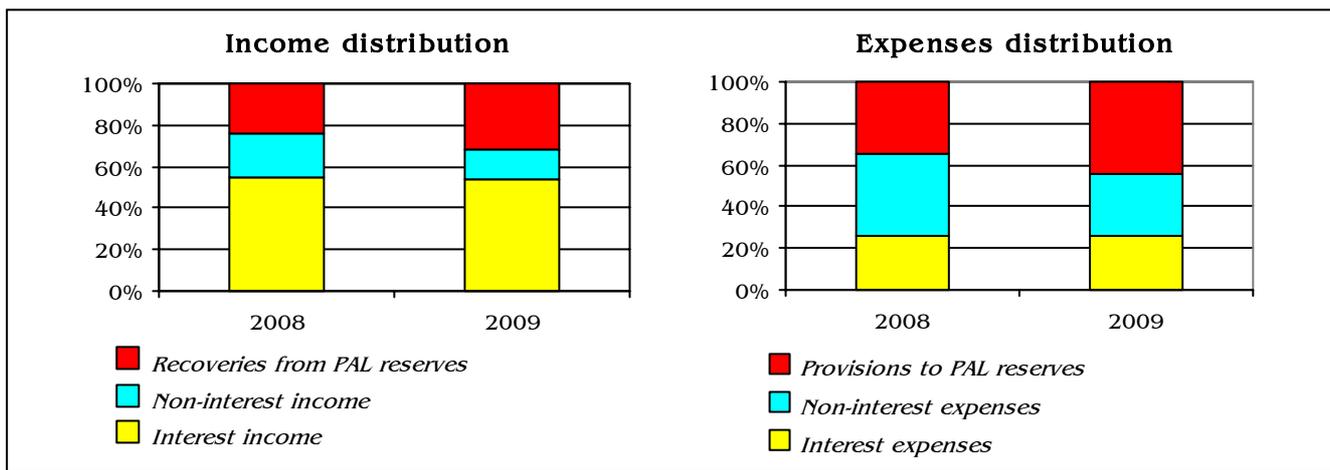
Within gross income, interest income grew by 21.4 percent; non-interest income fell by 10.4 percent, while recoveries on the reserve for possible asset losses grew by 64.4 percent.

Compared with the previous year, interest expenses grew by 52.0 percent, non-interest expenses by 8.6 percent, while the provisions to the possible asset losses reserve grew by 90.4 percent.

As a result of the growth of the mentioned income and expenses, the share of recoveries on the reserve for possible asset losses in total income grew by 7.5 percentage points, while the share of provisions to the possible asset losses reserve in total expenses grew by 9.9 percentage points.

The growth of the banking sector interest income was mainly driven by 21.4 percent growth of income on loans provided to economy. The share of income on loans to economy within total interest income stayed unchanged totaling 83.8 percent.

**Chart 15. Structure of Banking Sector Income and Expenses**



The decline of the banking sector non-interest income was mainly driven by the loss of foreign exchange revaluation. The share of income on intermediation fees within non-interest income was 48.7 percent, while the share of income on foreign exchange trade was 43.6 percent.

The growth of the banking sector interest expenses was mainly driven by 54.1 percent growth of interest expenses on time deposits, the share of which within total interest expenses was 51.1 percent.

The growth of the banking sector non-interest expenses was mainly driven by 27.0 percent growth of rent on bank building and other fixed assets and by 40.1 percent growth of wages and other payments deemed equal thereto. Those components accounted for 5.5 and 43.3 percent of non-interest expenses respectively. In 2009, the growth of the banking sector average wages continued. Parallel to 2.9 percent growth of wages, the number of employees in the banking sector stayed almost unaffected.

### BANKING SECTOR FINANCIAL RISKS

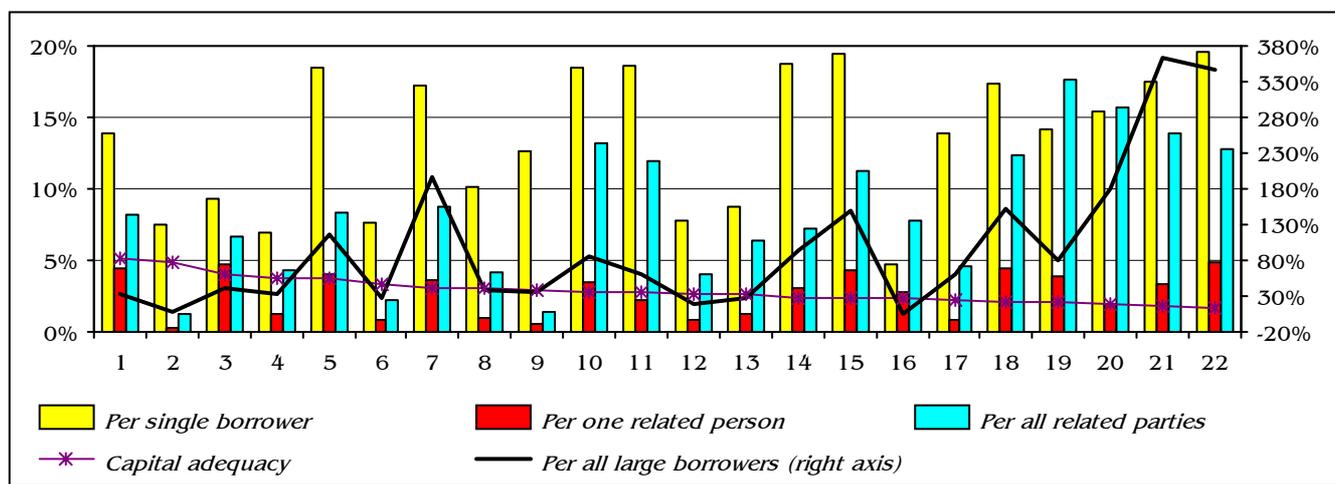
The global financial and economic crisis had an impact on Armenian banking system starting from the fourth quarter of 2008. Although during 2009 losses associated with credit and foreign exchange risks slightly increased, the risks of the Armenian commercial banks were at a manageable level and the financial stability was not undermined.

### Credit risk

Rapid growth of lending in the recent years and the impact of the global financial and economic crisis on Armenian economy had little influence on the quality of loans. In 2009, the share of non-performing loans (“watched”, “sub-standard” and “doubtful” loans) grew by 0.4 percentage points. During the first half of 2009 both the banking system and borrowers exhibited cautious behavior, as a result of which the activity of credit market declined. But starting the second half of 2009 significant activity was observed in credit market, which was facilitated by stable income expectations of the borrowers by banks and borrowers themselves, expanding monetary policy and by government facilitated programs. It is remarkable, that in the first half of the year the share of non-performing loans rose up to 10 percent, while in the second half it declined and totaled only 8 percent of total loans.

Non-performing assets (loans and payables) totaled to 14.3 percent of the total capital (13.5 percent in the previous year). Assuming the exclusion of 9.3 billion dram possible asset losses reserve from 36.9 billion dram non-performing assets, the remaining part of the non-covered non-performing assets will be equal to 10.7 percent of the regulatory capital, which means that in the worst scenario, when all classified assets are written off (the value of collateralized assets is not considered) the financial stability of the banking system will not be undermined. Prudent credit risk management is significantly distinguished among risks management issues present at financial system.

**Chart 15. Prudential Requirements by Banks**



During 2009, the share of net provisions to reserve within total assets grew by 1.1 percentage points and totaled 1.6 percent.

Concentration of credit investments by sectors of economy declined as the volume of consumer loans dropped, which had the biggest share at the beginning of the year. Meanwhile loans to industry sector, which had fewer shares, grew rapidly<sup>10</sup>.

As of December 31, 2009, the banking system capital adequacy ratio totaled 28.4 percent, maximum risk per single borrower 15.9 percent of regulatory capital, per large borrowers 104.5 percent, per single related party 2.9 percent and per all related parties 8.7 percent. These indicators prove that the risks are manageable.

### ***Foreign exchange risk***

In 2009, the average nominal exchange rate of Armenian dram against US dollar depreciated by 15.8 percent. The indications of financial crisis impact on Armenian banking and real sectors were possible to observe already in the last quarter of 2008. At the beginning of 2009 the major issue of CBA monetary policy was the combination of problems of price and financial stability issues. For neutralizing foreign exchange liquidity and capital risks caused by national currency depreciation pressure, outflow of savings from financial system and conversion of dram deposits to dollar, the CBA, starting the beginning of 2009, increased its presence in foreign exchange market trying to stabilize foreign exchange rate. During January and February the CBA was rather active in Armenian financial market allowing banks to secure their financial positions and withstand the pressures caused by global crisis. At the beginning of March, when the financial system was sufficiently capitalized, liquid and ready to withstand challenges of financial crisis, the CBA stopped the intervention, which resulted in a new equilibrium level of foreign exchange rate.

As a result in 2009, compared with previous years the foreign exchange risk losses were higher. Reflected by the fluctuations of the dram exchange rate against other currencies, the banking system incurred 5.7 billion dram currency revaluation loss, which was equal to 2.2 percent of the banking system regulatory capital (the loss of the previous year was equal to 0.4 percent of the banking system regulatory capital). Loss from revaluation of currency was observed in 14 banks, while 8 banks had revaluation profit. It is worth mentioning that during 2009, the banking system had 13.8 billion dram income from foreign exchange trade (5.7 percent drop compared with the previous year).

Calculations in accordance with the foreign exchange risk assessment VAR (Value at risk) methodology as of December 31, 2009, show with 95 percent probability that possible daily losses on currency revaluation will not exceed 2 billion drams<sup>11</sup>.

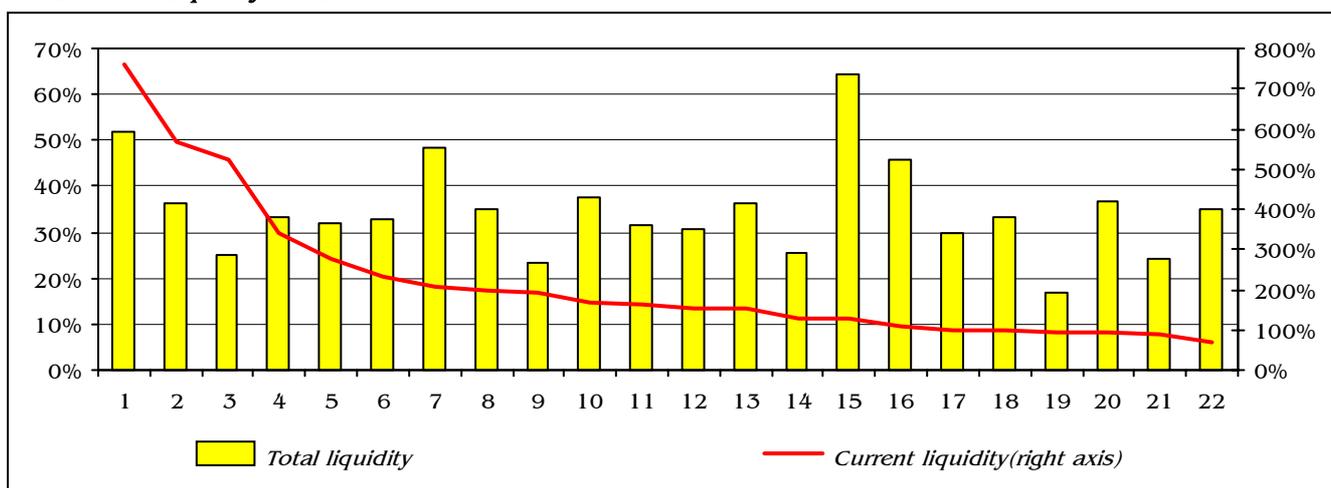
### ***Liquidity risk***

In 2009, as a result of more cautious credit policy the growth rate of assets (29.5 percent) more than twice exceeded the growth rate of loans (14 percent). As a result, the level of liquidity rose considerably. In 2009 the liquidity of banking system was at rather high level.

<sup>10</sup> See Chart 11 (Structure of Loans Extended to Residents and Receivable Debts by Sectors of Economy)

<sup>11</sup> During loss calculation by VaR model it is assumed that the foreign exchange positions of the banking system will stay unchanged

**Chart 16. Liquidity Indicators of Banks**



Over the year, the volume of highly liquid assets of the banking system expanded by 88.8 percent and totaled 420.8 billion drams. Subsequently, the banking system total liquidity prudential (highly liquid assets to total assets ratio) and current liquidity prudential (highly liquid assets to demand liabilities ratio) grew respectively by 10.6 and 37.7 percentage points and totaled 34.4 and 140.8 percent.

Total and current liquidity indicators were above the prudential standard margin and did not pose liquidity risks.

From the liquidity point of view, because of comparably small volume of short-term external liabilities, Armenian financial system didn't face the problem of resource outflow from the local economy. It is also emphasized that liabilities would not fully rely on large depositors and concentrations of the banking system liabilities would be excluded. Over 2009, the share of "large" liabilities<sup>12</sup> grew by 0.2 percentage points and totaled 32.9 percent.

**Price risk**

Price risk in the Armenian banking system is at a low level. In 2009, the banking system practically did not incur losses associated with price risk.

At the end of the year, banking system investments in relatively risky non-government securities totaled 4.3 billion drams, or 1.7 percent of the regulatory capital, and therefore even sharp

<sup>12</sup> The sum of all the funds, which all separately exceed 5 percent of the bank's total liabilities, without taking into account their interrelation.

fluctuations of prices on these securities would not have a strong adverse impact over the banking system. The share of assets kept for trade and available for sale in total assets is rather small and the price risk is assessed quite low.

Revaluation of the financial assets kept for trade and available for sale resulted in 6 million dram loss (0.02 percent of regulatory capital), while revaluation of the fixed assets resulted in 288 million loss (0.1 percent of regulatory capital).

Minor fluctuations of prices on the fixed assets would not lead to high losses either. Assuming that market prices on the fixed assets drop by 30 percent, the real estate revaluation losses of the banking system would be equal to 5.9 percent of regulatory capital. As of end-December 2009, the value of the fixed assets totaled 61.3 billion drams.

The impact of real estate price drop on credit portfolio was also assessed (from point of credit risk view). According to stress tests, a failure to recover 100 percent of vulnerable credit portfolio<sup>15</sup>, given 30 percent devaluation of market prices on real estate, could lead to 5.3 percent loss (taking into consideration selling off collateralized fixed assets at depreciated price ) of the total banking system regulatory capital.

### ***Interest rate risk***

Parallel to the slight growth of the average maturity on assets, average maturity on liabilities grew as well.

Interest rate risk of the banking system is at a manageable level, as the average maturity of assets and liabilities is short, hence, in case of changes in market interest rates, the banking system can quickly respond and modify interest rates. Over the recent years, the weighted average maturity gap of the banking system assets and liabilities almost did not change, remaining around 6 months range.

According to the calculations of interest rate risk based on duration methodology, 2 percentage points growth of total market interest rates (both assets and liabilities), would narrow economic value of the banking system capital by 1.5 billion drams or by 0.6 percent of regulatory capital.

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<sup>15</sup> *Vulnerable credit portfolio is the sum of the balance on loans with book value exceeding 30 percent of the devaluated value of real estate collateralized against them.*

# CREDIT ORGANIZATIONS

## GENERAL PROVISIONS

### Domestic credit organizations

In 2009, four companies were granted with the license for carrying out credit organization business activities, namely "National Mortgage Company"<sup>14</sup> CJS universal credit organization, "SME Investments" CJS universal credit organization, "Fides Mortgage Company" CJS universal credit organization and "Credit Union" CJS universal credit organization. Licenses of "Cascade Credit" and "Izmirlyan" universal credit organizations were revoked. During 2009, the number of credit organizations' branches grew by 7. As of December 12, 2009, there were 27 credit organizations operating in Armenia (with 55 branches), of which 4 leasing companies, one leasing union and 22 universal credit companies.

### Credit organizations concentration

During 2009 compared with previous year drop of concentration level of credit organizations was observed. Herfindahl-Hirschman Index by various indicators mainly declined. According to indicators presented in Table 5, Herfindahl-Hirschman Index of Concentration is set within 0.1-0.12 range, reflecting a comparatively low level of concentration in the credit organization system.

**Table 5. The Herfindahl-Hirschman Index of Concentration**

Indicators	31.12.07	31.12.08	31.12.09
Total assets	0.14	0.14	0.10
Total liabilities	0.20	0.17	0.12
Total capital	0.09	0.09	0.11
Loans to economy	0.16	0.15	0.11

<sup>14</sup> The CBA on 16 of June 2009 registered "National Mortgage Company" universal credit organization, which will be secondary mortgage market operator (mortgage fund) and will refinance mortgage loans issued in primary market.

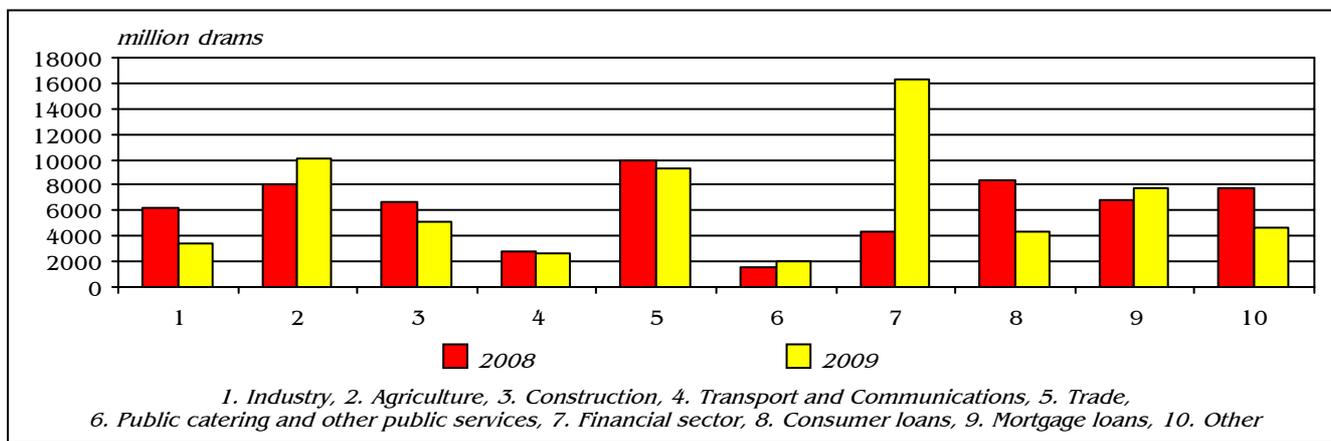
In the view of strengthening development of mortgage market and ensuring efficient operation of "National Mortgage Company" with the assistance of International Financial Corporation consultants an action plan was developed. Also by the initiative of the CBA a taskforce was formed addressing issues of mortgage market development.

At the same time for the development of business plan of "National Mortgage Company" and for the assessment of mortgage market international experts were invited. The latter will have assisted number of activities, particularly- improvement of mortgage loan refinancing procedures, development of concept paper addressing issues rising during the transfer of ownership rights of mortgage loan and its registration with State Committee of Real Estate Cadastre, etc.

## ASSETS, LIABILITIES, CAPITAL AND FINANCIAL RESULTS OF CREDIT ORGANIZATIONS

Over 2009, total assets of credit organizations grew by 15.2 percent (10.3 billion drams) and totaled 75.8 billion drams, or 5.7 percent of the banking system assets (compared with 6.4 percent at the beginning of the year). Growth of assets was observed in 20 credit organizations while for 7 credit organizations decrease of assets was observed.

**Chart 18. Credit organizations' Loans and Receivables to residents**



Within the structure of loans mainly claims on banks and other financial organizations grew (by 12.5 billion drams). During the year, in terms of crisis, loans to economy (including leasing) dropped by 13.9 percent and totaled 50.3 billion dram (the decline was also conditioned by withdrawal of 2 companies from this market). Credit organizations cover almost all sectors of economy. The average loan interest rates offered by credit organizations were somewhat higher than in the banking system. A large portion of the population still prefers to borrow money from credit organizations, considering that lending services provided by credit organizations are more affordable. By-sector comparison shows that mainly industry and consumer loan sectors declined respectively by 46 percent (2.9 billion) and 47 percent (3.9 billion). Consequently the share of industry and consumer loans dropped and the share of financial sector lending grew.

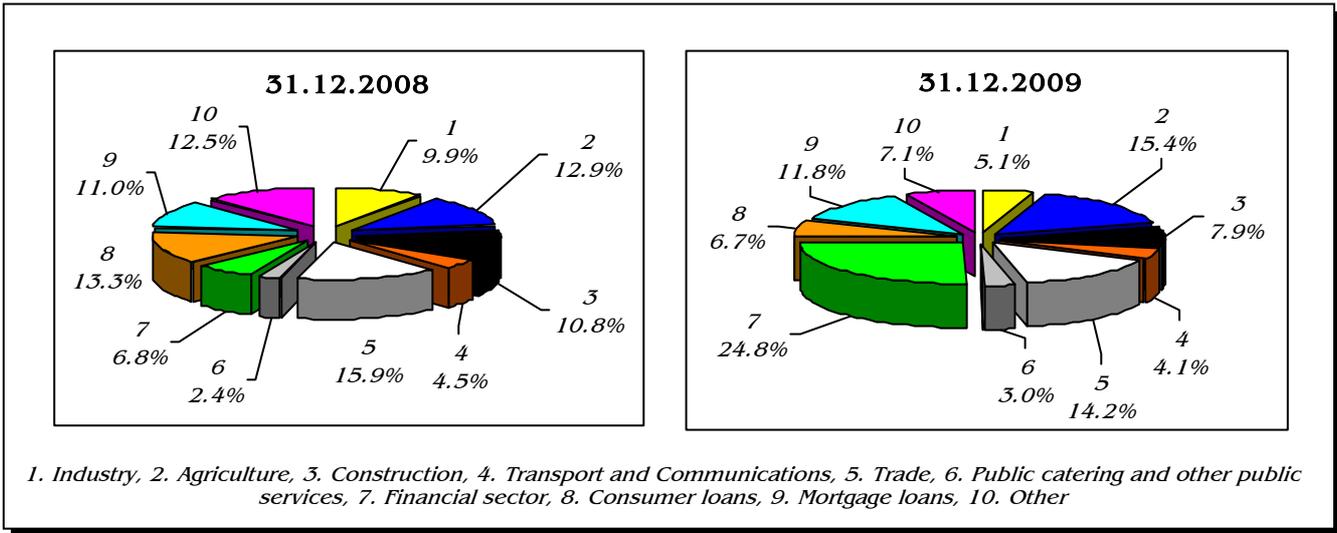
The share of non-performing loans of credit organizations ("watched", "sub-standard" and "doubtful" loans) grew by 0.1 percentage points and at the end of the year reached 4.1 percent. The share of non-performing loans within the sectors of economy is comparably large in the consumer loan sector (10.3 percent of the loans are non-performing) and in industry sector (8.1 percent of the

loans are non-performing). The share of non-performing loans is small in construction sector (7.4 percent of the loans are non-performing).

Liabilities grew by 3.8 percent (1.8 billion dram growth) and totaled 49.6 billion drams. Major source for the liability growth was 2.2 billion increase of liabilities toward government.

During 2009, total capital of credit organizations grew by 47.1 percent (8.5 billion dram growth). The growth of the capital was owing to the profit derived in the current year and growth of paid-up statutory capital. During the year, four newly-licensed and 10 existing credit organizations increased paid up capital by 5.9 billion drams in total. Net profit of credit organizations in 2009 totaled 2.6 billion drams, return on assets (ROA) was 3.7 percent, and return on equity (ROE) was 11.8 percent. At the end of the year, capital totaled 26.2 billion drams or 9.4 percent of the banking sector capital (against 7.6 percent at the beginning of the year).

**Chart 19. Credit organizations' Structure of Loans and Receivables to residents by sectors of economy**



Liabilities grew by 54.3 percent (16.7 billion dram growth) and totaled 47.4 billion drams. Major sources for the liability growth were the claims of banks and other financial institutions, 7.6 and 5.8 billion drams respectively.

Borrowings from banks (almost entirely non-resident) and other financial institutions at the end of the year totaled 32.1 billion drams. Borrowings from legal entities and natural persons totaled 10.9 billion drams.

# INSURANCE COMPANIES

## GENERAL PROVISIONS

### *Insurance companies operating in Armenia*

As of 31.12.2009, 12 insurance companies (with 9 branches<sup>15</sup>) operated in Armenia. It is notable that all insurance companies carried out only non-life insurance activities.

### *Concentration in the insurance system*

In recent years steady decline of Herfindahl-Hirschman concentration index of main financial indicators of the insurance system is being observed.

**Table 6. Herfindahl-Hirschman Concentration Index**

Indicators	31.12.2007	31.12.2008	31.12.2009
Assets	0.15	0.10	0.09
Liabilities	0.19	0.14	0.12
Capital	0.11	0.10	0.09
Insurance amounts	0.35	0.26	0.28
Insurance premiums	0.18	0.16	0.13

Compared with yearend 2008, polarization among insurance companies at the end of 2009 was lower. The level of concentration was lower almost for all financial indicators, except for concentration index of insurance amounts for 2 largest companies.

**Table 7. Insurance System Concentration Level (%)**

Indicators	31.12.2007	31.12.2008	31.12.2009
<b>Assets</b>			
CC 2 (the share of assets of <b>two</b> largest insurance companies within insurance system total assets)	36	28	24
CC 5 (the share of assets of <b>five</b> largest insurance companies within insurance system total assets)	68	57	55
<b>Liabilities</b>			
CC 2	50	40	34
CC 5	84	78	71

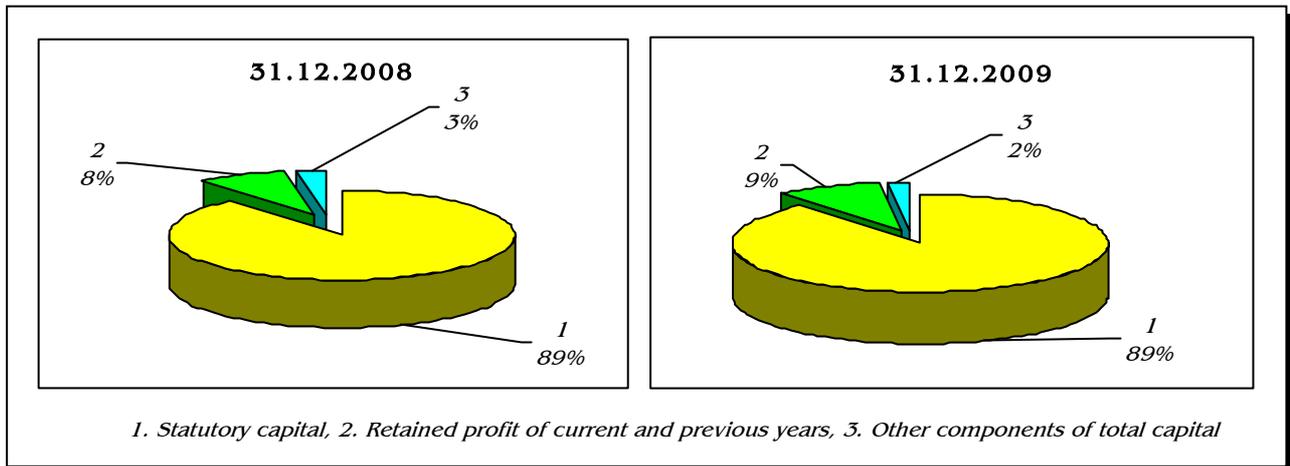
<sup>15</sup> Only "Griar Insurance" CJSC, "Nairi Insurance" and "Rasco" Ltd companies had branches.

<b>Capital</b>			
CC 2	28	27	24
CC 5	62	55	52
<b>Insurance Amounts</b>			
CC 2	79	65	70
CC 5	96	95	89
<b>Insurance Premiums</b>			
CC 2	49	44	41
CC 5	85	82	75

### INSURANCE SYSTEM CAPITAL

In 2009, total capital of insurance system grew by 65.2 percent and totaled 12.3 billion drams. The growth was mainly driven by 65.3 percent increase of statutory capital. In its turn the growth of statutory capital was driven by the minimum requirement of statutory capital endorsed by the CBA. According to the requirement all local insurance companies holding non-life insurance license must increase their statutory capital to 1 billion dram by 1<sup>st</sup> January of 2010.

**Chart 18. Structure of Insurance Companies Total Capital**

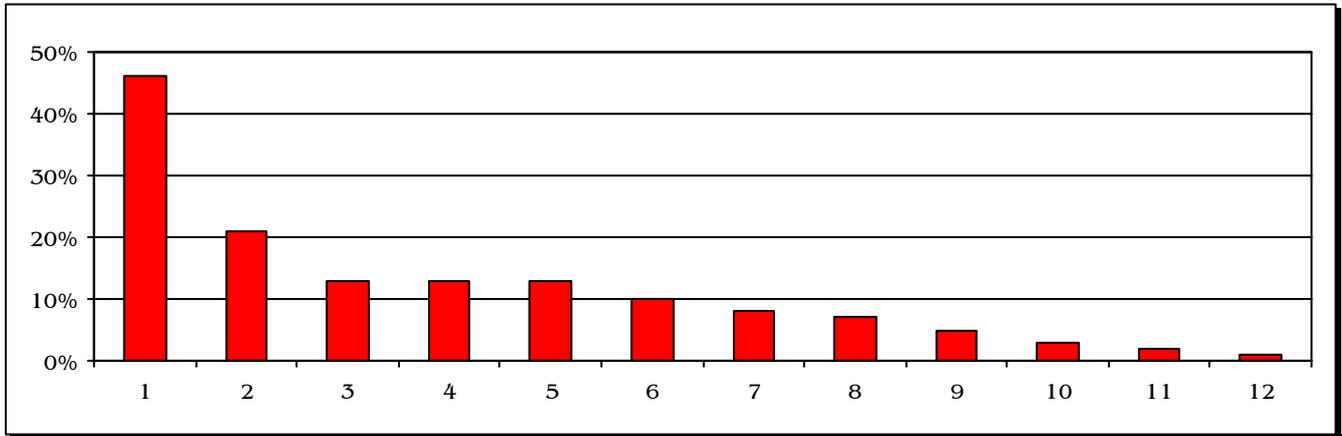


It is worth mentioning that in current year retained profit totaled 794.4 million dram, which is by 37.1 percent more than in 2008 (as of 31.12.2008 it totaled 579.3 million dram).

### *Solvency of Insurance Companies*

On average the prudential ratio for solvency is 12 percent of total regulatory capital of insurance companies. In order not to violate solvency requirement the former should not exceed the amount of regulatory capital. Meanwhile, as seen above, having opportunity of an 8 time higher solvency ratio, insurance companies do not exploit this opportunity. On the other side this proves the credibility of the insurance system.

**Chart 21. Required Solvency Limit to Total Capital Ratio by Insurance Companies for 2009**



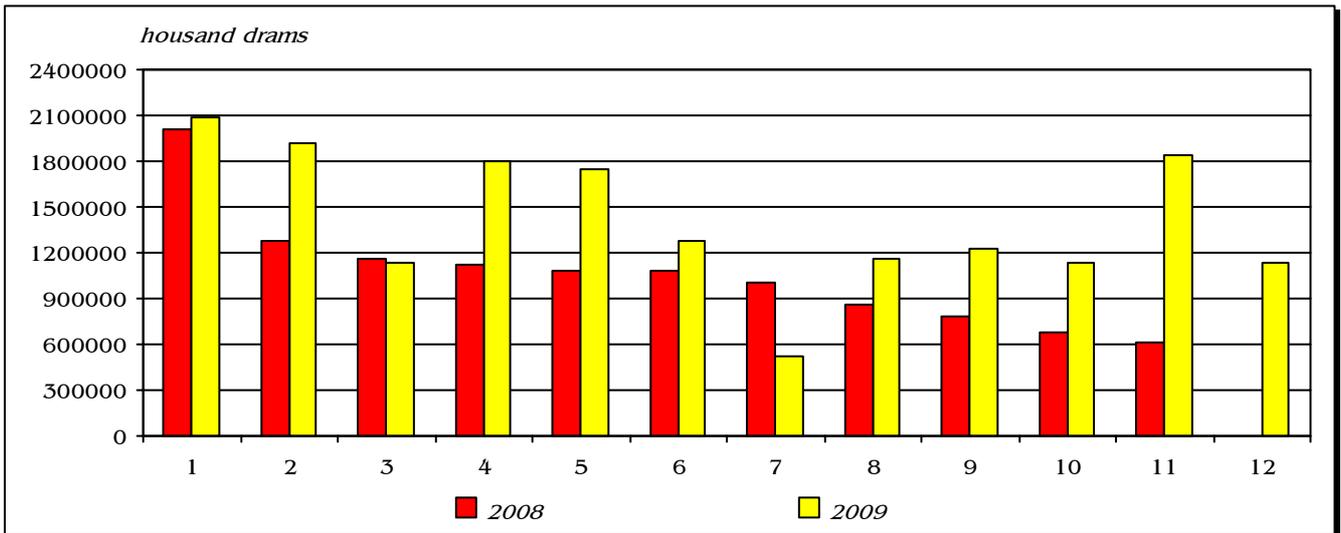
### **INSURANCE SYSTEM ASSETS**

In 2009, the assets of the insurance companies grew by 45.4 percent and by end of December 2009 totaled 17.0 billion drams.

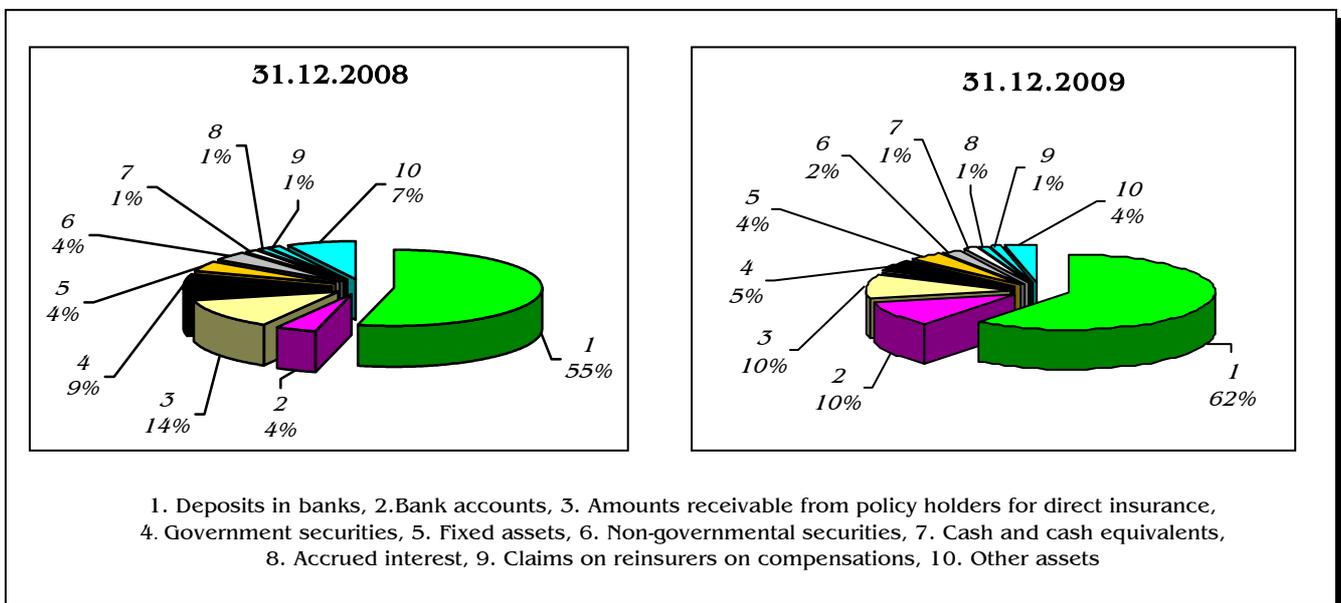
By the end of the year in the structure of assets of insurance companies major share belonged to deposits in banks (61 percent), bank accounts (10.5 percent), the amount receivables from policy holders for direct insurance (10.3 percent) and government securities (including securities issued by the CBA)(4.8 percent). It is worth mentioning that 83.6 percent of deposits are current deposits in domestic banks, and 15.5 percent time deposits in domestic banks.

As seen in the below chart assets are mainly allocated in highly liquid assets, which demonstrates that insurance companies don't have liquidity problems. During the current year insurance companies didn't breach liquidity prudential.

**Chart 22. Insurance Companies Assets**



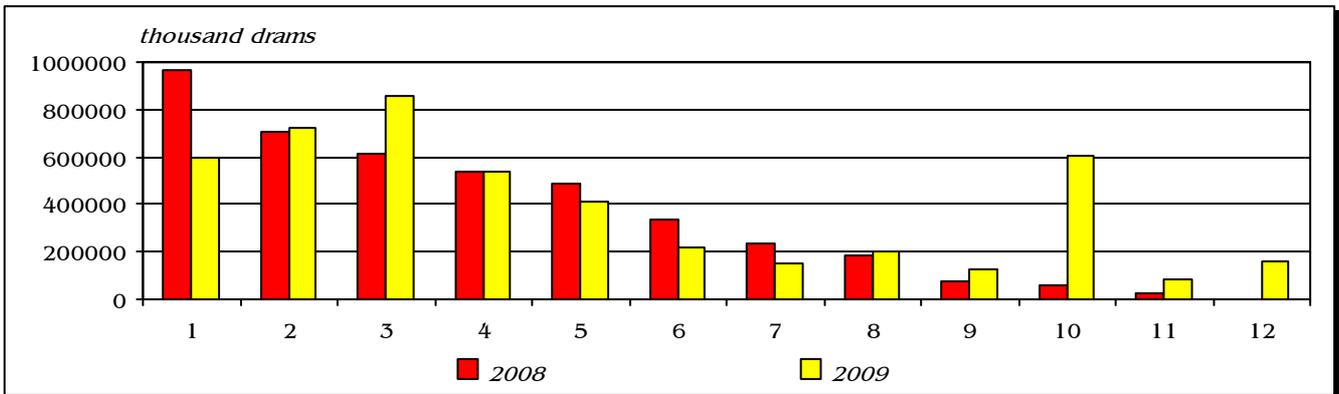
**Chart 23. Structure of Insurance Companies Total Assets**



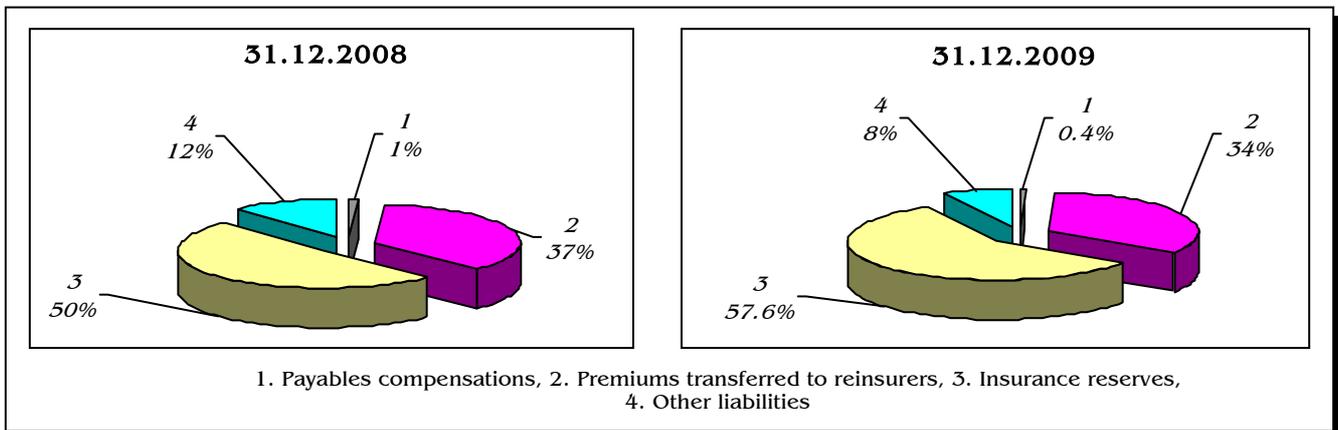
## INSURANCE SYSTEM LIABILITIES

In 2009, liabilities of insurance companies grew by 10.5 percent and by yearend totaled 4.7 billion drams. The growth was mainly driven by the growth of insurance reserves (26.5 percent).

**Chart 24. Liabilities of Insurance Companies**



**Chart 25. The Structure of Insurance System Total Liabilities**



No significant change was observed in liability structure. At end-2009, the share of insurance reserves within total liabilities was 58.2 percent and the share of payables to reinsurers was 33.8 percent.

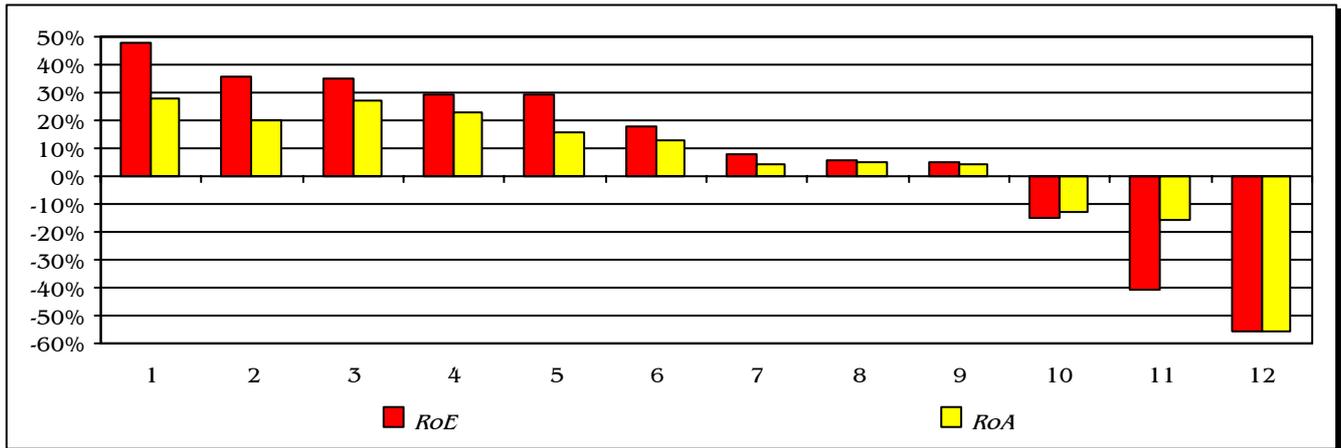
## INSURANCE SYSTEM FINANCIAL PERFORMANCE

Despite the negative impact of financial crisis, particularly cautious credit policy, decrease of general economic activity, in 2009 profitability of insurance companies grew compared with previous year.

In 2009, net profit of the insurance system totaled 915.5 million drams, which is by 31 percent more than in 2008. It is notable that 9 insurance companies operated with profit and 3 with loss. The net profit of profitable insurance companies totaled 1.8 billion drams.

Insurance companies' return on equity (net profit\loss to average total capital<sup>16</sup>) grew for 0.4 percentage points and totaled 10.1 percent, while return on assets (net profit\loss to average total assets<sup>17</sup>) grew for 0.3 percentage points and totaled 6.8 percent.

**Chart 26. Profitability indicators for 2009**



In 2009, insurance premiums accrued by insurance companies totaled 8.1 billion drams (compared with 7.8 billion drams in 2008). 85.5 percent of total premiums accrued during 2009 was distributed among fire and natural disaster insurance (19.9 percent), ground transport (18.2 percent), aircraft (12.7 percent), health (10.2 percent), aircraft operation( including freight forwarding) responsibility (8.2 percent), guarantee issuance (5.8 percent), transported cargo (goods) (5.6 percent) and financial loss (5.0 percent) insurance premiums. It is notable that during 2009, in comparison with 2008, amount of accrued premiums for ground transport, cargo and aircraft operation responsibility insurance decreased respectively by 34, 18 and 7 percent. Decrease of ground transport

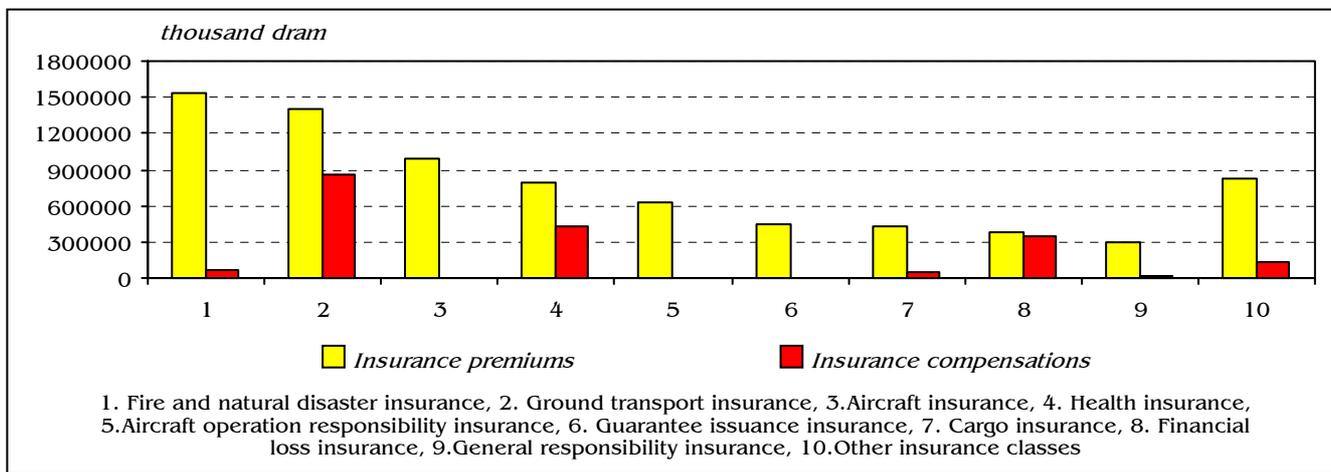
<sup>16</sup> The average total capital is annualized on daily basis starting beginning of the year.  
<sup>17</sup> The average total assets are annualized on monthly basis starting beginning of the year.

insurance premiums was primarily related to the drop of auto financing, while the decrease of cargo insurance premiums was related to the decline of cargo transportation due to economic recession.

During 2009 insurance companies accrued 1.9 billion insurance compensations (1.4 billion dram in 2008).

85.9 percent of total compensations accrued during 2009 were distributed among ground transport (44.9 percent), health (22.4 percent) and financial loss (18.5 percent) insurance compensations. It is notable that health insurance compensation amount accrued in 2009 in comparison with 2008 grew for 38 percent.

**Chart 27. Accrued insurance premiums and compensations by insurance class for 2009**



In 2009, loss ratio<sup>18</sup> of the insurance system grew for 4.0 percentage points and totaled 24.5 percent. This is mainly due to the fact that in 2009 accrued insurance compensations grew for 38.2 percent, while the difference of accrued and unearned insurance premiums increased for 18.5 percent.

Net interest income of insurance companies totaled 699.5 million drams increasing by 25.7 percent in comparison with the previous year. The share of interest income on current deposits in banks and current lending to banks in total interest income amounted 75.1 percent (or 533.8 million drams).

Net non-interest income of insurance companies totaled -1.1 billion drams (against -1.6 billion drams in 2008). It is notable that 97.3 percent (or 1.0 billion drams) of non-interest income is foreign

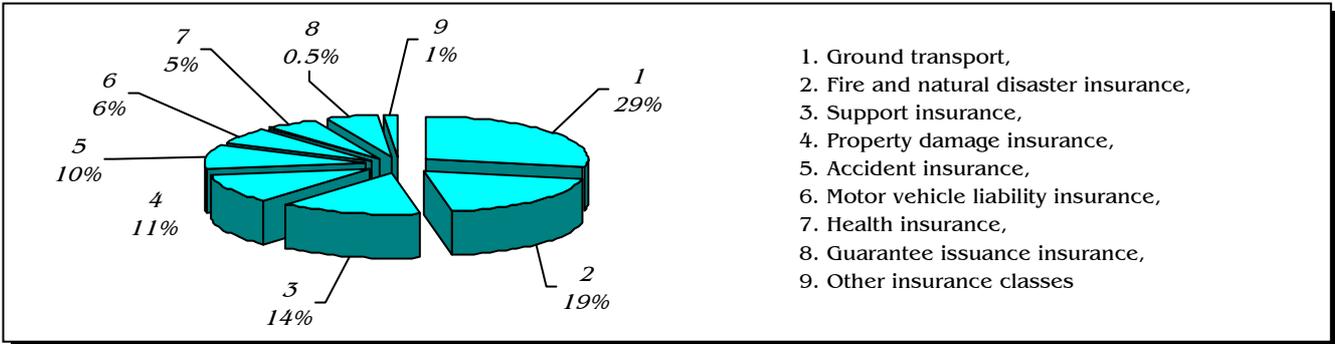
<sup>18</sup> Loss ratio calculation methodology was changed; loss ratio was calculated as a relation of accrued insurance compensations to the difference of accrued and unearned insurance premiums in the reporting year.

exchange revaluation income, while 70.9 percent (or 1.5 billion drams) of non-interest expenses is administrative and public relation expenses.

**INSURANCE CONTRACTS IN FORCE AND INSURANCE AMOUNTS**

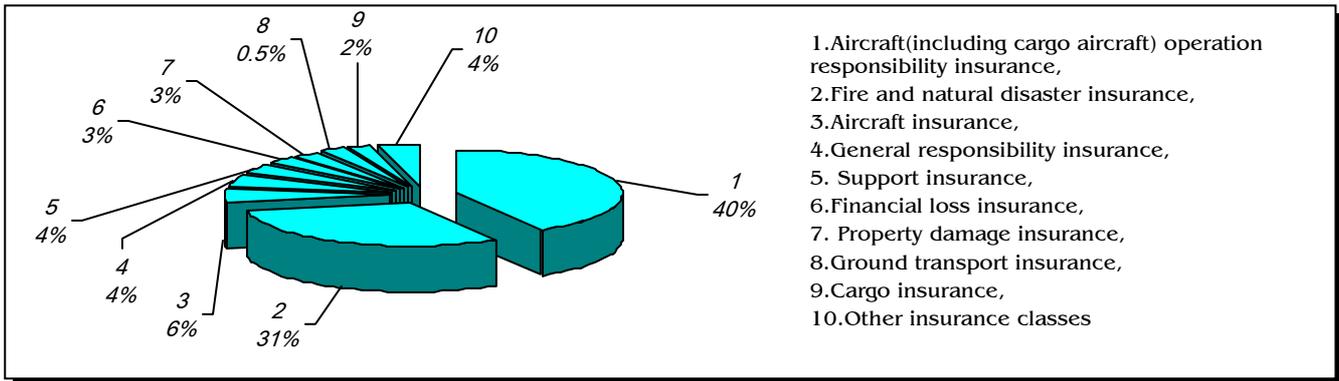
As of yearend 2009 total number of insurance contracts was 50,600, which is by 999.0 more than at the end of 2008.

**Chart 28. The Structure of Insurance Contracts in Force as of 31.12.2009.**



As of yearend 2009 insurance amounts for insurance contracts in force totaled 3.39 trillion drams, which is by 43.8 percent more than in 2008 indicator. Such a growth is mainly driven by 18.5 percent and 99.9 percent growth of fire and natural disaster and aircraft (including cargo aircrafts) insurance amounts growth, which have large share in total insurance amounts.

**Chart 29. The Structure of Insurance Amounts for Insurance Contracts in Force as of 31.12.2009.**



## REINSURANCE OF INSURANCE RISKS

As of yearend 2009 reinsurance amounts totaled 3.0 trillion drams, which accounted for 88.5 percent of the risks taken by insurance companies (in 2008 2.08 trillion drams or 88.1 percent of risks).

It is notable that 99.9 percent of the risks taken by insurance companies were reinsured at credible reinsurers. This minimizes the risk, that the reinsurers will not fulfill their obligations.

During 2009 the amount of insurance premiums transferred to reinsurers totaled 4.0 billion dram or 49.8 percent of total insurance premiums (in 2008 4.0 billion dram or 51.1 percent of total premiums).

The amount of insurance compensations received from reinsurers totaled 890.6 million drams or 46.9 percent of total compensations accrued during 2009 (in 2008 554.0 billion drams or 40.3 percent of insurance compensations).

## SECURITIES MARKET PARTICIPANTS

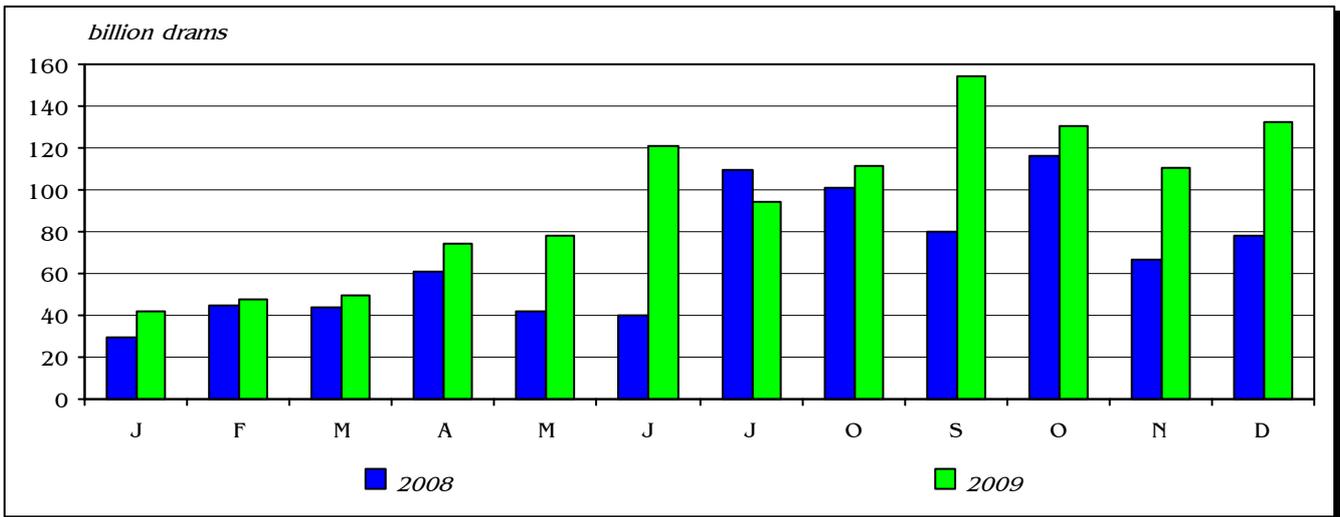
At the end of 2009 22 banks and 8 investment companies rendered investment services. In particular, all 8 investment companies were eligible to carry out securities transactions on behalf of themselves or on customers' behalf and account, and on behalf of themselves and their account. In addition, all of them are authorized for accepting and further messaging of customer instructions concerning securities transactions. Five companies could carry out consulting services covering investment in securities; six companies were authorized to carry out securities allocations, and three companies carried out securities portfolio management.

Although during 2009 concentration level tended to have a downward trend, Herfindahl-Hirschman concentration index fluctuated in 0.17-0.25 range indicating that the system is comparatively concentrated.

**Table 8. Herfindahl-Hirschman Concentration Index**

Indicators	31.12.2008	31.12.2009
Assets	0.17	0.17
Liabilities	0.20	0.18
Capital	0.26	0.25

**Chart 30. Securities Transactions Conducted by Providers of Investment Services  
(excluding transactions with the CBA)**



Investment companies' assets increased by 102 percent and totaled 15.6 billion dram, while total capital grew by 8 percent and totaled 2.9 billion dram. During the year, total profit of investment companies reached 202 million drams. Six companies worked with profit, while 2 companies finished the year with loss.

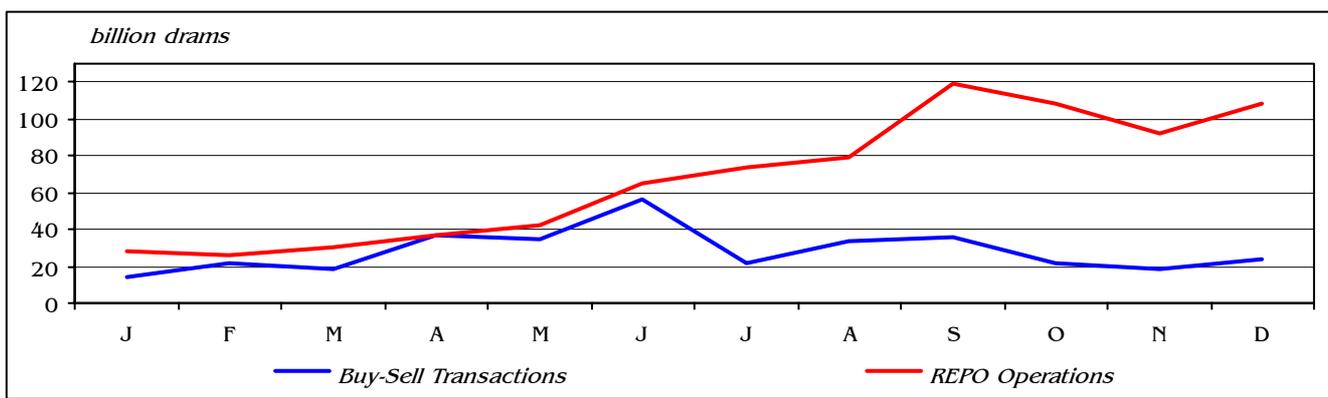
Armenian securities market turnover (including repo transaction without transactions with the CBA) during the year grew by 41 percent and totaled 1 trillion 146.0 billion dram<sup>19</sup>.

Transactions with state securities predominated in total number of buy-sell transactions of security market participants rendering investment services. Transactions with state securities grew by 141 percent totaling 294.8 billion dram or 87.6 percent of total number of transactions.

In 2009 the volume of transactions with corporate bonds grew 3.4 times totaling 25.3 billion drams or 7.5 percent of total turnover.

Transactions with stocks increased by 2.9 percent and totaled 16.2 billion dram or 4.8 percent of total number of buy-sell transactions.

**Chart 31. 2009 Buy-Sell Transactions with Government Securities and REPO Operations (excluding operations with the CBA) Conducted by Investment Providers**



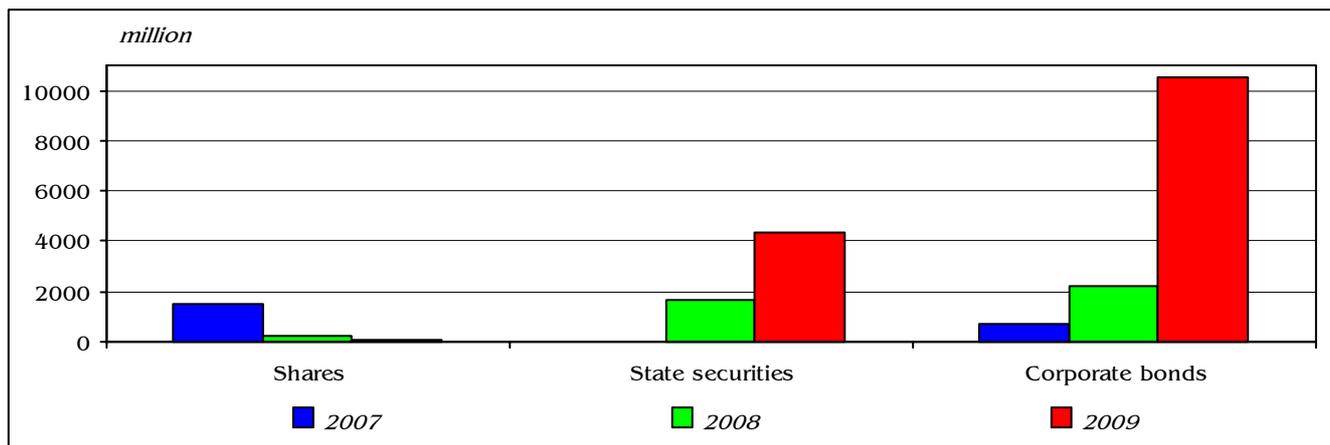
Compared with the previous year, repo transactions (excluding transactions with the CBA) in securities market grew by 21 percent and totaled 809.6 billion dram, or 70.6 percent of the total securities market turnover.

Securities transactions conducted in regulated market<sup>20</sup> in 2009 grew by 3.6 times and totaled 15.0 billion. Within such transactions, the major part was transactions with corporate bonds, totaling 70.4 percent of the total regulated market turnover. Buy-Sell transactions with state securities totaled 28.9 percent of total turnover and transactions with stocks totaled 0.7 percent.

<sup>19</sup> Due report correction data has been updated for 2008

<sup>20</sup> As of 31.12.2009, the only registered and licensed stock exchange in Armenia is NASDAQ-OMX Armenia OJSC.

**Chart 32. Structure of the Stock Exchange Turnover**



As of December 31, 2009, the volume of resources attracted by investment service providers within securities portfolio management grew by 22.0 percent compared with the same period of the previous year and totaled 1.9 billion dram.

As of end-2009, there were 1,527 register running issuers in the Central Depository and 127,708 holders of nominal securities in the Central Depository.

In 2009 two companies have issued corporate bonds with 600 million drams total value.

As of end-December 2009, 19 reporting issuers were operating in market, of which 6 were banks. 11 of reporting issuers issued shares and 9 issued bonds. One of the reporting issuers issued both shares and debt instruments. As of 31.12.2009, total volume of issued bonds totaled 5.6 billion dram.

### **PAWNSHOPS**

As of end-December 2009, 103 pawnshops (without branches) operated in Armenia. During the year, total attracted funds of pawnshops grew by 36 percent, and loans provided by pawnshops grew by 31 percent. As of end-December 2009, the total attracted funds of pawnshops totaled 3.3 billion drams, total loans provided by pawnshops – 5.1 billion drams.

## EXCHANGE OFFICES AND DEALERS

As of end-December 2009, 302 exchange offices (excluding branches- 246) had licenses for currency trade operations. During 2009, the volumes of the US dollar buy and sell totaled US\$ 420.1 million and US\$ 415.2 million respectively (compared with US\$ 363.7 million and US\$ 358.1 in 2008). During 2009, the volumes of the Euro buy and sell totaled Euro 47.5 million and Euro 46.4 million respectively (compared with Euro 38.7 million and Euro 37.9 million in 2008).

As of end-December 2009 4 legal entities had foreign exchange dealer licenses. During the year foreign exchange dealer license of "West Anelik Martuni" was revoked, foreign exchange dealer license was issued to "HA Finance", "Mel Gri Union" and "Hayk Ghukasyan" limited liability companies.

## CLEARING COMPANIES

As of end-December 2009, 10 clearing companies operated in Armenia. Among them, 3 companies had the license only for money transfer operations, 6 companies had licenses for money transfer, payment instruments and processing and clearing of payment documents, and one company had a license solely for payment instruments and processing and clearing of payment documents. During 2009, 2 clearing company licenses were revoked and one was suspended. One clearing company was granted with license ("E-dram" Ltd.).

During 2009 total amount of transactions carried out by clearing companies totaled 258.6 billion dram.

*Table 9. Total amount of services rendered by clearing companies*

*million dram*

Rendered Services by type	2008	2009
Utility and other payments	98 289	108 162
Budget(tax) payments	5 379	7 435
Pension and social benefit	117 927	137 614
Outgoing money transfers	387	695
Incoming money transfers	6 833	4 702
Total	228 815	258 608

Transfers from abroad are carried out not only by banks, but also by money transfer companies. In 2009, these companies executed payments of 4.7 billion drams to their clients (by 31.0 percent less

than in 2008). Within this amount incoming funds transferred through international money transfer systems totaled 4.0 billion drams, while the outgoing transfers totaled 0.7 billion drams.

The share of companies executing money transfers within total international transfers (including commercial banks) totaled 0.2 percent of transfers to abroad and 0.8 percent of the transfers received from abroad.

The average size of payment to single client through such transfers was 95 thousand drams (the indicator dropped by 50 thousand dram in comparison with the previous year).

Companies, dealing with processing and clearing of payment instruments and executing money transfers, collected consumer service payments through the self-service terminals and registered cash desks. These payments were collected for around 23 companies. As of the end of 2009, 656 terminals were installed through which 14.4 billion dram payments (4 879 357 transactions) were collected. Total amount of these payments increased for 90% in comparison with 2008.

Some of clearing companies provided processing and clearing services to eight banks. These banks in cooperation with clearing companies collected utility payments through 103 registered cash desks. During 2009, clearing companies established 19 branches for which the payment collection was carried out through registered cash desks. Overall 456 802 transactions were committed through registered cash desks totaling 1.8 billion dram.

Utility payments through "Haypost" CJSC totaled 92 billion dram.

The processing center "ArCa", being the main operator of the unified system of payments with "ArCa" cards, services processing with "ArCa" cards, as well as "Visa" and "Master Card" international card systems. During 2009, the processing center "ArCa" performed 345 billion drams processing of card operations (by 33.5 percent more than in the previous year), including 16 billion drams for cards issued by foreign banks (10 percent than the previous year), while the amount of operations with cards issued by the Armenian banks and processed through non-ARCA (including foreign) processing centers totaled 30 billion drams (11 percent growth). The amount of operations processed through Internet grew by 74 percent and totaled 4.0 billion drams.

## PAYMENT AND SETTLEMENT SYSTEM

Within the issues of payment and settlement system development, the CBA in 2009 continued further efforts on payment and settlement system control and securities market regulation, as well as development of non-cash payments and regulation of the legislative field.

### *Development of non-cash payments*

Recent development of rendering and implementing new high-tech services in financial market led to emergence of new financial organizations. Taking into consideration development trends the CBA developed number of legal acts for regulating these organizations and supporting implementation of new services.

In particular, regulations on "Terms and conditions on granting, suspending and revoking permission on E-money emission, requirements to E-money issuers" and on "Terms and conditions on issuance and servicing (circulation) of E-money, requirements to transactions with E-money" were designed, where requirements to E-money issuers and E-money issuance and servicing were defined. Abovementioned legal acts clarify legal framework of E-money transactions for financial market participants.

During 2009 the CBA developed main principles of "mobile-banking" and "internet banking" service rendering. Also relations between parties were defined, which would ensure development of these services and predetermine future developments of this field.

In the framework of pension system reform, activities were carried out aimed at distributing pension payments in non-cash form through banking accounts. It is also intended to make pension payments through payment cards. In cooperation with Ministry of Labor and Social Affairs appropriate legal and legislative changes were introduced.

Development of card sector and broadening of scope of rendered services by commercial banks facilitated development of non-cash payments in Armenia. During 2009 "ArCa" unified card processing system went through hardware and software upgrade and service scope expansion process. In particular, chip based card issuance and servicing activities were carried out, which allowed commercial banks to issue chip based payment cards and service them through devices registered in the system. "Cash-in" service was introduced in "ArCa" system, which allowed cardholders to deposit dram funds onto their card accounts. Given the sharp growth of card transactions (see the Chapter "Payment cards") and in the view of ensuring decreasing risks associated with card servicing, connection of devices to the system was carried out in different techniques (CBANet network, GPRS, fiber-optics). Process of linking "ArCa" center with own processing centers of commercial banks was continued. This process expanded the payment card servicing infrastructure and made it more comfortable for the cardholders to use their cards.

During 2009 addenda and amendments were introduced to legal acts regulating clearing companies' activities. In result requirements for branches of clearing companies operating in rural municipalities and in premises of telecom operators were defined. The amendments were aimed at development of infrastructure ensuring service rendering in regions.

In accordance with CBA legal acts 13 Armenian commercial banks and 4 payment and settlement organizations were authorized by the CBA to participate in various international payment systems. During 2009 commercial banks were authorized to participate in two new systems INTEL EXPRESS and RIA MONEY TRANSFERS. At the same time operation of PRIVAT MONEY TRANSFERS system was revoked on the territory of Armenia.

### ***Enhancement of Securities Settlements***

With the view of developing securities market, "Rules of guarantee fund establishment, allocation and usage", "Regulation on clearing and settlement of transactions without initial asset deposit", "Guarantee fund participation contract" were drafted, "General Rules of Trade" of "NASDAQ-OMX Armenia" were amended. The amendment is aimed at implementing new procedures for transactions and settlement in "NASDAQ-OMX Armenia" trade boards. According to new rules trade participants can participate in trade without initial asset deposit. In the result of innovations it would be possible to carry out settlement in accordance with T+3 principle.

### ***Development of CBA systems***

Taking into consideration the need of automation of monetary policy tools, main principles of CBA "Purchase and Repurchase agreement signing and execution" automated system were designed. Mentioned system will allow to sign, execute and settle purchase and repurchase agreements between the CBA and commercial banks in automated mode, according to which the funds will be instantly available to commercial banks upon execution of repo transaction. At the same time, in case of short-term liquidity need the system will allow commercial banks to sign intraday repo (non-interest) with the CBA during the day. All not cleared intraday repo agreements will be automatically re-issued as one-day repo agreements with specific interest rate. With the view of execution of transaction and liquidity management the participants will be able to receive real-time information on repo transaction signing, execution and settlement.

### ***Basic Indicators of the Payment and Settlement System***

In 2009, distinctive trends were observed in the payment and settlement system, which was related to the global economic crisis. The enrolment of population in the banking system is important precondition for non-cash payment development. At the yearend 2009, the number of the banking system customers grew by 11.9 percent and totaled 1 million 135 thousand, among which individuals

totaled 1 million 76 thousand. The number of their accounts grew to 1 million 542 thousand (of which, 1 million 235 thousand current accounts, 65 thousand time deposits and 242 thousand credit accounts).

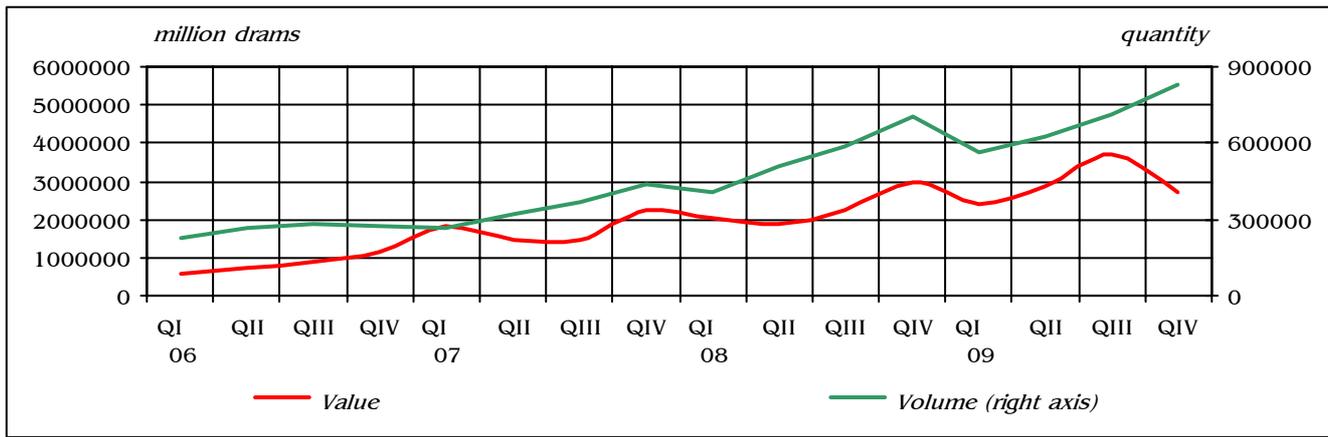
In 2009, 8,848,052 transactions were conducted with payment cards totaling 428 billion dram. The value of payments by cards totaled 31 billion drams. Within transactions with payment cards, Internet payments totaled 5.5 billion drams (of which, electronic commerce 1.6 billion drams and card-to-card transfers 4.0 billion drams). As of yearend 2009, total number of cards in circulation was 579,431 or by 27.5 percent (125,074 cards) more than at yearend 2008. The volume of non-cash payments by cards (including operations through Internet) totaled around 7 percent of the total card operations. The total value of cashless operations with cards grew by 19 percent.

Compared with 2008, money transfers to individuals by banks and money transfer organizations dropped by 17 percent and totaled 584 billion drams, while the value of outgoing transfers decreased by 1 percent and totaled 277 billion drams.

In 2009, the value of non-cash payments in Armenia totaled 14,655 billion drams (6,679,525 transactions). The share of daily average non-cash transfers within GDP grew by 0.2 percent points and totaled 1.8 percent. Transfers through the CBA payment systems totaled 11,658 billion drams (2,737,927 transactions). Compared with 2008, transfers through the CBA payment systems grew by 28 percent (2,572 billion drams) in value and by 24 percent in the quantity (537,656 transactions).

The daily average value of the transfers through the CBA payment systems (excluding transfers on stock exchange transactions) totaled around 45 billion drams (10,697 transfers). The daily average amount of the transfers grew by 10 billion drams (the number of transfers grew by 2,100). The daily average value of transactions through the CBA payment systems totaled 125 billion drams (2.7 times growth).

**Chart 33. Volume and value of transfers executed by the CBA (excluding stock exchange transfers)**



In 2009, the share of transactions from and to the Treasury within transfers executed by the CBA (excluding transfers on stock exchange transactions), remained high, totaling 33.7 percent of the value and 48.9 percent of the volume. Compared with 2008, the value of the Treasury transfers executed by the CBA grew by 11.0 percent (401 billion drams) and the volume by 20.0 percent (224,569 transfers).

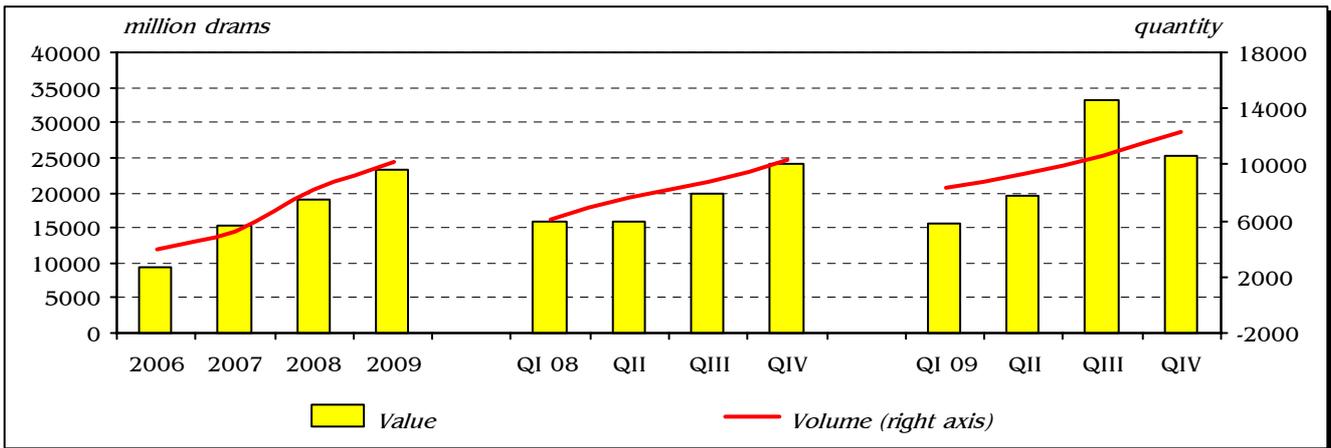
### CBA Payment Systems

#### *Electronic payments system*

As of end-2009, the total number of the CBA electronic payments system participants totaled 269, including the CBA and its 3 regional cash centers, the Treasury with 44 offices, 22 commercial banks with 191 branches, the "Armenian Card" processing center, the Interstate Bank (Moscow), "NASDAQ-OMX Armenia" stock exchange, and five non-bank dealers.

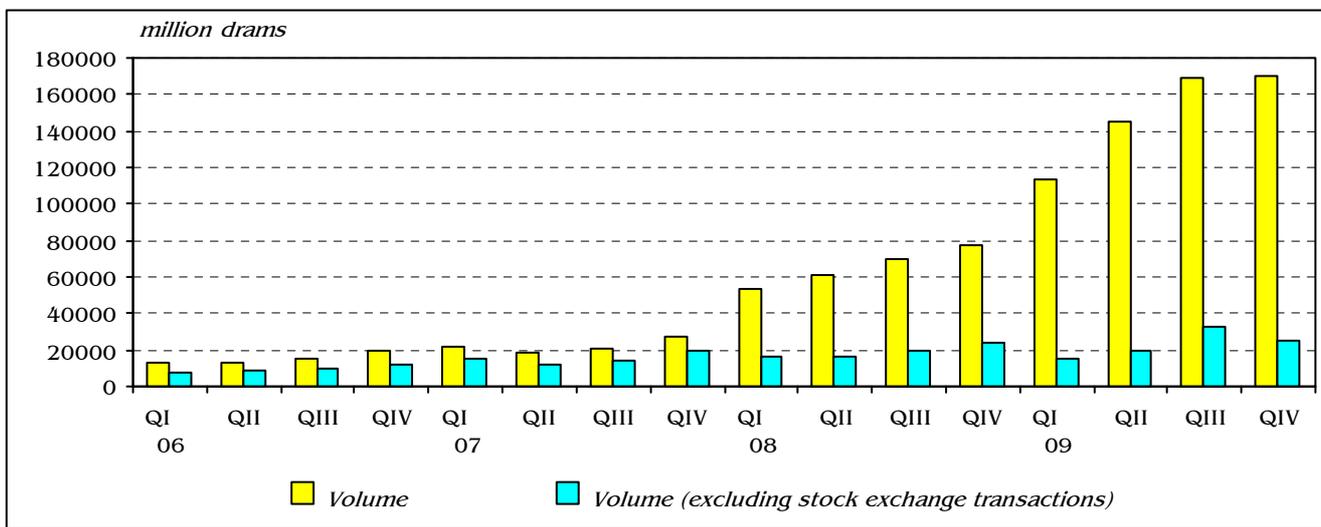
The major part of payments executed through the CBA payment systems was done through the electronic payments system. The share of the value and volume of electronic payments within total constituted 51.3 percent and 94.7 percent, respectively. The volume and quantity of electronic payments within total grew by 23.3 percent (1,130 billion drams) and 23 percent, respectively (489,176 transactions). Stock exchange transfers totaled 32,188 billion drams. Payments of the commercial banks through the electronic payments system (excluding transfers on the stock exchange transactions) totaled around 62 percent of their total transfers (381 billion drams increase), with the number of such transfers growing by 99 percent.

**Chart 34. Average Daily Transfers Through Electronic Payments System**



Compared with 2008, the average daily volume of transfers through electronic payments system grew by 1,911, and totaled 10,133, while the value grew by 4.4 billion drams, totaling 23.4 billion drams. The average daily value of electronic transfers on stock exchange transactions grew by 79 billion drams and totaled 125 billion drams. Compared with 2008, the average value per electronic transfer excluding transfers on stock exchange transactions stayed unchanged totaling 2.3 million drams. The average value of transfers of commercial banks' stock exchange transactions through electronic payments system totaled 1.6 billion drams, growing by 711 million drams.

**Chart 35. Electronic Payments System Average Daily Payments**



**Paper-based Cross Settlement System**

In 2009, paper-based payments of the commercial banks totaled 31.2 percent of the value and 40.1 percent of the volume of the total payments (compared with 2008, the value grew by 1.9 times and the volume by 0.7 times).

The average number of daily paper-based transfers processed by the CBA totaled 548 with 20 billion value (compared with 2008, the average daily value grew by 6.6 billion drams), while the average value of one such transfer fell by 2 million drams, and totaled 37 million drams. Most of the paper transfers related to deposit and Repo operations and the Treasury transfers. In 2009, the commercial banks made 49 interbank paper-based transfers through the CBA with a total value of 38 billion drams (18 percent drop of value).

**Table 8. CBA, Commercial Banks and Treasury Payments Processed by the CBA Payment Systems  
(in millions of drams)**

Period	Gross				Government securities accounting and clearing system		Total through CBA		Transfers on Stock Exchange Transactions	
	Electronic *		Paper		Amount	Number	Amount	Number	Amount	Number
	Amount	Number	Amount	Number						
<b>2008</b>										
Total	4859976	2104892	3516978	89547	708809	5826	9085763	2200265	11880556	13782
Share in total payments (%)	23.18	95.07	16.77	4.04	3.38	0.26	100	100		
<b>2009</b>										
QI	989806	530280	1333397	31860	59875	704	2383078	562844	6248937	4842
Share in total payments (%)	41.54	94.21	55.95	5.66	2.51	0.13	100	100		
QII	1260960	594690	1543120	31625	88900	924	2892981	627239	8021865	4499
Share in total payments (%)	43.59	94.81	53.34	5.04	3.07	0.15	100	100		
QIII	2121563	679249	1410056	34893	154334	1044	3685953	715186	8675669	5429
Share in total payments (%)	57.56	94.98	38.25	4.88	4.19	0.15	100	100		
QIV	1617979	789849	927797	41912	150323	891	2696098	832652	9242227	5689
Share in total payments (%)	60.012	94.86	34.41	5.03	5.58	0.11	100	100		
Total	5990307	2594068	5214370	140290	453432	3563	11658110	2737921	32188698	20459
Share in total payments (%)	51.38	94.75	44.73	5.12	3.89	0.13	100	100		

\* Excluding transfers on stock exchange transactions

#### **Government Securities Accounting and Settlement system**

As of yearend 2009, members of the government securities accounting and settlement system were 5 agents and 17 dealer banks, Deposit Compensation Guarantee Fund, the Armenian Central Depository, "NASDAQ-OMX Armenia", stock exchange, one non-bank dealer, Ministry of Finance (as the issuer of government bonds), Treasury Direct, as well as the CBA (as the central custodian and the issuer of the CBA bills).

The system generated 1,867 orders of 174 billion drams for the primary placement and redemption of government treasury securities, which was by 65 billion drams more than in 2008 (payments on primary placement of securities increased by 43.0 billion drams and redemptions by 22 billion drams). Banking transfers on purchasing of government securities at primary public placements totaled 107.0 billion drams, while Treasury's transfers on redemption of government securities totaled 167.0 billion drams, including 3.2 billion drams through the system "Treasury Direct", of which 1.5 billion drams for primary placement of securities and 1.7 billion drams for redemption.

The system generated 27 orders of 8.0 billion drams by government securities accounting and settlement system for the primary placement and redemption of the CBA bills. During the initial offering, commercial banks' transfers on purchasing the CBA bills totaled 1.6 billion drams, falling by 97 percent (51.0 billion drams. Transfers on CBA bills redemption fell by 92 percent (82.0 billion drams) and totaled 6.5 billion drams.

**Concentration in payment systems**

Reflected by the increased electronic payments of the commercial banks, the level of concentration of payments in the CBA paper-based gross settlement system by yearend 2009 increased significantly (by around 3 percent). Compared with the previous period, the level of concentration within payments through gross electronic payments system dropped by 1 percent. The mentioned high level (58 percent) was driven by the progressive use of single payment orders of the banks.

While concentration of the payment card servicing fell (volume by 5, value by 3 percent), still it is rather high (66 percent by volume and 64 percent by value is the share of 5 banks). Furthermore, 6 banks serviced 25 percent of payment cards. In 2009, a number of banks were relatively active in payment card servicing, as they installed new equipment and broadened the network of trade and service outlets.

**Table 9. Level of Concentration in Payment Systems\* (%)**

Type		2007		2008		2009	
		Value	Volume	Value	Volume	Value	Volume
Gross	Electronic	31	54	31	59	27	58
	Paper	32	3	17	2	20	1
Government securities accounting and settlement system		50	49	42	49	42	52
Card system	Servicing in Armenia	71	68	69	67	64	66

\* Indicators of the five largest banks by value and volume.

**PAYMENT CARDS**

As of end-2009, 21 commercial banks provided payment cards to their clients and serviced them. 19 banks participated in the "ArCa" unified card payment system.

In 2009, 164 new automatic teller machines (ATMs) were installed, and subsequently their total number by end-year reached 702. Servicing of "ArCa" cards is rendered by 603 automatic teller

machines. Commercial banks also installed 440 POS-terminals, bringing their total to 2,720, of which 438 were installed in the branches. The number of installed imprinters was 29.

**Table 10. Servicing of Issued Cards**

Indicator	International criteria	2007	2008	2009
Issued cards / ATM	2600	970	845	825
Issued cards / POS	160	162	159	213

The number of "ArCa" cards grew by 40.9 percent (81,974 cards) and totaled 282,164. The number of the international card system cards grew by 17.0 percent (43,100), of which: "Visa" 21.5 percent (35,695), totaling 201,589, "Master Card" 27.9 percent (13,339), totaling 61,108. Quantity of other international cards decreased by 14.7 percent (5,934).

The share of "ArCa" cards within total cards issued by banking system was 48.7 percent, "Visa" and "Master Card" 34.8 percent and 10.5 percent, respectively, the remaining 5.9 percent were other international cards, including "HSBC Debit" cards.

**Table 11. Types of Cards Issued/Serviced by Banks Operating in Armenia**

Bank	ArCa	MASTER CARD	VISA	AMEX	Other
Armbusinessbank	+	+			
Anelik	+	+	+		
Ararat	+	+			
Ameria Bank	+	+	+		
VTB Bank Armenia	+		+		
Armeconombank	+	+			
Prometei	+	+			
BTA	+	+			
Armenian Development Bank	+	+			
Converse Bank	+	+	+		+
Inecobank	+	+			
Mellat	+				
Byblos Bank Armenia	+	+			
HSBC Bank Armenia	+	+	+		+
ACBA Credit-Agricole	+		+		
Artsakhbank	+	+			
Cascade	+	+			
Areximbank		+	+	+	
Unibank	+	+	+		
Ardshininvestbank	+	+	+		
Procreditbank			+		

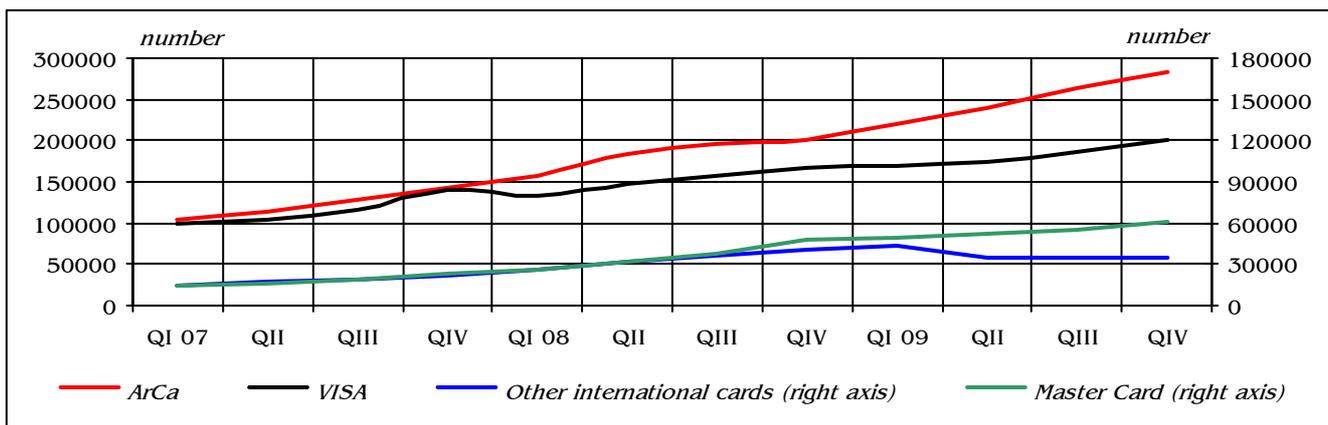
The value of card operations grew by 31.2 percent (101.8 billion drams) and the volume by 34.3 percent (2,261,918).

4,177,660 operations by "ArCa" cards totaled 173 billion drams. The volume of operations with "ArCa" cards grew by 47 percent (55.8 billion drams) and the value by 43 percent (1,261,768). The value of operations with "ArCa" cards within total operations was equal to 40 percent and the volume 47 percent.

Within card operations, "Visa" international cards also had the major share of 35.4 percent.

In 2009 the value of operations with "Visa" cards totaled 152 billion drams (2,202,572 operations), "Master Card" 62 billion drams (1,158,843 operations). Compared with 2008, operations with "Visa" cards grew by 19.3 percent (24.5 billion drams) and operations with "Master Card" by 59.0 percent (23 billion drams). Operations with other international cards totaled 908,977 (41.0 billion drams), by 3.9 percent (1.7 billion drams) less than in 2008.

**Chart 36. Payment Cards Issued by Banks (growth trend)**



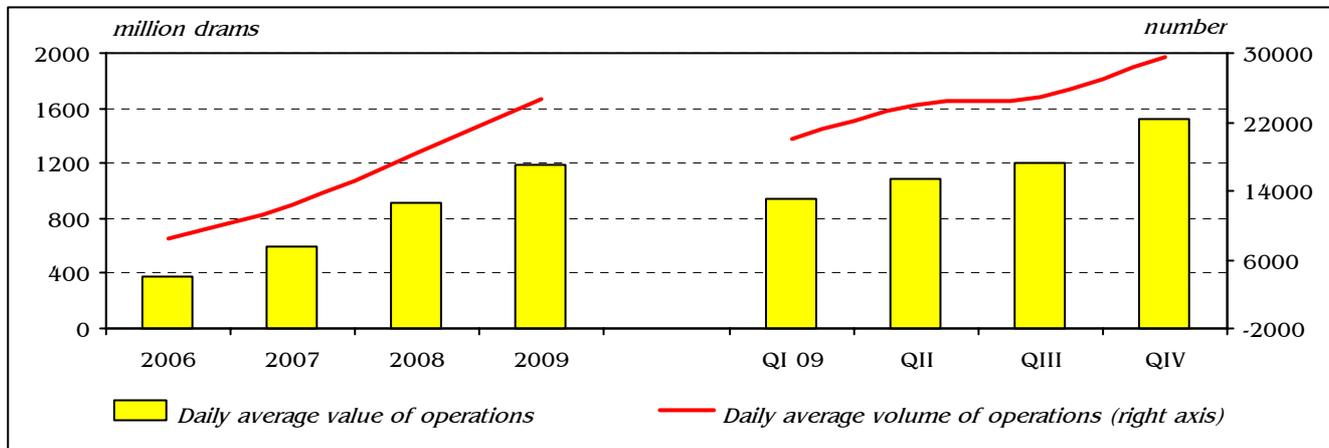
**Table 12. Transactions with card processing equipment (2009)**

Equipment	amount (million dram)	quantity	Transactions	
			of which: ArCa cards	
			amount (million dram)	quantity
Automatic teller machines	333613	7479226	145018	3617907
o/w: non-cash	3023	52882	117	21349
POS-terminals/imprinters	89049	1135424	26929	465865
o/w: non-cash	22142	629921	7564	192994
Internet environment	5585	233386	1498	93888
Total	30750	916189	9178	308231
o/w: non-cash	5585	233386	1498	93888

In 2009, the average daily value of card transactions grew by 31.0 percent and totaled 1.19 billion drams, the average daily volume of card transactions increased by 34 percent totaling 24,578, of which the share of “ArCa” international cards was 47 percent, the share of “Visa” cards 29 percent.

The monthly cash operations with single card totaled around 62 thousand drams, while non-cash operations totaled 5 thousand drams (quantity totaled respectively 1.2 and 0.1). Mentioned indicators, in comparison with previous year, stayed at the same level.

**Chart 37. Average daily payment card operations in 2006 – 2009 and by 2009 quarters**



### INTERNATIONAL MONEY TRANSFER SYSTEMS

Remittances of individuals without opening of a banking account are being executed by commercial banks and money remittance organizations licensed by the CBA (see chapter Payment and Settlement Organizations).

To improve the process of transfers commercial banks operating in Armenia participated in 17 international money transfer systems (UNISTREAM, ANELIK, CONTACT, MIGOM, BISTRAYA POCHTA, etc.).

In 2009, transfers to Armenia through the banks participating in these systems totaled 363.0 billion drams (1,539,255 transfers), or by 8.7 times more than transfers from Armenia to abroad. As a result, net money inflow through commercial banks by international money transfer systems totaled 321.0 billion drams, or 20 percent (80 billion drams) less than in 2008. At the same time, transfers to Armenia dropped by 17 percent (77 billion drams). The value of an average transfer was 236 thousand drams, or by 33 thousand dram less than in 2008.

**Table 12. Money Transfer Systems**

System	Number of participating banks	Number of other participating organizations	Share in payments received (%)
UNISTREAM	1		49.76
ANELIK	9	1	8.36
CONTACT	8	2	8.86
MIGOM	12	2	8.30
BISTRAYA POCHTA	11	1	4.62
MONEY GRAM	16	1	5.18
LIDER	8	1	2.55
INTEREXPRESS	2	1	2.27
ZOLOTAYA CORONA	2	1	4.52
BLIZKO	4	2	1.70
BTF-Souz	1		0.93
FASTER	1	1	0.55
ALLUR	3		0.37
AVERS	2		0.04
XPRESS MONEY	1		0.02
INTEL EXPRESS	1		0.23
RIA MONEY TRANSFER	2	1	0.24
PRIVAT MONEY TRANSFER *	-	-	0.67
MONEY TUN	-	1	0.13
Travelex	-	1	0.24
STEFI	-	1	0.45

*\* subscription was suspended in October 2009*

In 2009, transfers to Armenia through commercial bank correspondent accounts (processed by SWIFT, telex, or fax) totaled 2,669 billion drams (by 373 billion drams more than in 2008), or 174,143 operations. The average amount of single transfer was 15 million drams or 5.5 million dram more than in 2008.

Within transfers through commercial bank correspondent accounts, individuals' transfers from abroad to Armenia dropped by 38 billion drams and totaled 217 billion drams. The average volume of single such transfer grew by 5 thousand drams and totaled 2.33 million drams. At the same time, individuals' transfers through correspondent accounts transfers from Armenia dropped by 0.69 billion drams, totaling 234 billion drams. Subsequently, the net outflow of household transfers within correspondent accounts of commercial banks totaled 18 billion drams, falling approximately by 64 percent compared with 2008.

## SUPERVISION DEVELOPMENT OUTLOOKS

Since the Great Depression 2007-2009 financial crisis, perhaps, had the most influential impact on USA and European economies. In the view of mitigating impact of the crisis and restoring economic activity, almost all countries have taken significant anti-crisis measures. Results of research of current crisis origins have revealed problems of update and upgrade of basic principles and approaches of financial supervision. Current crisis had its impact on Armenian financial system starting last quarter of 2008. The CBA took number of measures aimed at mitigating the impact of financial crisis on Armenian financial system. In particular, in 2009 special supervision approaches were introduced aimed at mitigating risks of single banks and system as whole and ensuring systemic financial stability.

In 2010, the CBA will proceed with reforms to ensure sustainable development of the banking, securities and insurance markets aiming at ensuring financial stability of Armenian financial system, enhancing clearing systems and sustainable development of financial system.

### *Financial system regulation prospects*

In 2010, the CBA will continue to implement developed anti-crisis measures, research risks of financial organizations, monitor developments, risks and obstacles of financial stability of the overall financial system. In the view of ensuring financial stability of commercial banks, it is intended to develop more up to date monetary policy tools and instruments.

In the framework of consumer right protection appropriate amendments and addenda will be introduced to legislation, which will allow to implement a unified tool applicable to all parties supervised by the CBA, based on which it will be possible to establish mandatory business conduct rules.

Activities started in 2009 and aimed at developing new risk assessment system at banks will be completed in 2010. This will allow development of aggregate evaluation indicators based on analysis results of separation, assessment and management of the risks associated with distinctive business processes. This system will allow focusing on major and/or significant business processes of the banks, and also comprehensively assess banking risk system and evaluate each type of the risks.

In 2010 it is intended to develop legal acts regarding unified supervision. In particular it is intended to outline regulative framework of financial group operations, prudential requirements for mitigating risks inherent in financial groups and main principles and means for supervision of prudential requirements.

In 2010 it is intended to implement a unified and IFRS compliant chart of accounts for banks, credit organizations and investment companies. Likewise chart of accounts for insurance companies will be brought in compliance with IFRS.

It is intended to develop manuals for liquidity and credit risk management in banks. This will improve the management of those risks in banks. The manuals will not be prudential, but rather will have consulting purpose. The manuals will assist banks to develop appropriate mechanisms, regulations and procedures for assessment and management of credit and liquidity risks.

In 2010 activities of the securitization fund will be further regulated and promoted, with the view to supporting development of the secondary securities market in Armenia, solving the liquidity problems of the banks and credit companies, increasing the level of financial intermediation provided by banks and credit organizations, fostering mortgage lending and increasing the volume of "long money" in capital market.

The CBA in 2010 will continue Armenian mortgage market development. Activities aimed at establishing new credit organization and program financing, will be implemented within the framework of "Affordable housing for young families" state-supported program. It is expected that with the support of new credit organization local banks and credit organizations will issue affordable mortgage loans to young families in compliance with predefined qualifications.

Enhancement of pension system efficiency can significantly contribute to formation of long term resources, hence to the expansion of financial system and improvement of financial intermediation. Steps taken by the Government of Armenia aimed at implementation of cumulative pension system, will lead to the emergence of new players (investment (pension) fund managers, life insurers, etc.) in the financial system.

The CBA being the regulator and supervisor of the financial system has an important role in abovementioned reforms. After the endorsement of legislative proposals major functions of the CBA will be

- Development of legal acts in regard to financial institutions participating in cumulative pension system (regulation of licensing of investment /pension/ fund manager, outlining reporting forms for new participants of financial system, etc.)
- Supervision of investment (pension) fund managers, pension asset custodians, and participant registrar.

In 2010 the CBA is planning to proceed with reforms in the payment and settlement system regulatory framework. In particular, in 2010, after the endorsement of the law on "Amendments and addenda to the law on **"On Payment and Settlement Systems and Payment and Settlement Organizations"**" by the Parliament, minimum capital requirement, capital structure and capital compliance for payment and settlement organizations will be defined in corresponding legal acts. In line with mentioned amendments licensing and payment system participation procedures will be clarified for payment and settlement organizations.

In 2010, legal acts regulating accounting activities of local payment and settlement organizations will be revised. In result financial reports of payment and settlement organizations will be brought in compliance with IFRS. Also new reporting forms will be introduced for those organizations.

Taking into consideration dynamic development of payment system sector, including expansion of high-tech services (mobile phone, internet), the CBA will continue to clarify the requirements of remotely rendered services for financial system participants.

Armenian financial market takes an interest in services rendered through “electronic money”. Taking into consideration this fact, already starting 2009 the CBA started drafting legal framework of “Electronic money”. During 2010 it is intended to regulate “Electronic money” issuers, define the framework of their operation, which will ensure the development of “E-money” services.

During 2010 it is intended to introduce “Development policy of Armenian payment and settlement system” paper, which will outline the main development directions of payment system, problems with the implementation and solutions to them.

In 2010, the CBA will continue active cooperation with “NASDAQ-OMX Armenia” with the view of boosting capital market in following directions: expansion of investment opportunities, market infrastructure development and marketing, boosting awareness of market participants.

In 2010, further works will continue on design of the various by-laws necessitated by the law “On Securities Market” and revision of the existing by-laws performe.

In 2010, after the endorsement of the law on “Investment Funds” the CBA plans to design by-laws regulating activities of the investment funds, with the view of developing such mechanisms, which will enable small investors to combine their resources and make diversified collective investments. Creation of legislation on investment funds would serve as a basis for the establishment of venture foundations, securitization fund, as well as for the managers and custodians of the pension funds.

In 2009 the CBA continued discussions and consultations of the draft of the law **“On Compulsory Motor Third Party Liability Insurance”** with Parliament.

In the framework of activities aimed at development of infrastructures ensuring efficient development of insurance market, in December 2009 concept paper on “Data Synchronization between CBA auto insurance register and Police Database” was prepared and presented to the Government by the Central Bank. Implementation of the concept paper will ensure to exchange motor third party liability (MTPL) insurance system data between CBA auto insurance register and Police database on vehicles, drivers and accidents. Data exchange will allow ensuring completeness and accuracy of the data in the register, to improve MTPL data flows and simplify insurance compensations procedures connected with MTPL.

One of the major cornerstones of the MTPL system design is the introduction of widely used system of discounts and bonuses or so called “Bonus-Malus” system. The CBA initiated introduction of concept paper on “Bonus-Malus” system in the end of 2009 and will complete the paper in 2010. The purpose of this system is to ensure the differentiation of the insurance premiums based on policy holder risk level. This will contribute to the efficient risk management and fair pricing for the policy holders.

Major precondition of health insurance development is the creation of efficient and functioning infrastructure. For this purpose in 2009 the CBA in cooperation with Ministry of Health introduced concept paper on “Unified electronic information system for Armenian health sector”, which was approved by the prime minister. The main purpose of the concept paper is to collect comprehensive health information for every Armenian citizen based on unified and complete standards. Collected information will help insurance companies to make more precise calculations of health insurance rates and premiums. It is planned that in 2010 responsible unit will be established for the implementation of the activities stated in the concept paper.

### ***Financial system supervision prospects***

In the context of the shift from supervision by types of institutions (banks, insurance companies, participants of securities market, etc.) to new supervision system (prudential, market conduct and financial system consumer right protection), in 2010, the CBA will continue the process of implementation of consumer right protection activities. In the scope of mentioned activities, activities aimed at boosting financial literacy of the public and financial awareness will be prioritized. In particular:

- Enlightening the public on pension reforms, informative brochure on pension reform will be published,
- Enlightening the public on services rendered through MTPL system. It is planned to publish an informative brochure and make an educational film on MTPL,
- In cooperation with Ministry of Education and Science and other interested parties the CBA will implement financial education system in secondary schools,
- “Economics” game-competition will be organized for the pupils,
- Consumer rights protection website will be improved, developed and upgraded.

In 2009, manual for supervisors on business conduct inspections was developed, which insures proper and systemized supervision of business conduct of financial sector. The manual is planned to put into operation in 2010.

In the framework of financial stability parallel to current supervision activities, risk associated to all macroeconomic sectors (real sector, fiscal and external sectors) will be thoroughly analyzed<sup>21</sup>. Taking into consideration various forecasts on world economy, Armenian macroeconomic situation and objectives stated by 2010 monetary policy program, the CBA worked out action plans for mitigating risks at financial institutions against various probable crisis developments. Mentioned action plans were worked out by research on international anti-crisis practices and taking into account peculiarities of regulative and development environment of Armenian financial system. For improving quick

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<sup>21</sup> A detailed description of the Armenian financial system stability is presented in “2009 Financial Stability Report” periodical.

response skills in crisis situations in 2010 crisis management simulation games will be held, which will help decision takers to exercise crisis management skills, to be ready to take quick decisions in emergency situations and urgent steps.

In 2010 works of regulation of unified supervision procedures will be continued. The supervision activities aimed at the analysis of financial group structure, assessment of group capital adequacy, disclosure of group risks and impact of intra-group transactions on group financial performance will be regulated.

Separate division was added in supervision department responsible for analysis and enforcement of financial system competitiveness. Main functions of the new division are to enhance competitive environment, monitor competitive standing of financial system and respond to manipulations in this field. In 2010 it is planned to expand and enhance approaches targeted to the disclosure, regulation and supervision of the competition issues.

With the view of enhancing supervision processes, the CBA is planning to develop in 2010 manual on "Off-Site Inspection of Clearing Companies". This manual will describe in detail processes of the inspections and supervision in clearing companies.

Meetings within the framework of the CIS Securities Market Regulating Board will continue. In 2010, the CBA will cooperate with supervisors from the Russian Federation and Ukraine for signing of a new partnership agreement in the areas of securities market regulation and supervision. Works on joining the Multilateral Memorandum of Understanding (MOU) concerning consultation and cooperation and the exchange of information of the International Organization of Securities Commissions will continue. In case of joining the MOU, it will be possible to obtain data on securities market through foreign supervision agencies and benefit from mutual cooperation.

In the scope of pension reforms in long run it is planned to participate International Organization of Pension Supervisors. In case of the adoption of laws on "Cumulative Pensions" and "Investment funds" the CBA will take steps to participate in IOPS (International Organization of Pension Supervisors).

In result of pension reforms and particularly after the adoption of abovementioned laws the CBA will supervise new market participants (investment fund managers, registrars, custodians), while the supervision of pension fund managers, registrars of cumulative pension participants and the pension asset custodians will be carried out in compliance with IOPS principles.

In the view of strengthening supervision of MTPL system, after the endorsement of the law "**On Compulsory Motor Third Party Liability Insurance**" bureau of MTPL participants will be established (hereinafter Bureau). Bureau as a self-regulated organization will take charge of some important functions in insurance system supervision and regulation. It will contribute to the protection of injured party rights, stability and sustainability of MTPL system and to the enhancement of activities of MTPL participants.

**ANNEXES**

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## **FINANCIAL MARKET SUPERVISION AND REGULATION**

In the supervision and regulation framework stipulated by the law the CBA ensures one of its major goals of securing stability, liquidity, solvency and soundness of the financial system, creating necessary conditions for development and sound performance of clearing systems, creating proper conditions for coordinated operation and future development of a fair, transparent and sustainable securities market, as well as protecting interests of the investors and consumers of financial services.

### ***Organization of the Financial System Supervision and Regulation in the CBA***

Financial system supervision and regulation in the CBA is mainly performed through the following hierarchy (in the ascending order):

1. Structural Subdivisions,
2. Standing committees,
3. CBA Chairman,
4. CBA Board.

Based on need also working groups can be established in the CBA.

### ***1. Objectives and functions of the CBA financial supervision and regulation units***

The Central Bank units responsible for financial supervision and regulation are Financial Supervision Department, Financial System Policy and Financial Stability, Financial Monitoring Center, Statistical Department and Legal Department.

The main objectives of the Financial Supervision Department are:

- Supervision of the activities of financial institutions operating within the Republic of Armenia (banks, branches of foreign banks, credit organizations, insurance companies and intermediaries, branches of foreign insurance companies, participants of the securities market, clearing companies, pawnshops, persons performing foreign exchange trade operations, persons performing foreign exchange trade dealer/broker operations and other persons licensed by the Central Bank) and, in cases described by law, supervision of the activities of persons publicly offering securities and public offerers.
- Supervision of the activities of banks, insurance companies, and credit organizations and securities market specialized entities, clearing companies undergoing liquidation process (self-liquidation).
- Protection of the rights and lawful interests of the investors in the Republic of Armenia securities market and entities using investment services.
- Ensure the operation of a credible security pricing system, a settlement system for securities transactions, and a system to register and file ownership rights over securities by means of discovering, evaluating, and preventing risks in the system.
- Ensure the transparency of operations of securities market specialized participants and securities issuers.

The main objectives of the Financial System Policy and Financial Stability Department are.

- Monitor the development trends of Armenia's financial system and to distinguish and evaluate existing and potential risks and obstacles for financial stability;
- Improve and/or develop and implement an efficient supervision methodology to mitigate risks in the financial system;
- Improve and/or develop an adequate regulatory framework and a structured methodological basis for mitigating bank (also, non-bank financial institution) risks and ensuring their sound operation;
- Develop non-cash operations;
- Regulate payment system services and tools, and also regulate obstacles to achieving payment and settlement system development;
- Ensure reliability, stability and continuity of payment and settlement systems;
- Ensure oversight of payment and settlement systems: risk assessment and monitoring, risk management assessment and payment system establishment and foreign payment system participation risk assessment;
- Improve and/or develop institutional elements (relations, instruments, methods, models and approaches) favorable for deepening financial intermediation and developing the financial system in accordance with the standards accepted by international banking (and non-bank financial institutions);
- Keep track of the current trends, developments and new financial technologies in global financial markets and develop appropriate recommendations on their possible implementation in Armenia's financial system;
- Carry out consumer right protection and market conduct regulation activities.

The main objectives of the Financial Monitoring Center are:

- For the purpose of combating ML/TF (Money Laundering and Terrorism Financing) receiving information from reporting bodies: based on received reports and other sources analyzing received information from state bodies and organizations, sending messages to criminal investigation bodies in case of reasonable suspect of ML/TF;
- For the purpose of combating ML/TF contributing to appropriate capability shaping at reporting parties and at authorized state bodies;
- With the view of contributing to efficient criminal prosecution and supervision of revealed cases of ML/TF cooperation with criminal investigation bodies, supervision bodies and other authorized state agencies, foreign financial investigation organizations by signing bilateral agreements or not doing so;
- Representation of Armenia in international structures combating ML/TF;
- Increase public awareness about negative consequences of ML/TF, also contributing to continuing deepening of ML/TF combating knowledge base.

The main objectives of the Legal Department are:

- Ensure the conformity of normative and individual legal acts adopted by the Central Bank with the provisions of the Republic of Armenia legislation;;
- Ensure the conformity of the Central Bank's transactions and operations with the requirements of the Republic of Armenia legislation;
- Protect interests of the CBA in the domestic and foreign courts;

- Organize and implement licensing and registration of banks operating within the Armenia, subsidiaries of foreign banks, credit organizations, insurance companies, subsidiaries of foreign insurance companies, participants of the securities market, pawnshops, persons performing foreign exchange trade operations, persons performing foreign exchange trade dealer/broker operations and other persons licensed by the Central Bank and their territorial branches, as well as carry out qualification and registration of the managers of above mentioned financial institutions;
- Facilitate development and improvement of the legislation regulating the Republic of Armenia banking, foreign exchange, insurance systems and securities market, as well as other laws and regulations relating to the activities of the Central Bank, systematize normative regulations of the CBA and develop proposals for their classification;
- Provide legal support for the Central Bank's international relations.

The main objectives of the Statistical Department are:

- Collect and process economic statistical data, perform statistical analysis (smoothenings, classifications, forecasts, calculations of various indices, etc.);
- Ensure consistency of the economic statistical data within the scope of competencies of the Department;
- Present collected and processed information to the general public through statistical and other publications of the Central Bank;
- Ensure and coordinate information flows between the CBA divisions and other organizations (including international organizations and foreign organizations);
- Conduct statistical surveys for analyzing certain developments (if needed on regular basis);
- Ensure that the information provided by lenders to the Credit Registry is accurately entered, processed and provided to users, and develop Credit Registry;

Based on their main objectives, the aforementioned departments perform the functions stipulated by their respective charters.

## *2. The CBA Standing Committees*

Implementation of the financial system supervision and regulation functions is supported by two of the CBA standing committees:

- The CBA Council
- Licensing and Supervision Committee

### *The CBA Council*

The CBA Council is a consulting body under the CBA Chairman. Regular sessions of the Council are usually convened once in every two weeks.

The Council members are the CBA Chairman, the CBA Deputy Chairman and heads of the divisions. The Council sessions are chaired by the CBA Chairman, and in the event when the Chairman is absent, by the CBA Deputy Chairman.

The Council sessions are convened at least once in a month. The Council sessions may be attended by the CBA Board members. The issues that will be discussed by the Council members during the session are in advance shared with the CBA Council.

### *Licensing and Supervision Committee*

Licensing and Supervision Committee is a counseling body and is authorized to provide opinions within the scope of its competencies.

Licensing and Supervision Committee exercises its authorities through sessions, which are convened upon necessity, but no less than once a week. Licensing and Supervision Committee discusses:

- ✓ Matters related to the granting of preliminary approval to create financial organizations and the registration and licensing of such organizations;
- ✓ Matters related to the approval of registration and termination (or suspension) of operation of financial organizations' branches and representative offices; Matters related to the preliminary approval on acquisition of qualifying or other holding in the financial organization;
- ✓ Matters related to the registration of amendments to the by-laws of financial organizations;
- ✓ Matters related to the qualification and professional conformity of financial organization managers (with the exception of heads of structural subdivisions);
- ✓ Matters related to the reorganization and liquidation of financial organizations;
- ✓ Matters related to the registration of Prospectus and Trade Prospectus;
- ✓ Matters related to the suspension of the securities placement, as well as suspension and termination of the trade with securities;
- ✓ Matters related to the rules of the regulated securities market and Central Depository, their amendments and addenda;
- ✓ Matters related to the violations identified during the supervision of financial institutions or other regulated persons, descriptions and arguments of the financial institutions in case of their presence, feasibility of imposing sanctions against them, types of sanctions;
- ✓ Other matters over which the Central Bank has legal authority in accordance with other legal acts.

Members of the Licensing and Supervision Committee are the CBA Chairman (Committee Chairman), the CBA Deputy Chairman (Committee Deputy Chairman), Head of the CBA Financial Supervision Department, Head of the CBA Financial System Policy and Financial Stability Department and Head of the CBA Legal Department.

A session of the Committee has legal power to act, if more than half of the Committee members are present. The committee sessions are minuted. Minutes of the session should be prepared within six working days after the day of the session and signed by all members of the committee. Resolutions of the session are taken based on the results of the open voting, by two thirds of voices of the committee members present at the session. Resolutions of the session, depending on the level of authority stipulated by law and other legal acts, should be submitted to the CBA Chairman or the CBA Board,

### *3. The CBA Chairman*

The Chairman is the highest rank official of the Central Bank. The Chairman is responsible for the fulfillment of the objectives of the CBA set forth by "Central Bank Law".

The Chairman of the CBA shall:

- coordinate and organize the work and ensure the soundness of the activities of the Central Bank, the Board and the Board members,

- take the chair of the Board sessions, and sign acts and session protocols of the Board of the Central Bank,
- ensure execution of the acts of the Board of the Central Bank,
- represent the CBA in the Republic of Armenia, other states and international organizations,
- issue powers of attorney,
- approve the structure of the CBA and the staff,
- appoint and dismiss heads of units and other employees of the CBA, unless otherwise stipulated by “Central Bank Law”,
- adopt individual and internal resolutions and orders, including resolutions on assigning inspections of the supervised entities,
- assume other authorities, which are not reserved for the Board of the CBA by law.

#### *4. The Board of the Central Bank*

The Central Bank Board is the highest governance body of the Central Bank. The Board adopts normative and individual decisions.

The Board is comprised of the Chairman of the Central Bank, his/her deputy and five members. A Board member of the CBA is responsible for carrying out duties reserved for him/her in the areas specified by the CBA Board. The CBA Board is also responsible for<sup>1</sup>:

- issue and revoke or annul banking and other licenses, and approve the procedure of licensing banks and other entities,
- pursuant to the law of the Republic of Armenia “On the Bankruptcy of Banks, Credit organizations, Investment Companies, and Insurance Companies” declare a bank, credit organization, or insurance company insolvent, and institute bankruptcy proceedings against them in accordance with the procedure stipulated by law,
- approve prudential requirements for banking activities and the procedure of their calculation,
- give preliminary consent to or reject the acquisition of a significant participation in a bank’s statutory fund,
- define the minimum requirements of internal control in banks and insurance companies,
- approve reporting forms submitted to the Central Bank by banks and other entities licensed and supervised by the Central;
- approve procedures for operations with securities, coordinating them all with the authorized body of the Government of the Republic of Armenia;
- exercise authorities as set forth in law of the Republic of Armenia “On Guarantee of Reimbursement of Bank Deposits of Natural Persons”.

Sessions of the Central Bank Board shall be convened upon necessity at the request of the Central Bank Chairman, Deputy Chairman, or at least three Board members, but, in any case, no less than once a month. Sessions of the Board of the CBA are minuted. The Board of the CBA is authorized to take decisions, if at least five members of the Board are present at session, including the Chairman or the Deputy Chairman of the Central Bank. A decision taken by the Board is deemed passed if more than half of the members present at the session have voted for it.

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<sup>1</sup> Republic of Armenia Law on the Central Bank of the Republic of Armenia.

### ***Processes of Licensing, Supervision and Regulation of Financial Institutions***

Licensing of financial organizations by the CBA is in detail described in

- ✓ Regulation No 1 "Registration and Licensing of Banks and Branches of Foreign Banks; Registration of Branches and Representations; Qualification and Registration of Management of Banks and Branches of Foreign Banks",
- ✓ Regulation No 13 "Registration and Licensing of Credit Organizations; Recording of Branches and Representations; Consenting to the Acquisition of Significant Participation in the Statutory Fund; the Qualification of Managers; the By-Laws of Credit Organizations; and Requirements on the Place of Activities and Technical Adequacy of Credit Organization",
- ✓ Law on "Security Market Regulation",
- ✓ Regulation No 4/01 "Licensing and Registration of Investment Companies, Registration of Branches of Investment Companies and Foreign Investment Companies and Representations, Procedure on Preliminary Consent to Obtain Qualified Holding in Statutory Capital of Investment Companies, Procedure, Mode and Timeframe of Submission of Business Plans by Investment Companies, Provision of Advice on Investment Services Rendered by Credit Companies",
- ✓ Regulation No 4/04 "Prospectus and Reporting Issuer Reports"
- ✓ Regulation No 5/01 "Registration and Licensing of Regulated Market Operator; Procedure for Obtaining Preliminary Consent for Qualifying Holding in Statutory Capital of Regulated Market Operator ; Procedure, Mode and Timeframe for Presentation of Business Plan",
- ✓ Regulation No 3/01 "Licensing of Insurance Activities and Insurance Intermediary Activities; Accounting of Insurance Agents; Registration of Branches and Representations of Foreign Insurance Companies operating in the Republic of Armenia; Obtaining Preliminary Consent to Qualifying Holding in Statutory Capital of Insurance Company; Insurance Company's Business Plan Disclosure, Procedure and Date; Testing of Qualification of Candidates for Officials and Responsible Persons of Insurance Company and Insurance Intermediary; Professional Competency and Qualification Criteria Officials and Responsible Persons of Insurance Company and Insurance Intermediary; Themes of Qualification Test for Officials of Insurance Company and Responsible Persons of Insurance Intermediary",
- ✓ "Procedure of Licensing Pawnshop Activities in the Republic of Armenia",
- ✓ Regulation No 10 "Regulation and Licensing of Foreign Currency Purchase and Sale Operations",
- ✓ Regulation No 11 "Licensing, Regulation, and Supervision of the Organization of Foreign Currency Trading in the Republic of Armenia Territory".
- ✓ Regulation No 12 "Regulation and Licensing of Foreign Currency Dealer Purchase and Sale Operations",
- ✓ Regulation No 16 "Licensing of Money Transfer Organizations, Registration of Branches and Representations, Regulation of Activities, and Qualification of Managers",
- ✓ Regulation No 17 "Licensing of Organizations Processing and Clearing Payment Instruments and Settlement Documents, Registration of Branches and Representations, and Qualification of Managers",
- ✓ Regulation No 18 "Granting Permission to Create and Operate Armenian Payment and Settlement Systems",
- ✓ Regulation No 19 "Granting Permission to Participate in Foreign Payment and Settlement Systems".

As a rule reforms of the regulation framework are result of the necessity to provide solutions to the new challenges rising in light of the new developments in the financial system. The CBA identifies system risks and challenges affecting the sustainability and development of Armenian financial system, carries out research and proposes institutional and legal solutions thereto. The CBA keeps track of the trends and developments, as well as the new technologies emerging in global financial markets, and provides respective suggestions where their introduction and implementation is feasible.

The supervisory body of the CBA performs documentary (hereinafter referred as off-site) and on-site inspections of the financial institutions.

Off-site supervision is carried out on the basis of information obtained from financial organizations. The off-site supervision of each financial institution is performed by designated supervisors that are experienced in supervision of the particular organization. This enables the supervisor to develop more complete understanding of the financial organization's activities, its peculiarities, and risks.

For the purpose of off-site supervision, the supervised organizations submit to the CBA Statistical Department reports in manner prescribed by law and in compliance with provisions of the respective regulations, with the defined content and frequency. Afterwards cross-checked reports are conveyed to the Financial Supervision Department and Financial System Policy and Financial Stability Department. To improve the efficiency of supervision and analysis activities, these departments also use information received from the Credit Registry, earlier reports submitted to the Central Bank, notes received during the current and previous periods, notifications, long-term development plans, published financial reports, supervisor opinions annexed thereto, the results of inspections in supervised organizations, and information obtained in other ways. During the off-site supervision continual analysis of financial organizations is carried out aimed at assessment of financial performance and risk level, conformance of the financial organization's operations with regulations and other legal acts. With the view of comprehensive analysis of risks identified during the off-site supervision their causes, and also based on bank and other financial institution inspection schedule approved by the CBA Chairman, on-site inspections are performed.

The main objective of the off-site supervision of banks is to identify and assess the risks through carrying out weekly, monthly, quarterly and annual analysis to prevent or reduce possible losses of the banks. One supervisor can simultaneously supervise not more than three banks, and each bank must be monitored by at least two supervisors. The off-site supervision of banks is carried out pursuant to the rules of the manual "On Off-Site Supervision", which defines principles and methods of the off-site supervision, its sequence and frequency, as well as the list of persons engaged and their rights and responsibilities.

Based on the analysis of information obtained from banks, internal briefs are compiled for each bank, describing major changes in the bank's performance indicators, the main trends in its performance, an assessment of the bank's current financial situation and outlook, the issues faced by the bank, and risk areas. Off-site supervision reveals not only changes in a bank's financial performance indicators, such as deviations from the regulatory requirements set by the Central Bank, but also their causes and changes are analyzed, based on which an appropriate action plan is devised to manage identified excessive risks.

The main purpose of the weekly off-site supervision is to operatively monitor banks' daily operations. The main areas of the weekly off-site supervision are to check compliance of a bank's activity with the Armenian laws and other regulations, analyze its balance and off-balance structure, risk areas and problematic changes. During the analysis, supervisors identify areas of banks' performance which, given the existing situation, are most

volatile and vulnerable to risks, or which resulted in generation of the problems during the previous reporting period.

The main purpose of monthly off-site supervision is to assess and analyze the bank's activities and actual current financial status during the month. Consolidated assessment of bank's activities is performed, and the respective analysis is carried out. It involves assessment and analysis of the quality of banking assets, capital adequacy, profitability, liquidity, sensitivity to market risks, management quality, and performance of the managers. The analysis of information in the context of monthly supervision must have a clear regulatory focus, i.e. the supervisor must develop and recommend ways of addressing the significant problems identified, mitigating their impact, or preventing their re-emergence. If CAMELS assessments deviate sharply in comparison with a previous period, the supervisor conducts a thorough analysis to discover the reasons<sup>2</sup>.

The main purpose of quarterly off-site supervision is to assess and analyze the banks' current financial situation and outlook, as well as risks. Quarterly off-site supervision must focus on assessing the banks' ability to operate sustainably, including an assessment and analysis of the banks' activities, changes in the banks' financial situation, risks typical of the bank, and financial stability. In the frameworks of quarterly off-site supervision, the supervisor must assess and analyze risks, including the credit risk, liquidity risk, interest rate risk, foreign exchange risk, price risk, operational risk, and reputation risk.

Furthermore, examinations of information published by financial institutions are performed on a quarterly basis, in order to identify how the organizations present data subject to disclosure for consumers.

Off-site supervision encompasses the analysis of a banks' credit, foreign exchange, interest rate, price, and liquidity risks using the credit risk migration matrix, VAR, duration, and GAP methodologies, as well as stress tests. While analyzing the trends of such risks, growing, stable and decreasing scenarios should be applied.

The purpose of the annual off-site supervision is to analyze financial performance and sustainability of the banks during the year, in order to evaluate banks' capabilities for long-term operation.

If risks are identified in the analyses, the supervisor recommends, as needed, a list of supervision measures to ensure the banks' solvency, financial stability, and long-term sustainability of operations. Problems identified in off-site supervision may serve as a basis for on-site inspections or may be included in the comprehensive inspection plans. The off-site supervision is important since timely and accurate identification of problems and risks threatening the bank allow increases the overall efficiency of supervision, due to the effective use of supervision resources and planning of inspections in the supervised organizations.

The Central Bank conducts on-site inspections of banks and foreign bank branches operating in Armenia in accordance with the Bank Inspection Manual. When supervising different areas of banks' activities, supervisors assess the applicability of the banks' internal control system, processes, internal policies regulating the respective areas, and procedures. They assess the banks' internal control system and the effectiveness of internal audit to determine whether the banks' employees are complying with the principles set by the banks' management. Special attention is paid to analyzing the banks' management system and identifying the related risks, including, in particular, the separation of rights and responsibility between the banks' board and executive management.

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<sup>2</sup> CAMELS assessment scores vary between 1-5 unit range

There is a particular focus on identifying the areas of the banks' activities, which are the most vulnerable and sensitive to risks. Those areas must be supervised rigorously.

The on-site inspection should focus on the following issues:

- **Asset Quality**

The purpose is to identify the structure of the banks' assets with a focus on assessing loan portfolio quality and level of management. Lending activities must be carried out in accordance with policies and procedures approved by the bank, and exceptions from them must be properly justified and documented. During the inspection special attention is paid to quality, profitability, loan return rate and provision rate for loan losses of the loan portfolio. The investment services of the banks are also inspected, in case the bank renders investment services. In this case investment services rendered by bank are inspected in compliance with the law on "Securities Market" and other sub-laws emerging from it.

- **Liabilities and equity**

The purpose is to identify the structure of the bank's liabilities, especially deposits, concentrations, and the conformity of the funding process with the bank's policies and procedures. Deposit database inspection is carried out, which includes comparing the deposit and depositor database submitted to the CBA with bank's local database, and also includes checking the accuracy of the data presented in the deposit and depositor database and compliance of the calculation of compensatable part of guaranteed deposit with law requirements. While examining the bank's borrowings, supervisor should focus on the compulsory reserve ratio and excessive liquidity level, as well as identify reasons, sources, average volume and maturities thereto, costs of the borrowed resources and the efficiency of their use. During the inspection, the adequacy of the bank's capital with its financial situation, risks, and volumes of operations is assessed.

- **Profitability**

The analysis of incomes and expenses allows the supervisor to form an opinion of the bank's financial situation and the results of its operations, as well as to determine the credibility of data reflected in the banks' income and expense accounts. During the inspection, the supervisor should assess the level and the trends of profit, its elements and their stability, probability of bank's operation without losses and compliance with the capital adequacy prudential, compliance with the prudential on the minimum size of the total capital, planning of expenses and income, and the involvement of the management in planning expenses and income.

- **Liquidity**

During the inspection, the supervisor should assess current liquidity of the bank, liquidity demand, and current and expected cash flows, sources for the attraction of resources and their cost. The supervisor checks whether the bank has a plan to meet extraordinary liquidity needs, which may become necessary in case of income deterioration, higher non-performing assets, deposit concentration, unforeseen opportunities to expand operations, and other events.

- **Management**

The supervisor assesses the quality of the banks' corporate governance, the duties and responsibility of the banks' executive managers, and the risk management system. The purpose is to discover to what extent the

banks' corporate governance mechanism works to the benefit of shareholders and other stakeholders. As a priority, the management structure and processes are assessed. The purpose of assessing the quality of the banks corporative management is to identify the efficiency of cooperation between the bank board, executive directors (directorate), shareholders and other interested parties. During the assessment of the risk management system, the supervisor should identify the strategies of risk identification, measurement, assessment, monitoring and management.

- **Combating money laundering and terrorism financing**

While examining this issue, the supervisor identifies whether the respective policies, procedures and internal control are adequate for the efficient management of such risks. The supervisor should verify the compliance of the implemented measures with the policy adopted by the bank, availability of the internal regulations on identification of suspicious transactions and regulations establishing norms and provisions for filing the respective reports to the authorized body in the Central Bank, etc.

- **Supervision of market conduct**

While examining this area, the supervisor should identify the possible inconsistencies and risks in terms of the business conduct of a bank, which can pose a threat to the interests of the consumers of financial services. This area includes adequate presentation of information published by the bank, rendering consultations to customers, processes of complaint and dispute resolutions, dissemination of information on rendered services, and servicing of the customers.

- **Other areas**

The quality of market risks management, the quality of operational risk management, bank-related parties, computer and information systems, legal issues, off-balance sheet operations, internal audit and internal control, checking the credibility of reports submitted to the Central Bank, payment system risks, and electronic transfer of funds.

- **General assessment of the bank**

As a result of the general assessment of the bank, the supervisor obtains the picture of the bank's internal financial performance and perspectives, taking into account such factors as the system of the bank's internal control, the availability of internal policies and procedures, infringements of the laws and/or other regulations, the quality of the bank managers, the adequacy of banking capital, the volume of classified assets, the availability of the major parameters describing activities of the bank, etc.

Based on the results of the inspections, supervisors should prepare the inspection reports, which should reflect the major directions and the framework of the performed inspections, identified problems and risks, bank's financial performance, compliance with prudential standards, consolidated assessment of the bank's indicators (CAMELS), as well as submit opinions and the respective suggestions on the performed inspections.

The off-site supervision of the organizations rendering insurance services (insurance companies and insurance brokers) is performed in accordance with the manual "On the off-site supervision in organizations rendering insurance services". Special emphasis is placed on data precision, consistent representation and

believability. The manual defines off-site principles and methods, regulates off-site procedures and their sequence and timelines, and also regulates scope of people participating in off-site supervision, their rights and responsibilities. Results of off-site supervision are consolidated in supervision reports on monthly basis and on their results recommendations are sent to organizations. In consolidated reports major changes of indicators describing organization's activities are disclosed, main trends and their changes of the activities are presented, present and future financial performance assessment is performed, issues at hand and risky areas of performance are revealed. Risk assessments are part of off-site supervision, which guide the supervisor to the selection of on-site supervision directions, which on its turn makes on-site inspections more optimal and targeted.

The main purpose of off-site supervision of insurance companies is the risk assessment and disclosure through monthly, quarterly and annual analyzes for forecasting, early disclosure and mitigation of probable risks.

The process of off-site supervision and analyzes of submitted report by insurance companies is carried out the same way as in banks. On monthly basis activities and real financial performance of insurance company are analyzed and consolidated assessment is carried out (CAMELS- on quarterly basis). The latter includes analysis and assessment of asset quality, capital adequacy, reinsurance area, actuarial calculations and reserves, profitability, liquidity, sensitivity to market risks, management quality and management activities. In case of sharp divergence of CAMELS indicators in comparison with the previous period the supervisor comprehensively analyzes the causes of the divergences.

The objective of quarterly supervision is to assess and analyze present and future financial performance and risks. Quarterly off-site supervision is targeted at assessment of the ability of continuous operation of the organization.

The goal of annual off-site supervision is to analyze the annual performance and financial stability of the company in the scope of development prospective.

The on-site inspections of the organizations rendering insurance services should be performed in accordance with the manual "On the (on-site inspections) of the organizations rendering insurance services within the Republic of Armenia". The on-site inspections involve the following directions: insurance (underwriting), asset quality, capital and yield, governance, reinsurance, realization of the insurance products, other areas (protection of the insured persons, compliance with the rules of market behavior, computer and informational technologies, legal issues, verification of the consistency of the statements filed with the Central Bank).

- In the context of asset quality assessment quality and management level of accounts receivables, investments and insurance portfolio are emphasized.
- During the assessment of liabilities and capital, structure and concentration of reserves, compensations and reinsurance portfolio are disclosed.
- During the assessment of profitability, the structure of income, profitability and its trends are analyzed.

On-site supervision includes also such areas as reinsurance, insurance policies, compensations, liquidity management, ML/TF, market conduct. And based on the analysis of those areas a consolidated assessment is carried out.

While performing inspections of the different areas of the insurance companies' activities, supervisors should assess the system of internal control of the insurance company, and application of the internal policies, procedures and regulations regulating the performed operations and the activities carried out in these areas. Furthermore, supervisors should assess the system of the internal control of the insurance company.

Based on overall assessment of the company the supervisor forms opinion about financial performance and prospects taking into consideration such factors as internal control system, presence and quality of internal policies and procedures, violations of laws and legislative acts, management quality,

Main purpose of on-site and off-site supervision is to forecast and minimize possible misconducts of investment companies and also disclose all those issues that, in the future, can undermine the financial stability of investment company and the ability of the company to meet liabilities to the customers.

The on-site inspections of investment companies are performed in accordance with the guideline on "Inspections in Investment Companies", and "Inspections Business Conduct in Financial Organizations", which define on-site inspection preparation and core inspection (inspection targets) procedures and also consolidation of the inspection results.

The main target areas in on-site supervision are:

- **Assets**

Financial investments of investment companies, fixed assets, cash, other assets, assets equivalent to technical reserves and payable compensation, and also issues, flaws and violations disclosed during the analysis, their causes and effects on investment company are assessed.

- **Liabilities**

The purpose is to identify violations, issues and flaws disclosed during inspection and analysis of liability accounts, their causes and effects on investment company.

- **Equity and profitability**

The purpose is to identify violations, issues and flaws disclosed during inspection and analysis of capital and dividends, cost end income, their causes and effects on investment company.

- **Management**

The purpose is to identify violations, issues and flaws disclosed during inspection and analysis of corporate management system, risk assessment system and external audit, their causes and effects on investment company.

- **Business conduct**

The purpose is to identify violations, issues and flaws disclosed during inspection and analysis of rendered services, customer service, complaint and dispute settlement, advertisement and other published information, their causes and effects on investment company.

- **Other areas**

The purpose is to identify violations, issues and flaws disclosed during inspection and analysis of the accuracy of submitted reports, ML/TF combat activities, their causes and effects on investment company.

Based on inspection results an inspection report is composed, where supervisors present areas and framework of the inspection, revealed issues, risks, financial performance of the investment company, and also

conclusions and proposals are presented. The report also includes consolidated matrix of the assessment of different areas of operation.

The main goal of the on-site and off-site supervision of regulated market operator and Central depository is the disclosure and future prosecution of violations of the law and other legal requirements. Supervision of those security market participants is also aimed at the analysis of their activities and financial standing, at the view of ensuring the reliable rendering of their services.

The main target areas in on-site supervision of regulated market operator and Central depository are:

- Verifying the compliance of regulated market operator and Central depository activities with the provisions of the laws, regulations and other legal acts.
- Verifying the accuracy of the regulated market operator and Central depository reports and other information submitted to the CBA.
- Analyzing the financial standing of regulated market operator and Central depository.
- Verifying the implementation and outcomes of the CBA instructions and suggestions by regulated market operator and Central depository.
- Verifying the compliance of regulated market operator and Central depository activities permitted by the law provisions with the provisions of the laws and other legal acts.

Based on regulated market operator and Central depository inspection results an inspection report is composed, where supervisors present areas and framework of the inspection, revealed issues, risks, financial performance, and also conclusions and suggestions are presented.

The main goal of the supervision of companies propounding public sale offerings of securities and the reporting issuers (hereinafter issuer) is to ensure timely, accurate, law defined information framework concerning the issuers and issued securities for investors in those securities, disclose and prevent misuse of the internal information by insiders, and all those issues, that in the future can affect fair pricing of the securities and ability of the company to face the liabilities to the investor.

Off-site supervision of issuers assumes analysis, disclosure and prevention of issues associated with prospectus and trade prospectus, intermediate reports, significant facts and internal data.

The on-site supervision of issuers is carried out based on law and Central Bank provisions, which define preliminary, execution and result consolidation procedures for on-site supervision.

The main target areas in on-site supervision of issuers are:

- Verifying the accuracy and reliability of the presented prospectus and trade prospectus, significant facts in intermediate reports, reports on internal information and other information published by the issuer.
- Verifying the implementation and outcomes of the CBA instructions and suggestions by regulated market operator and Central depository.

Based on issuer inspection results an inspection report is composed, where supervisors present areas and framework of the inspection, revealed issues, risks, financial performance, and also conclusions and suggestions are presented.

The off-site inspections in credit organizations, clearing companies, pawnshops and exchange offices are performed on the analogy of banks. The off-site supervision is based on reporting forms submitted to the CBA.

The on-site inspections in pawnshops and exchange offices should be performed with the view to verifying the compliance of their activities with the provisions of law.

In the view of enforcing market conduct rules the information published by banks, credit organization, insurance companies, insurance brokers, money transfer companies, and investment companies is verified. Periodically compliance of the information published on their websites and reports printed in newspapers with Regulation No 8/03 "Information dissemination by banks, credit organizations, insurance companies, insurance brokers, investment companies, Central depository and clearing companies making money transfers" is examined.

The inspection program must be approved by the CBA Licensing and Supervision Committee. At the end of each inspection, the group of supervisors must compile the inspection report and submit it to the CBA Board.

**Annex 2. Commercial Banks and Branches**

Commercial Banks	Branches	
	31.12.2008	31.12.2009
1 VTB Bank (Armenia)	78	74
2 Ardshininvestbank	55	55
3 Armeconombank	46	35
4 Artsakhbank	14	17
5 Converse Bank	25	25
6 ACBA-Credit Agricole Bank	30	35
7 Unibank	30	34
8 Bank Anelik	10	10
9 AREXIMBANK-GazPromBank Group	12	15
10 Inecobank	8	9
11 HSBC Bank Armenia	9	7
12 Prometey Bank	4	4
13 Ameriabank	1	3
14 Armenian Development Bank	2	1
15 Armbusinessbank	18	22
16 Mellat Bank	-	-
17 Cascade Bank	2	2
18 Byblos Bank Armenia	3	3
19 BTA Investbank	5	5
20 ARARATBANK	25	27
21 Armswissbank	-	-
22 ProCredit Bank	4	8
<b>Total</b>	<b>381</b>	<b>391</b>

**Annex 3. Survey Balance Sheet Indicators of Commercial Banks**

*Thousand drams*

Indicators	Currency	31.12.07	31.12.08	Change 31.12.08-31.12.07	31.03.09	Change 31.03.09-31.12.08	30.06.09	Change 30.06.09-31.03.09
Cash	D	24257482	28450288	17.3%	21789877	-23.4%	22576626	3.6%
	Fx	14834047	13176321	-11.2%	30748463	133.4%	36695562	19.3%
Correspondent accounts with the CBA and other claims on the CBA	D	37055489	38086828	2.8%	39192580	2.9%	32630246	-16.7%
	Fx	38421252	65913580	71.6%	119041949	80.6%	123540945	3.8%
Correspondent accounts with banks and other claims on banks	D	6761399	8656500	28.0%	2702372	-68.8%	6345649	134.8%
	Fx	56700017	86581202	52.7%	113200541	30.7%	131118333	15.8%
Claims on other financial institutions	D	8059228	6587006	-18.3%	6421061	-2.5%	8229754	28.2%
	Fx	1859946	1527217	-17.9%	1427405	-6.5%	1529592	7.2%
Government securities		112190196	81107632	-27.7%	75663285	-6.7%	69754965	-7.8%
Liabilities for securities through repos and currency through currency swap	D	-17126389	-5073975	-70.4%	-4713840	-7.1%	-13405538	184.4%
	Fx	-2458329	-2336293	-5.0%	-1565123	-33.0%	-4535236	189.8%
Repos (excluding interbank repos)	D	859588	713847	-17.0%	17898	-97.5%	3618470	20117.2%
	Fx	675841	318411	-52.9%	0	100.0%	3356007	100.0%
Loans to legal entities	D	79265242	120666055	52.2%	99027745	-17.9%	87791004	-11.3%
	Fx	113159142	168984403	49.3%	218254108	29.2%	220949156	1.2%
Loans to natural persons	D	158273388	240194442	51.8%	220408418	-8.2%	196548660	-10.8%
	Fx	47981879	68169327	42.1%	85467617	25.4%	86753797	1.5%
Loans to related parties and staff	D	5032022	14138116	181.0%	11733666	-17.0%	10954270	-6.6%
	Fx	5019836	4637469	-7.6%	5913096	27.5%	6024667	1.9%
Loans to bank related persons and bank employees		-7701615	-11932425	54.9%	-14668342	22.9%	-18819163	28.3%
Interest receivable		4577615	6094732	33.1%	6993654	14.7%	7296641	4.3%
Fixed assets		42534713	51773338	21.7%	51797901	0.0%	53052307	2.4%
Other securities		2705543	3393287	25.4%	3935806	16.0%	4928680	25.2%
Leasing, factoring (excluding interbank leasing and factoring)		7928440	9785213	23.4%	7462153	-23.7%	5702554	-23.6%
Other assets		23593307	24084979	2.1%	27624390	14.7%	35051172	26.9%
<b>Total assets</b>		764459279	1023697500	33.9%	1127876680	10.2%	1117689120	-0.9%

Indicators	Currency	30.09.09	Change 30.09.09-30.06.09	31.12.09	Change 31.12.09-30.09.09	2008 annual	Change 31.12.09-31.12.08
Cash	D	27348674	21.1%	37996090	38.9%	37996090	9545802
	Fx	34407879	-6.2%	26677242	-22.5%	26677242	13500921
Correspondent accounts with the CBA and other claims on the CBA	D	39444882	20.9%	44128365	11.9%	44128365	6041537
	Fx	147213229	19.2%	148624060	1.0%	148624060	82710480
Correspondent accounts with banks and other claims on banks	D	11083130	74.7%	7917917	-28.6%	7917917	-738583
	Fx	124899202	-4.7%	141790353	13.5%	141790353	55209151
Claims on other financial institutions	D	11463376	39.3%	14513224	26.6%	14513224	7926218
	Fx	2163634	41.5%	2085087	-3.6%	2085087	557870
Government securities		101402093	45.4%	109191067	7.7%	109341848	28234216
Liabilities for securities through repos and currency through currency swap	D	-35831311	167.3%	-33429477	-6.7%	-33429477	-28355502
	Fx	-9996688	120.4%	-12586654	25.9%	-12586654	-10250361
Repos (excluding interbank repos)	D	10240114	183.0%	11494620	12.3%	11494620	10780773
	Fx	9627720	186.9%	9485661	-1.5%	9485661	9167250
Loans to legal entities	D	100364899	14.3%	123864354	23.4%	123864354	3198299
	Fx	256214956	16.0%	272064880	6.2%	272064880	103080477
Loans to natural persons	D	187123341	-4.8%	194193234	3.8%	194193234	-46001208
	Fx	94570591	9.0%	91713712	-3.0%	91713712	23544385
Loans to related parties and staff	D	11910322	8.7%	13222181	11.0%	13222181	-915935
	Fx	7541666	25.2%	8307450	10.2%	8307450	3669981
Loans to bank related persons and bank employees		-22806406	21.2%	-18406948	-19.3%	-18406868	-6474443
Interest receivable		7978844	9.3%	9032156	13.2%	9032156	2937424
Fixed assets		55604873	4.8%	61279249	10.2%	61279248	9505910
Other securities		8804576	78.6%	4330676	-50.8%	4179895	786608
Leasing, factoring (excluding interbank leasing and factoring)		5533258	-3.0%	7239913	30.8%	7239913	-2545300
Other assets		44176123	26.0%	51235076	16.0%	51078314	26993335
<b>Total assets</b>		27348674	21.1%	37996090	38.9%	37996090	9545802

Annex 3 (continued)

Indicators	Currency	31.12.07	31.12.08	Change 31.12.08-31.12.07	31.03.09	Change 31.03.09-31.12.08	30.06.09	Change 30.06.09-31.03.09
Correspondent accounts of banks	D	1709227	1777354	4.0%	5623015	216.4%	795417	-85.9%
	Fx	5505148	3645044	-33.8%	4394140	20.6%	4349009	-1.0%
Other liabilities to banks (including the CBA) and other financial organizations	D	41211501	101174369	145.5%	88943486	-12.1%	72170354	-18.9%
	Fx	92057261	170590537	85.3%	195762995	14.8%	182870976	-6.6%
Demand liabilities to legal entities	D	97267404	70036918	-28.0%	66542436	-5.0%	64020812	-3.8%
	Fx	44602379	54907210	23.1%	82033374	49.4%	74551798	-9.1%
Demand liabilities to natural persons	D	35469848	31074703	-12.4%	21215738	-31.7%	24977256	17.7%
	Fx	32473339	30797457	-5.2%	42897341	39.3%	46641842	8.7%
Time deposits of legal entities	D	36549690	45796099	25.3%	20240188	-55.8%	18715155	-7.5%
	Fx	22069048	43045053	95.0%	95618214	122.1%	102569676	7.3%
Time deposits of natural persons	D	61367321	71561027	16.6%	35921598	-49.8%	35434686	-1.4%
	Fx	68714780	102242248	48.8%	166065563	62.4%	168036372	1.2%
Liabilities to the Government		19303041	16222730	-16.0%	21155358	30.4%	28760999	36.0%
Interest payable		4237650	6621563	56.3%	8370959	26.4%	8371383	0.0%
Other liabilities		30344818	38783344	27.8%	34206749	-11.8%	35688140	4.3%
<b>Total liabilities</b>		<b>592882455</b>	<b>788275656</b>	<b>33.0%</b>	<b>888991154</b>	<b>12.8%</b>	<b>867953875</b>	<b>-2.4%</b>
Actually paid in statutory capital		116486544	152490167	30.9%	155490167	2.0%	167540167	7.7%
General reserve		5801681	6458310	11.3%	6495881	0.6%	8208307	26.4%
Own shares repurchased by bank		0	0	-	0	-100.0%	0	0.0%
Retained profit (loss)	Current period	17988558	27743274	54.1%	-319887	-101.2%	-241983	-24.4%
	Previous period	20694114	37191188	79.7%	65157669	75.2%	63121958	-3.1%
<b>Total capital</b>		<b>171576824</b>	<b>235421844</b>	<b>37.2%</b>	<b>238885526</b>	<b>1.5%</b>	<b>249735245</b>	<b>4.5%</b>
Pledge received		978720939	1489089838	52.1%	1517759658	1.9%	1501853163	-1.0%
including government securities		2951772	1160216	-60.7%	1581373	36.3%	345373	-78.2%
Guarantees received		208570426	419398584	101.1%	490628784	17.0%	526425686	7.3%
Off-balance sheet	loans	7212476	7678839	6.5%	9823409	27.9%	11468970	16.8%
	receivables and other assets	2838404	2488080	-12.3%	2831545	13.8%	2816547	-0.5%
	interest	3263987	3206455	-1.8%	3699209	15.4%	4018368	8.6%
Guarantees issued		20799014	26349471	26.7%	27278463	3.5%	31901072	16.9%
Pledge granted	total	6625523	2975955	-55.1%	3582186	20.4%	3533437	-1.4%
	including government securities	2580053	114495	-95.6%	0	-100.0%	0	0.0%

D – Armenian Dram

Fx– Foreign currency

Indicator	Currency	30.09.09	Change 30.09.09-30.06.09	31.12.09	Change 31.12.09-30.09.09	2009 annual	Change 31.12.09-31.12.08	
Correspondent accounts of banks	D	350275	-56.0%	2175587	521.1%	2175587	598233	22.4%
	Fx	2240346	-48.5%	4355481	94.4%	4355481	710437	19.5%
Other liabilities to banks (including the CBA) and other financial organizations	D	82546198	14.4%	97314211	17.9%	97314211	-3860158	-3.8%
	Fx	175827350	-3.9%	201302878	14.5%	201302878	30712341	18.0%
Demand liabilities to legal entities	D	77612197	21.2%	72248369	-6.9%	72248369	2211451	3.2%
	Fx	72667567	-2.5%	89710479	23.5%	89710479	34803269	65.4%
Demand liabilities to natural persons	D	27607829	10.5%	30945052	12.1%	30945052	-129651	-0.4%
	Fx	62983756	35.0%	59575814	-5.4%	59575814	28778357	95.4%
Time deposits of legal entities	D	21612962	15.5%	20397548	-5.6%	20397548	-25398551	-55.5%
	Fx	113507410	10.7%	106068383	-6.6%	106068383	63023330	146.4%
Time deposits of natural persons	D	38870932	9.7%	40426112	4.0%	40426112	-31134915	-43.5%
	Fx	202012221	20.2%	207420550	2.7%	207420550	105178302	102.9%
Liabilities to the Government		48841608	69.8%	67583103	38.4%	67583103	51360373	316.6%
Interest payable		9625760	15.0%	10184797	5.8%	10184796	3563233	53.8%
Other liabilities		35912816	0.6%	37871602	5.5%	37883384	-899960	-2.3%
<b>Total liabilities</b>		<b>972219227</b>	<b>12.0%</b>	<b>1047579966</b>	<b>7.8%</b>	<b>1047591747</b>	<b>259316091</b>	<b>32.9%</b>
Actually paid in statutory capital		179773010	7.3%	188640844	4.9%	188640844	36150677	23.7%
General reserve		8208306	0.0%	8208307	0.0%	8208307	1749997	27.1%
Own shares repurchased by bank		0	0.0%	0	0.0%	0	0	0.0%
Undistributed profit (loss)	Current period	450377	-286.1%	8969666	1891.6%	8801202	-18942072	-68.3%
	Previous period	57973775	-8.2%	55768602	-3.8%	55768602	18577414	50.0%
<b>Total capital</b>		<b>258263750</b>	<b>3.4%</b>	<b>278383522</b>	<b>7.8%</b>	<b>278215058</b>	<b>42793214</b>	<b>18.2%</b>
Pledge received including government securities		1664424079	10.8%	1771046028	6.4%	1770815728	281725890	18.9%
		1421860	311.7%	828696	-41.7%	828696	-331520	-28.6%
Guarantees received		623231343	18.4%	709258935	13.8%	709032201	289633617	69.1%
Off-balance sheet	loans	17420718	51.9%	22666741	30.1%	22666741	14987902	195.2%
	receivables and other assets	3456680	22.7%	3495283	1.1%	3495283	1007203	40.5%
	interest	5440958	35.4%	6114772	12.4%	6114772	2908317	90.7%
Guarantees issued		36081582	13.1%	32485326	-10.0%	32485326	6135855	23.3%
Pledge granted	total	4457501	26.2%	4770903	7.0%	4770903	1794948	60.3%
	including government securities	803105	100.0%	429000	-46.6%	429000	314505	274.7%

**Annex 4. Structural Trends of Survey Balance Sheet Indicators of Commercial Banks (%)**

Indicator	Currency	31.12.07	31.12.08	Change 31.12.08-31.12.07	31.03.09	Change 31.03.09-31.12.08	30.06.09	Change 30.06.09-31.03.09	30.09.09	Change 30.09.09-30.06.09	31.12.09	Change 31.12.09-30.09.09	2009 year	Change 31.12.09-31.12.09
Cash	D	3.2	2.8	-0.4	1.9	-0.8	2.0	0.1	2.2	0.2	2.9	0.6	2.9	0.1
	Fx	1.9	1.3	-0.7	2.7	1.4	3.3	0.6	2.8	-0.5	2.0	-0.8	2.0	0.7
Correspondent accounts with the CBA and other claims on the CBA	D	4.8	3.7	-1.1	3.5	-0.2	2.9	-0.6	3.2	0.3	3.3	0.1	3.3	-0.4
	Fx	5.0	6.4	1.4	10.6	4.1	11.1	0.5	12.0	0.9	11.2	-0.8	11.2	4.8
Correspondent accounts with banks and other claims on banks	D	0.9	0.8	0.0	0.2	-0.6	0.6	0.3	0.9	0.3	0.6	-0.3	0.6	-0.2
	Fx	7.4	8.5	1.0	10.0	1.6	11.7	1.7	10.2	-1.6	10.7	0.5	10.7	2.2
Claims on other financial organizations	D	1.1	0.6	-0.4	0.6	-0.1	0.7	0.2	0.9	0.2	1.1	0.2	1.1	0.5
	Fx	0.2	0.1	-0.1	0.1	0.0	0.1	0.0	0.2	0.0	0.2	0.0	0.2	0.0
Government securities		14.7	7.9	-6.8	6.7	-1.2	6.2	-0.5	8.2	2.0	8.2	0.0	8.2	0.3
Liabilities for securities through repos and currency through currency swap	D	-2.2	-0.5	1.7	-0.4	0.1	-1.2	-0.8	-2.9	-1.7	-2.5	0.4	-2.5	-2.0
	Fx	-0.3	-0.2	0.1	-0.1	0.1	-0.4	-0.3	-0.8	-0.4	-0.9	-0.1	-0.9	-0.7
Repos (excluding interbank repos)	D	0.1	0.1	0.0	0.0	-0.1	0.3	0.3	0.8	0.5	0.9	0.0	0.9	0.8
	Fx	0.1	0.0	-0.1	0.0	0.0	0.3	0.3	0.8	0.5	0.7	-0.1	0.7	0.7
Loans to legal entities	D	10.4	11.8	1.4	8.8	-3.0	7.9	-0.9	8.2	0.3	9.3	1.2	9.3	-2.4
	Fx	14.8	16.5	1.7	19.4	2.8	19.8	0.4	20.8	1.1	20.5	-0.3	20.5	4.0
Loans to natural persons	D	20.7	23.5	2.8	19.5	-3.9	17.6	-2.0	15.2	-2.4	14.6	-0.6	14.6	-8.8
	Fx	6.3	6.7	0.4	7.6	0.9	7.8	0.2	7.7	-0.1	6.9	-0.8	6.9	0.3
Loans to bank related persons and bank employees	D	0.7	1.4	0.7	1.0	-0.3	1.0	-0.1	1.0	0.0	1.0	0.0	1.0	-0.4
	Fx	0.7	0.5	-0.2	0.5	0.1	0.5	0.0	0.6	0.1	0.6	0.0	0.6	0.2
Asset loss reserves		-1.0	-1.2	-0.2	-1.3	-0.1	-1.7	-0.4	-1.9	-0.2	-1.4	0.5	-1.4	-0.2
Interest receivable		0.6	0.6	0.0	0.6	0.0	0.7	0.0	0.6	0.0	0.7	0.0	0.7	0.1
Fixed assets		5.6	5.1	-0.5	4.6	-0.5	4.7	0.2	4.5	-0.2	4.6	0.1	4.6	-0.4
Other securities		0.4	0.3	0.0	0.3	0.0	0.4	0.1	0.7	0.3	0.3	-0.4	0.3	0.0
Leasing, factoring (excluding interbank leasing and factoring)		1.0	1.0	-0.1	0.7	-0.3	0.5	-0.2	0.4	-0.1	0.5	0.1	0.5	-0.4
Other assets		3.1	2.4	-0.7	2.4	0.1	3.1	0.7	3.6	0.5	3.9	0.3	3.9	1.5
<b>Total assets</b>		<b>100.0</b>	<b>100.0</b>	<b>0.0</b>										

Correspondent accounts of banks	D	0.3	0.2	-0.1	0.6	0.4	0.1	-0.5	0.0	-0.1	0.2	0.2	0.2	0.0
	Fx	0.9	0.5	-0.5	0.5	0.0	0.5	0.0	0.2	-0.3	0.4	0.2	0.4	0.0
Other liabilities to banks (including the CBA) and other financial organizations	D	7.0	12.8	5.9	10.0	-2.8	8.3	-1.7	8.5	0.2	9.3	0.8	9.3	-3.5
	Fx	15.5	21.6	6.1	22.0	0.4	21.1	-1.0	18.1	-3.0	19.2	1.1	19.2	-2.4
Demand liabilities to legal entities	D	16.4	8.9	-7.5	7.5	-1.4	7.4	-0.1	8.0	0.6	6.9	-1.1	6.9	-2.0
	Fx	7.5	7.0	-0.6	9.2	2.3	8.6	-0.6	7.5	-1.1	8.6	1.1	8.6	1.6
Demand liabilities to natural persons	D	6.0	3.9	-2.0	2.4	-1.6	2.9	0.5	2.8	0.0	3.0	0.1	3.0	-1.0
	Fx	5.5	3.9	-1.6	4.8	0.9	5.4	0.5	6.5	1.1	5.7	-0.8	5.7	1.8
Time deposits of legal entities	D	6.2	5.8	-0.4	2.3	-3.5	2.2	-0.1	2.2	0.1	1.9	-0.3	1.9	-3.9
	Fx	3.7	5.5	1.7	10.8	5.3	11.8	1.1	11.7	-0.1	10.1	-1.5	10.1	4.7
Time deposits of natural persons	D	10.4	9.1	-1.3	4.0	-5.0	4.1	0.0	4.0	-0.1	3.9	-0.1	3.9	-5.2
	Fx	11.6	13.0	1.4	18.7	5.7	19.4	0.7	20.8	1.4	19.8	-1.0	19.8	6.8
Liabilities to the Government		3.3	2.1	-1.2	2.4	0.3	3.3	0.9	5.0	1.7	6.5	1.4	6.5	4.4
Interest payable		0.7	0.8	0.1	0.9	0.1	1.0	0.0	1.0	0.0	1.0	0.0	1.0	0.1
Other liabilities		5.1	4.9	-0.2	3.8	-1.1	4.1	0.3	3.7	-0.4	3.6	-0.1	3.6	-1.3
<b>Total liabilities</b>		<b>100.0</b>	<b>100.0</b>	<b>0.0</b>										
Actually paid-in statutory fund		67.9	64.8	-3.1	65.1	0.3	67.1	2.0	69.6	2.5	67.8	-1.8	67.8	3.0
General reserve		3.4	2.7	-0.6	2.7	0.0	3.3	0.6	3.2	-0.1	2.9	-0.2	3.0	0.2
Own shares repurchased by bank		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Undistributed profit (loss)	Current period	10.5	11.8	1.3	-0.1	-11.9	-0.1	0.0	0.2	0.3	3.2	3.0	3.2	-8.6
	Previous period	12.1	15.8	3.7	27.3	11.5	25.3	-2.0	22.4	-2.8	20.0	-2.4	20.0	4.2
<b>Total capital</b>		<b>100.0</b>	<b>100.0</b>	<b>0.0</b>										

D – Armenian Dram

Fx– Foreign currency

## Annex 5. Change in Commercial Banks' Regulatory Capital Accounts

thousand drams

Indicators	At the beginning of period	Change within the period	At the end of period
Total capital	219029578	49111302	268140880
<b>Tier 1 capital</b>	214096182	35663701	249759883
Statutory capital	152490167	36150677	188640844
Note: number of shares sold (pcs)	6162238	264899	6427137
General reserve	6458310	1749997	8208307
Undistributed profit	65184574	-614769	64569805
Amounts deducted from Tier 1 capital, o/w:	10036869	1622204	11659073
Long-term subordinate loans	0	0	0
Repurchased own shares of bank	0	0	0
Intangible assets (except for assets set forth in Regulation 2)	238503	69270	307773
Investments in statutory capital of other banks, credit organizations, and "Other organizations" according to regulation 2	1390715	293472	1684187
Tangible assets not in use and capital investments in them	4251131	2047259	6298390
Amount of balance value of tangible assets in use and capital investments in them exceeding the size limit of Tier 1 capital as set forth in Regulation 2	1025573	-1025573	0
Capital investments in bank's own and leased fixed assets	3130947	237777	3368724
<b>Tier 2 capital</b>	4933396	13985096	18918492
Revaluation reserve for bank premises and buildings	4728085	188937	4917022
Reserve generated from FX differences due to balance sheet consolidation	0	0	
Other reserves	205311	-205311	

## Annex 6. Non-Resident Participation in Statutory Capital of Commercial Banks

thousand drams

Indicators	31.12.07	Change within 31.12.08-31.12.07	31.12.08	Change within 31.12.09-31.12.08	31.12.09
Statutory capital	109018051	34949804	143967855	32665695	176633550
of which: non-residents	63302006	34205956	97507962	33150738	130658699
Share of non-residents %	58.07%	9.66%	67.73%	6.24%	73.97%

Annex 7. Commercial Banks: Income and Expense

thousand drams

Indicators	31.12.07	31.12.08	Change 31.12.08-31.12.07	31.03.09	30.06.09	30.09.09	31.12.09	Change 31.12.09-31.12.08
	1	2	3	4	5	6	7	9
From correspondent accounts	735377	609403	-17.1%	85419	159078	197122	227228	-62.7%
From funds allocated in the CBA	51414	65832	28.0%	5191	31662	103123	172270	161.7%
Interest received from funds allocated in commercial banks and other financial institutions	612676	668539	9.1%	308944	687811	1073351	1421191	112.6%
From loans to economy	49166015	79174613	61.0%	22559367	45944224	69830458	96146225	21.4%
Interest from overdraft	423753	709689	67.5%	197400	398870	644635	982362	38.4%
Interest from credit cards	1014336	3149525	210.5%	936254	2019904	3183152	4453312	41.4%
Interest from government securities	4959782	5475312	10.4%	1226177	2459732	3872640	6017045	9.9%
From repos	586869	824192	40.4%	84560	184140	489486	974448	18.2%
Other interest income	2884187	3801868	31.8%	1090012	2031712	3136887	4330400	13.9%
<b>Total interest income</b>	<b>60434408</b>	<b>94478973</b>	<b>56.3%</b>	<b>26493324</b>	<b>53917133</b>	<b>82530854</b>	<b>114724481</b>	<b>21.4%</b>
Interest paid on correspondent accounts	76473	113782	48.8%	31988	66640	72820	81890	-28.0%
Interest paid on bank accounts and demand deposits	1098185	1558426	41.9%	319035	644597	1048047	1724813	10.7%
Interest paid on funds attracted from the CB	1115454	2638510	136.5%	1459611	2661699	3701145	4501646	70.6%
On repos	129758	226316	74.4%	3856	6755	62184	166253	-26.5%
Interest paid on funds attracted from commercial banks and other financial institutions	2895002	6700949	131.5%	2594230	5326839	7522678	9690575	44.6%
Interest paid on time deposits	9850617	17567001	78.3%	5500832	12046388	19439723	27062715	54.1%
Interest paid on funds attracted from international financial organizations	1042609	2171196	108.2%	624473	1262914	1901102	2565031	18.1%
Interest expenses on deposit insurance	354066	463205	30.8%	123703	262381	409082	588243	27.0%
Expenses for accrued and not collected interest on non-performing assets	683607	1326298	94.0%	694074	1397411	2288871	2968058	123.8%
Other interest expenses	949660	2051755	116.1%	668594	1393167	2210122	3575834	74.3%
<b>Total interest expenses</b>	<b>18195431</b>	<b>34817438</b>	<b>91.4%</b>	<b>12020396</b>	<b>25068791</b>	<b>38655774</b>	<b>52925058</b>	<b>52.0%</b>
<b>Net interest income</b>	<b>42238977</b>	<b>59661535</b>	<b>41.2%</b>	<b>14472928</b>	<b>28848342</b>	<b>43875080</b>	<b>61799423</b>	<b>3.6%</b>
Income from guarantees, acceptance and L/C operations, trust management	14077332	15927822	13.1%	2952876	6349861	10302361	15469722	-2.9%
Net income from hedging derivatives	659641	965634	46.4%	192604	435343	670878	978851	1.4%
Net income from factoring	67936	406160	0.0%	860768	920088	1001777	559162	37.7%
Income from investments in other organizations	324389	564191	73.9%	136885	252519	374372	490698	-13.0%
Income from guarantees, acceptance and L/C operations, trust management	638809	447926	-29.9%	31089	76977	140317	233076	-48.0%

	1	2	3	4	5	6	7	9
Net income from sale of securities	480341	492890	2.6%	164152	439184	1187045	1333152	170.5%
Net income from FX purchase and sale	8651437	14659916	69.5%	3999472	6448907	10020313	13830812	-5.7%
Positive (negative) exchange rate difference from FX revaluation	-176606	-891367	404.7%	-5474618	-5766217	-5625763	-5711780	540.8%
Net income from disposal of fixed assets	53878	-249904	-563.8%	-36742	-32317	-33923	-26255	-89.5%
Net income from revaluation of fixed assets	125685	503	-99.6%	0	0	0	-288305	-57417.1%
Fines and penalties received	1087583	1606932	47.8%	615719	1431600	2372126	3685968	129.4%
Other non-interest income	1720327	1514630	-12.0%	796346	521482	918857	1191534	-21.5%
<b>Total non-interest income</b>	<b>27710750</b>	<b>35445333</b>	<b>27.9%</b>	<b>4238551</b>	<b>11077427</b>	<b>21328360</b>	<b>31746635</b>	<b>-10.4%</b>
Salary and salary-equivalent pays (other remuneration and financing of social requirements)	17891565	25060207	40.1%	6172585	12461595	18599342	25779216	2.9%
Business trip costs	414964	544761	31.3%	73082	201609	321062	496355	-8.9%
Contribution to State Fund of Social Insurance of RA	1766933	2360872	33.6%	587044	1171542	1770071	2475245	4.8%
Taxes, duties, other mandatory payments	1113049	1681485	51.1%	375502	857705	1313826	1874674	11.5%
Depreciation	4069389	5567027	36.8%	1690249	3442584	5328622	7287667	30.9%
Leasing charge for bank premises and other fixed assets	1502497	2397466	59.6%	717862	1592160	2444487	3282575	36.9%
Advertisement and representative costs	1850533	2547766	37.7%	579340	1065752	1542363	2352783	-7.7%
Office and printing costs	656323	775408	18.1%	170437	315944	474874	677795	-12.6%
Audit and consultation services costs	427143	641704	50.2%	199215	423800	694218	933763	45.5%
Bank equipment maintenance costs	468498	705687	50.6%	175869	375366	600906	872948	23.7%
Transport costs	385388	479273	24.4%	79878	180442	294419	426265	-11.1%
Communication costs	1462911	1757395	20.1%	467494	965365	1474955	2004657	14.1%
Fines and penalties paid	93715	71153	-24.1%	8547	19493	34145	67791	-4.7%
Training costs	135196	286764	112.1%	82675	169355	232054	351827	22.7%
Other non-interest expenses	3197538	10026308	213.6%	2529541	2285243	7979754	10729339	7.0%
<b>Total non-interest expenses</b>	<b>59493150</b>	<b>54903276</b>	<b>59.0%</b>	<b>15909320</b>	<b>28645336</b>	<b>43105098</b>	<b>59612900</b>	<b>8.6%</b>
<b>Net non-interest expenses</b>	<b>-11782400</b>	<b>-19457943</b>	<b>65.1%</b>	<b>-9670769</b>	<b>-17567909</b>	<b>-21776738</b>	<b>-27866265</b>	<b>43.2%</b>
Provisions to general reserve on loans and receivables loss	12632917	14132559	11.9%	3198086	6427956	10620003	15017665	6.3%
Provisions to special reserve on loans and receivables loss	15368059	29399124	91.3%	15101009	32337460	54424795	70022792	138.2%
Provisions to reserve on securities loss	44729	49589	10.9%	595	9279	23559	40198	-18.9%
Provisions to reserve on bank guarantees and other contingent liabilities	2249341	3013234	0.0%	1229655	1951830	2822075	3627396	
<b>Total provisions</b>	<b>30295046</b>	<b>46594506</b>	<b>53.8%</b>	<b>19529345</b>	<b>40726525</b>	<b>67890432</b>	<b>88708051</b>	<b>90.4%</b>
Recoveries from general reserve on loans and receivables loss	10742849	11962062	11.3%	3139142	6409680	9759713	13265643	10.9%
Recoveries from special reserve on loans and receivables loss	13511682	26077021	93.0%	10948988	22278992	35596266	50774464	94.7%
Recoveries from reserve on securities loss	23997	26391	10.0%	2000	6581	7592	15753	-40.3%
Recoveries from reserve on bank guarantees and other contingent liabilities	1798668	3088543	0.0%	1169640	1837879	2616086	3614477	
<b>Total recoveries</b>	<b>26077196</b>	<b>41154017</b>	<b>57.8%</b>	<b>15259770</b>	<b>30533132</b>	<b>47979657</b>	<b>67670337</b>	<b>64.4%</b>
<b>Net deductions</b>	<b>4217850</b>	<b>5440489</b>	<b>29.0%</b>	<b>4269575</b>	<b>10193393</b>	<b>19910775</b>	<b>21037714</b>	<b>286.7%</b>

	1	2	3	4	5	6	7	9
<b>Pre-tax profit</b>	<b>26255627</b>	<b>34728080</b>	<b>32.3%</b>	<b>532823</b>	<b>1109189</b>	<b>2218227</b>	<b>12924412</b>	<b>-62.8%</b>
Profit tax	5407557	7859759	45.3%	935555	1516866	2020447	4516021	-42.5%
<b>Net profit</b>	<b>20848071</b>	<b>26868321</b>	<b>28.9%</b>	<b>-402732</b>	<b>-407677</b>	<b>197780</b>	<b>8408391</b>	<b>-68.7%</b>
Dividends accrued	55000	0	100.0%	0	0	0	0	100.0%
<b>Undistributed profit</b>	<b>20793071</b>	<b>26868321</b>	<b>29.2%</b>	<b>-402732</b>	<b>-407677</b>	<b>197780</b>	<b>8408391</b>	<b>-68.7%</b>

#### Annex 8. Armenian Banking System: Return on Assets and Return on Capital

Indicators	2007	2008	2009
<b>Return on assets</b>			
Banking system	3.41%	3.06%	0.74%
Minimum (on profitable banks)	0.05%	0.94%	0.10%
Maximum (on profitable banks)	8.89%	5.36%	3.20%
<b>Return on capital</b>			
Banking system	15.21%	13.55%	3.43%
Minimum (on profitable banks)	0.08%	4.93%	0.20%
Maximum (on profitable banks)	35.86%	29.22%	19.80%

## Annex 9. Loan Investments of Commercial Banks

thousand drams

Indicator	2007					
	Up to 1 year		1 year and more		Total	
	AMD	FX	AMD	FX	AMD	FX
1. Total loans, deposits, factoring, leasing, repo agreements (2+3)	101505051	50225971	164645672	132597133	266150723	182823104
1.1 Time assets	96689349	48040699	164617580	132597133	261306929	180637832
o/w: loans	79668576	33797493	161696082	132009482	241364659	165806975
interbank loans, deposits, factoring, leasing, repo agreements	6154837	13171101	0	304131	6154837	13475232
1.2 Prolonged assets	3629534	1755641	28092	0	3657626	1755641
o/w: loans	462592	499285	28092	0	490684	499285
interbank loans, deposits, factoring, leasing, repo agreements	699803	1255486	0	0	699803	1255486
1.3 Overdue assets	1186168	429631	0	0	1186168	429631
o/w: loans	1076624	429493	0	0	1076624	429493
interbank loans, deposits, factoring, leasing, repo agreements	0	0	0	0	0	0
Loans, deposits, factoring, leasing, repo agreements with non-residents	2673471	9139749	764051	1934923	3437522	11074671
2.1 Time assets	2671378	9138854	764051	1934923	3435429	11073776
2.2 Prolonged assets	0	0	0	0	0	0
2.3 Overdue assets	2093	895	0	0	2093	895
3. Loans, deposits, factoring, leasing, repo agreements with residents by sectors, o/w:	98060661	40400313	164652540	131348120	262713201	171748433
3.1 Industry	8317927	7316258	18429171	22203797	26747098	29520055
mining	1008190	13782	688802	319362	1696992	333144
energy	2075579	1029483	2696016	1384874	4771595	2414357
food products	2291793	2871035	7568598	11700166	9860391	14571201
light	237538	325583	1335133	1453121	1572671	1778704
chemical	199266	241798	19522	660318	218788	902116
building materials	240294	949160	1548384	1119384	1788678	2068544
precious items	232449	121469	1005318	601784	1237767	723253
metallurgy	1052510	57619	83055	0	1135565	57619
machine-building and electrical	349992	942400	1017256	1021654	1367248	1964054
other branches of industry	630316	763929	2467087	3943134	3097403	4707063
3.2 Agriculture	3143708	2047057	7144968	10038695	10288676	12085752
3.3 Construction	4176863	1117820	9263927	7474910	13440790	8592730
3.4 Transport and Communications	625126	1537855	2434130	1251875	3059256	2789730
3.5 Trade	11693467	17481683	23199139	34416887	34892606	51898570
3.6 Public Catering and Other Services	1996862	1048778	8900068	8004068	10896930	9052846
3.7 Financial Sector	12739712	6833253	610691	2114449	13350403	8947702
3.8 Consumer Loans	51189693	659102	62271361	9486580	113461054	10145682
3.9 Mortgage loans	1865190	973047	27397945	23131125	29263135	24104172
3.10 Other Sectors of Economy	2312113	1385460	5001140	13225734	7313254	14611194

## Annex 9. (continued)

Indicator	2008					
	Up to 1 year		1 year and more		Total	
	AMD	FX	AMD	AMD	FX	AMD
1. Total loans, deposits, factoring, leasing, repo agreements (2+3)	111764321	61410183	287347535	190184186	399111856	251594369
1.1 Time assets	105990603	59692211	287109780	190124709	393100383	249816920
o/w: loans	91941834	51799556	282573236	189611244	374515070	241410800
interbank loans, deposits, factoring, leasing, repo agreements	6285607	7753946	0	184038	6285607	7937984
1.2 Prolonged assets	3483017	826183	67747	39453	3550764	865636
o/w: loans	475842	167203	67747	39453	543589	206656
interbank loans, deposits, factoring, leasing, repo agreements	0	658980	0	0	0	658980
1.3 Overdue assets	2290700	891789	170008	20024	2460708	911813
o/w: loans	2127962	884716	170008	20024	2297970	904740
interbank loans, deposits, factoring, leasing, repo agreements	0	0	0	0	0	0
Loans, deposits, factoring, leasing, repo agreements with non-residents	831653	2252955	2768715	2062778	3600368	4315733
2.1 Time assets	822204	2241978	2768715	2062778	3590918	4304756
2.2 Prolonged assets	0	0	0	0	0	0
2.3 Overdue assets	9449	10977	0	0	9449	10977
3. Loans, deposits, factoring, leasing, repo agreements with residents by sectors, o/w:	108568661	58380973	286942827	188897663	395511488	247278636
3.1 Industry	9199163	13783953	24235843	38639369	33435006	52423322
mining	734417	5944718	1778690	1674926	2513107	7619644
energy	2780787	1646772	3940366	11293375	6721153	12940147
food products	3400669	3610481	10081822	15590397	13482490	19200878
light	308627	225089	1312345	1500946	1620972	1726035
chemical	220624	527771	74700	553490	295324	1081261
building materials	1060899	447984	3022352	1821846	4083251	2269830
precious items	104820	456919	519375	759230	624195	1216149
metallurgy	14259	27398	61016	9457	75275	36855
machine-building and electrical	49367	339445	642190	1547335	691557	1886780
other branches of industry	524694	557376	2802987	3888367	3327682	4445743
3.2 Agriculture	1350538	5306483	7515914	22294340	8866452	27600823
3.3 Construction	5072803	3087510	14960079	16360199	20032882	19447709
3.4 Transport and Communications	1291307	1229138	5222712	2494483	6514019	3723621
3.5 Trade	12547135	22572049	43701022	53210503	56248157	75782552
3.6 Public Catering and Other Services	1698912	1076703	11578358	8502673	13277270	9579376
3.7 Financial Sector	13100013	7955860	2457434	1444917	15557447	9400777
3.8 Consumer Loans	58071945	595691	111305194	4538793	169377138	5134484
3.9 Mortgage loans	1707769	746208	56157424	25009487	57865193	25755695
3.10 Other Sectors of Economy	4529076	2027378	9808848	16402899	14357924	18430277

## Annex 9. (continued)

Indicator	2009					
	Up to 1 year		1 year and more		Total	
	AMD	FX	AMD	FX	AMD	FX
1. Total loans, deposits, factoring, leasing, repo agreements (2+3)	99840111	147318598	271392827	287646975	371232938	434965573
1.1 Time assets	88564245	136100212	271113393	287027649	359677638	423127861
o/w: loans	61922404	75232598	268038738	286591990	329961142	361824388
interbank loans, deposits, factoring, leasing, repo agreements	6577906	51150160	0	226734	6577906	51376894
1.2 Prolonged assets	8378032	8970125	276733	619326	8654765	9589451
o/w: loans	883776	8243346	276733	619326	1160509	8862672
interbank loans, deposits, factoring, leasing, repo agreements	656663	726779	0	0	656663	726779
1.3 Overdue assets	2897834	2248261	2701	0	2900535	2248261
o/w: loans	2825551	2248261	2701	0	2828052	2248261
interbank loans, deposits, factoring, leasing, repo agreements	0	0	0	0	0	0
2. Loans, deposits, factoring, leasing, repo agreements with non-residents	0	0	0	0	0	0
2.1 Time assets	11987835	43678062	949045	3153322	12936878	46831384
2.2 Prolonged assets	0	0	0	0	0	0
2.5 Overdue assets	101422	306	0	0	101422	306
3. Loans, deposits, factoring, leasing, repo agreements with residents by sectors, o/w:	84592819	98188618	273601820	289945265	358194638	388133883
3.1 Industry	6236243	33380523	35019969	72332533	41256212	105713055
mining	238761	2519198	3169480	5868493	3408241	8387691
energy	1407721	7694817	4206267	18341698	5613988	26036515
food products	2349691	5219844	16446280	27652497	18795971	32872341
light	206843	136974	1565986	2319543	1772830	2456517
chemical	59372	4921451	185588	114517	244960	5035968
building materials	978449	4527208	3256023	7968051	4234472	12495259
precious items	230063	156219	1940402	941179	2170465	1097398
metallurgy	27768	6244902	50659	649161	78427	6894063
machine-building and electrical	26001	1099464	352597	701244	378598	1800708
other branches of industry	711574	860446	3846687	7776150	4558261	8636596
3.2 Agriculture	570420	7126486	6926191	29554057	7496611	36680543
3.3 Construction	2779268	4665831	14094299	32592843	16873566	37258674
3.4 Transport and Communications	750843	758933	8157639	5762648	8908482	6521581
3.5 Trade	8760820	18718711	48576198	69436059	57337018	88154771
3.6 Public Catering and Other Services	2012439	3634105	12622898	11442576	14635337	15076681
3.7 Financial Sector	20017310	23495116	1802017	2093818	21819327	25588934
3.8 Consumer Loans	41022793	1545245	84709105	9157980	125731898	10703225
3.9 Mortgage loans	616796	722781	51324555	31295744	51941351	32018525
3.10 Other Sectors of Economy	4529076	2027378	9808848	16402899	14337924	18430277

**Annex 10. Commercial Banks: Loans Investments by Sectors of Economy and Maturity**

Indicator	2007					
	Up to 1 year		1 year and more		Total	
	AMD	FX	AMD	FX	AMD	FX
1. Total loans, deposits, factoring, leasing, repo agreements (2+3)	22.6%	11.2%	36.7%	29.5%	59.3%	40.7%
1.1 Time assets	21.5%	10.7%	36.7%	29.5%	58.2%	40.2%
o/w: loans	17.7%	7.5%	36.0%	29.4%	53.8%	36.9%
interbank loans, deposits, factoring, leasing, repo agreements	1.4%	2.9%	0.0%	0.1%	1.4%	3.0%
1.2 Prolonged assets	0.8%	0.4%	0.0%	0.0%	0.8%	0.4%
o/w: loans	0.1%	0.1%	0.0%	0.0%	0.1%	0.1%
interbank loans, deposits, factoring, leasing, repo agreements	0.2%	0.3%	0.0%	0.0%	0.2%	0.3%
1.3 Overdue assets	0.3%	0.1%	0.0%	0.0%	0.3%	0.1%
o/w: loans	0.2%	0.1%	0.0%	0.0%	0.2%	0.1%
interbank loans, deposits, factoring, leasing, repo agreements	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans, deposits, factoring, leasing, repo agreements with non-residents	0.6%	2.0%	0.2%	0.4%	0.8%	2.5%
2.1 Time assets	0.6%	2.0%	0.2%	0.4%	0.8%	2.5%
2.2 Prolonged assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2.3 Overdue assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
5. Loans, deposits, factoring, leasing, repo agreements with residents by sectors, o/w:	21.8%	9.0%	36.7%	29.3%	58.5%	38.3%
3.1 Industry	1.9%	1.6%	4.1%	4.9%	6.0%	6.6%
mining	0.2%	0.0%	0.2%	0.1%	0.4%	0.1%
energy	0.5%	0.2%	0.6%	0.3%	1.1%	0.5%
food products	0.5%	0.6%	1.7%	2.6%	2.2%	3.2%
light	0.1%	0.1%	0.3%	0.3%	0.4%	0.4%
chemical	0.0%	0.1%	0.0%	0.1%	0.0%	0.2%
building materials	0.1%	0.2%	0.3%	0.2%	0.4%	0.5%
precious items	0.1%	0.0%	0.2%	0.1%	0.3%	0.2%
metallurgy	0.2%	0.0%	0.0%	0.0%	0.3%	0.0%
machine-building and electrical	0.1%	0.2%	0.2%	0.2%	0.3%	0.4%
other branches of industry	0.1%	0.2%	0.5%	0.9%	0.7%	1.0%
3.2 Agriculture	0.7%	0.5%	1.6%	2.2%	2.3%	2.7%
3.3 Construction	0.9%	0.2%	2.1%	1.7%	3.0%	1.9%
3.4 Transport and Communications	0.1%	0.3%	0.5%	0.3%	0.7%	0.6%
3.5 Trade	2.6%	3.9%	5.2%	7.7%	7.8%	11.6%
3.6 Public Catering and Other Services	0.4%	0.2%	2.0%	1.8%	2.4%	2.0%
3.7 Financial Sector	2.8%	1.5%	0.1%	0.5%	3.0%	2.0%
3.8 Consumer Loans	11.4%	0.1%	13.9%	2.1%	25.3%	2.3%
3.9 Mortgage loans	0.4%	0.2%	6.1%	5.2%	6.5%	5.4%
3.10 Other Sectors of Economy	0.5%	0.3%	1.1%	2.9%	1.6%	3.3%

## Annex 10. (continued)

Indicator	2008					
	Up to 1 year		1 year and more		Total	
	AMD	FX	AMD	FX	AMD	FX
1. Total loans, deposits, factoring, leasing, repo agreements (2+3)	17.2%	9.4%	44.2%	29.2%	61.3%	38.7%
1.1 Time assets	16.3%	9.2%	44.1%	29.2%	60.4%	38.4%
o/w: loans	14.1%	8.0%	43.4%	29.1%	57.6%	37.1%
interbank loans, deposits, factoring, leasing, repo agreements	1.0%	1.2%	0.0%	0.0%	1.0%	1.2%
1.2 Prolonged assets	0.5%	0.1%	0.0%	0.0%	0.5%	0.1%
o/w: loans	0.1%	0.0%	0.0%	0.0%	0.1%	0.0%
interbank loans, deposits, factoring, leasing, repo agreements	0.0%	0.1%	0.0%	0.0%	0.0%	0.1%
1.3 Overdue assets	0.4%	0.1%	0.0%	0.0%	0.4%	0.1%
o/w: loans	0.3%	0.1%	0.0%	0.0%	0.4%	0.1%
interbank loans, deposits, factoring, leasing, repo agreements	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans, deposits, factoring, leasing, repo agreements with non-residents	0.1%	0.3%	0.4%	0.3%	0.6%	0.7%
2.1 Time assets	0.1%	0.3%	0.4%	0.3%	0.6%	0.7%
2.2 Prolonged assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2.3 Overdue assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
5. Loans, deposits, factoring, leasing, repo agreements with residents by sectors, o/w:	16.7%	9.0%	44.1%	29.0%	60.8%	38.0%
3.1 Industry	1.4%	2.1%	3.7%	5.9%	5.1%	8.1%
mining	0.1%	0.9%	0.3%	0.3%	0.4%	1.2%
energy	0.4%	0.3%	0.6%	1.7%	1.0%	2.0%
food products	0.5%	0.6%	1.5%	2.4%	2.1%	3.0%
light	0.0%	0.0%	0.2%	0.2%	0.2%	0.3%
chemical	0.0%	0.1%	0.0%	0.1%	0.0%	0.2%
building materials	0.2%	0.1%	0.5%	0.3%	0.6%	0.3%
precious items	0.0%	0.1%	0.1%	0.1%	0.1%	0.2%
metallurgy	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
machine-building and electrical	0.0%	0.1%	0.1%	0.2%	0.1%	0.3%
other branches of industry	0.1%	0.1%	0.4%	0.6%	0.5%	0.7%
3.2 Agriculture	0.2%	0.8%	1.2%	3.4%	1.4%	4.2%
3.3 Construction	0.8%	0.5%	2.3%	2.5%	3.1%	3.0%
3.4 Transport and Communications	0.2%	0.2%	0.8%	0.4%	1.0%	0.6%
3.5 Trade	1.9%	3.5%	6.7%	8.2%	8.6%	11.6%
3.6 Public Catering and Other Services	0.3%	0.2%	1.8%	1.5%	2.0%	1.5%
3.7 Financial Sector	2.0%	1.2%	0.4%	0.2%	2.4%	1.4%
3.8 Consumer Loans	8.9%	0.1%	17.1%	0.7%	26.0%	0.8%
3.9 Mortgage loans	0.3%	0.1%	8.6%	3.8%	8.9%	4.0%
3.10 Other Sectors of Economy	0.7%	0.3%	1.5%	2.5%	2.2%	2.8%

## Annex 10. (continued)

Indicator	2009					
	Up to 1 year		1 year and more		Total	
	AMD	FX	AMD	FX	AMD	FX
1. Total loans, deposits, factoring, leasing, repo agreements (2+3)	12.4%	18.3%	33.7%	35.7%	46.0%	54.0%
1.1 Time assets	11.0%	16.9%	33.6%	35.6%	44.6%	52.5%
o/w: loans	7.7%	9.3%	33.2%	35.5%	40.9%	44.9%
interbank loans, deposits, factoring, leasing, repo agreements	0.8%	6.3%	0.0%	0.0%	0.8%	6.4%
1.2 Prolonged assets	1.0%	1.1%	0.0%	0.1%	1.1%	1.2%
o/w: loans	0.1%	1.0%	0.0%	0.1%	0.1%	1.1%
interbank loans, deposits, factoring, leasing, repo agreements	0.1%	0.1%	0.0%	0.0%	0.1%	0.1%
1.3 Overdue assets	0.4%	0.3%	0.0%	0.0%	0.4%	0.3%
o/w: loans	0.4%	0.3%	0.0%	0.0%	0.4%	0.3%
interbank loans, deposits, factoring, leasing, repo agreements	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans, deposits, factoring, leasing, repo agreements with non-residents	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2.1 Time assets	1.5%	5.4%	0.1%	0.4%	1.6%	5.8%
2.2 Prolonged assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2.3 Overdue assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3. Loans, deposits, factoring, leasing, repo agreements with residents by sectors, o/w:	10.5%	12.2%	33.9%	36.0%	44.4%	48.1%
3.1 Industry	0.8%	4.1%	4.3%	9.0%	5.1%	13.1%
mining	0.0%	0.3%	0.4%	0.7%	0.4%	1.0%
energy	0.2%	1.0%	0.5%	2.3%	0.7%	3.2%
food products	0.3%	0.6%	2.0%	3.4%	2.3%	4.1%
light	0.0%	0.0%	0.2%	0.3%	0.2%	0.3%
chemical	0.0%	0.6%	0.0%	0.0%	0.0%	0.6%
building materials	0.1%	0.6%	0.4%	1.0%	0.5%	1.5%
precious items	0.0%	0.0%	0.2%	0.1%	0.3%	0.1%
metallurgy	0.0%	0.8%	0.0%	0.1%	0.0%	0.9%
machine-building and electrical	0.0%	0.1%	0.0%	0.1%	0.0%	0.2%
other branches of industry	0.1%	0.1%	0.5%	1.0%	0.6%	1.1%
3.2 Agriculture	0.1%	0.9%	0.9%	3.7%	0.9%	4.5%
3.3 Construction	0.3%	0.6%	1.7%	4.0%	2.1%	4.6%
3.4 Transport and Communications	0.1%	0.1%	1.0%	0.7%	1.1%	0.8%
3.5 Trade	1.1%	2.3%	6.0%	8.6%	7.1%	10.9%
3.6 Public Catering and Other Services	0.2%	0.5%	1.6%	1.4%	1.8%	1.9%
3.7 Financial Sector	2.5%	2.9%	0.2%	0.3%	2.7%	3.2%
3.8 Consumer Loans	5.1%	0.2%	10.5%	1.1%	15.6%	1.3%
3.9 Mortgage loans	0.1%	0.1%	6.4%	3.9%	6.4%	4.0%
3.10 Other Sectors of Economy	0.2%	0.5%	1.3%	3.3%	1.5%	3.8%

**Annex 11. Allocation of Bank Loan Investments**

31.12.2009	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10	Bank 11
<i>Allocation of loan investments by sectors of economy</i>											
1. Industry	6.5%	39.3%	13.0%	17.7%	26.5%	27.7%	8.1%	5.7%	7.8%	7.1%	9.0%
mining	0.0%	0.0%	0.1%	0.5%	0.2%	4.6%	0.2%	0.2%	0.5%	0.3%	0.0%
energy	0.0%	36.9%	0.0%	2.9%	4.1%	18.5%	0.6%	0.2%	0.1%	1.6%	0.0%
food products	3.9%	0.8%	11.2%	7.7%	7.2%	4.0%	4.0%	4.1%	4.7%	2.4%	9.0%
light	1.7%	0.0%	0.0%	0.0%	4.5%	0.0%	0.6%	0.5%	0.2%	0.6%	0.0%
chemical	0.0%	0.1%	0.0%	0.8%	0.1%	0.0%	0.3%	0.1%	0.0%	0.1%	0.0%
building materials	0.4%	0.0%	0.2%	0.0%	0.9%	0.4%	0.7%	0.3%	1.4%	1.2%	0.0%
precious metals	0.0%	0.2%	1.1%	0.0%	0.1%	0.0%	0.7%	0.0%	0.1%	0.4%	0.0%
metallurgy	0.0%	0.0%	0.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%
machine-building and electrical	0.0%	0.0%	0.0%	0.2%	0.1%	0.0%	0.0%	0.1%	0.0%	0.5%	0.0%
other branches of industry	0.5%	1.3%	0.2%	4.7%	9.2%	0.1%	1.1%	0.3%	0.8%	0.0%	0.0%
2. Agriculture	0.6%	4.5%	3.1%	0.5%	4.5%	0.5%	0.4%	3.0%	3.1%	31.4%	0.0%
cattle breeding	0.6%	4.0%	1.5%	0.5%	2.5%	0.4%	0.4%	2.2%	1.9%	20.8%	0.0%
plant growing	0.0%	0.5%	1.5%	0.0%	1.9%	0.1%	0.0%	0.9%	1.2%	10.5%	0.0%
3. Construction	0.0%	0.8%	10.3%	3.1%	4.9%	10.3%	3.1%	5.6%	26.6%	0.7%	12.0%
4. Transport and communication	0.1%	3.9%	0.4%	0.3%	1.5%	0.0%	2.8%	1.2%	4.1%	2.0%	0.0%
5. Trade	13.6%	12.7%	17.8%	29.0%	30.2%	11.4%	23.7%	29.2%	17.6%	17.9%	8.3%
wholesale	10.1%	4.1%	7.0%	15.6%	12.9%	8.2%	8.4%	28.8%	8.7%	5.7%	8.3%
retail	3.5%	8.6%	10.8%	13.4%	17.3%	3.3%	15.3%	0.4%	8.9%	12.2%	0.0%
6. Catering and other services	5.2%	3.7%	1.7%	2.9%	9.5%	0.5%	10.5%	0.9%	3.5%	4.5%	0.0%
7. Financial sector	16.9%	6.6%	8.0%	3.6%	0.0%	7.4%	20.7%	9.3%	0.1%	10.0%	0.0%
o/w: resident banks	0.0%	0.0%	4.0%	0.1%	0.0%	5.0%	14.9%	4.9%	0.1%	8.5%	0.0%
8. Consumer loans	35.3%	4.7%	24.4%	12.4%	14.6%	17.8%	14.3%	29.0%	9.6%	22.7%	1.2%
9. Mortgage lending	21.1%	21.7%	15.6%	28.3%	5.5%	11.8%	8.4%	8.7%	10.9%	3.6%	42.7%
10. Other sectors of economy	0.6%	2.1%	5.8%	2.3%	2.8%	12.5%	7.9%	7.3%	16.8%	0.1%	26.8%
<b>Total by banks</b>	<b>100.0%</b>										
<i>Share of sectors of economy in banks' loan investments</i>											
1. Industry	0.2%	3.2%	4.1%	7.6%	4.4%	14.1%	1.1%	1.1%	2.5%	4.5%	0.2%
mining	0.0%	0.0%	0.6%	2.5%	0.5%	29.5%	0.4%	0.5%	2.1%	2.4%	0.0%
energy	0.0%	14.0%	0.0%	5.8%	3.1%	43.9%	0.4%	0.2%	0.2%	4.7%	0.0%
food products	0.4%	0.2%	10.2%	9.4%	3.4%	5.8%	1.6%	2.3%	4.2%	4.4%	0.6%
light	2.0%	0.0%	0.5%	0.0%	25.7%	0.3%	2.9%	3.4%	2.0%	14.0%	0.0%
chemical	0.0%	0.2%	0.0%	9.7%	0.6%	0.0%	1.1%	0.4%	0.0%	1.8%	0.0%
building materials	0.1%	0.0%	0.7%	0.0%	1.4%	1.9%	0.8%	0.4%	3.8%	6.8%	0.0%
precious metals	0.0%	0.6%	15.8%	0.0%	0.6%	0.0%	4.6%	0.4%	1.2%	10.5%	0.0%
metallurgy	0.0%	0.0%	0.0%	9.2%	0.0%	0.0%	0.0%	0.0%	0.5%	0.2%	0.0%
machine-building and electrical	0.0%	0.0%	0.2%	5.1%	1.5%	0.0%	0.0%	1.3%	0.0%	21.4%	0.0%
other branches of industry	0.2%	1.2%	0.7%	22.6%	17.0%	0.3%	1.7%	0.6%	3.0%	0.0%	0.0%
2. Agriculture	0.1%	1.2%	3.2%	0.7%	2.4%	0.9%	0.2%	2.0%	3.3%	66.7%	0.0%
cattle breeding	0.1%	1.7%	2.6%	1.1%	2.2%	1.1%	0.3%	2.3%	3.5%	69.7%	0.0%
plant growing	0.0%	0.3%	4.4%	0.0%	2.9%	0.6%	0.0%	1.5%	3.5%	61.3%	0.0%
3. Construction	0.0%	0.2%	8.9%	3.6%	2.2%	14.3%	1.2%	3.0%	23.1%	1.3%	0.7%
4. Transport and communication	0.0%	3.0%	1.3%	1.0%	2.4%	0.2%	3.7%	2.2%	12.5%	12.4%	0.0%
5. Trade	0.5%	1.0%	5.7%	12.6%	5.0%	5.9%	3.3%	5.8%	5.7%	11.6%	0.2%
wholesale	0.6%	0.6%	4.1%	12.4%	3.9%	7.7%	2.2%	10.5%	5.1%	6.7%	0.3%
retail	0.3%	1.6%	7.7%	13.0%	6.4%	3.7%	4.8%	0.2%	6.4%	17.5%	0.0%
6. Catering and other services	0.9%	1.5%	2.7%	6.3%	7.8%	1.2%	7.2%	0.9%	5.2%	14.2%	0.0%
7. Financial sector	1.8%	1.7%	7.8%	4.7%	0.0%	11.6%	8.9%	5.7%	0.1%	19.8%	0.0%
o/w: resident banks	0.0%	0.0%	6.3%	0.3%	0.0%	12.6%	10.2%	4.8%	0.1%	26.5%	0.0%
8. Consumer loans	1.3%	0.4%	8.4%	5.8%	2.6%	9.8%	2.2%	6.2%	3.3%	15.6%	0.0%
9. Mortgage lending	1.3%	3.1%	8.7%	21.4%	1.6%	10.5%	2.1%	3.0%	6.1%	4.0%	1.7%
10. Other sectors of economy	0.1%	0.6%	6.3%	3.4%	1.6%	22.0%	3.8%	5.0%	18.5%	0.2%	2.1%
<b>Total by banks</b>	<b>0.7%</b>	<b>1.6%</b>	<b>6.3%</b>	<b>8.5%</b>	<b>3.2%</b>	<b>10.0%</b>	<b>2.7%</b>	<b>3.9%</b>	<b>6.5%</b>	<b>12.6%</b>	<b>0.4%</b>

31.12.2009	Bank 12	Bank 13	Bank 14	Bank 15	Bank 16	Bank 17	Bank 18	Bank 19	Bank 20	Bank 21	Bank 22	Total by sectors
<b>Allocation of loan investments by sectors of economy</b>												
1. Industry	30.2%	8.7%	21.0%	9.2%	12.8%	12.9%	12.7%	37.7%	32.2%	44.9%	20.9%	19.7%
mining	1.6%	0.0%	0.0%	0.0%	0.5%	0.0%	0.0%	9.1%	0.3%	2.7%	0.1%	1.6%
energy	0.7%	0.0%	4.5%	6.0%	0.0%	0.0%	0.0%	2.5%	2.3%	23.6%	0.0%	4.2%
food products	7.8%	0.4%	11.6%	0.3%	7.5%	4.4%	10.3%	17.1%	7.9%	9.8%	9.8%	6.9%
light	0.0%	0.0%	0.8%	0.0%	0.7%	0.3%	0.0%	0.2%	0.5%	3.2%	6.4%	0.6%
chemical	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.2%	0.0%	0.0%	0.7%
building materials	15.5%	1.1%	0.1%	1.8%	0.0%	0.3%	0.0%	6.4%	1.1%	0.2%	3.2%	2.2%
precious metals	0.0%	2.6%	0.1%	0.7%	0.0%	0.1%	0.0%	0.5%	2.3%	0.0%	0.4%	0.4%
metallurgy	4.7%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	6.8%	0.0%	0.1%	0.9%
machine-building and electrical	0.0%	0.1%	0.0%	0.0%	0.1%	0.0%	1.2%	0.0%	2.4%	0.0%	0.0%	0.3%
other branches of industry	0.0%	4.6%	3.8%	0.1%	4.0%	7.7%	1.1%	1.8%	0.3%	5.4%	0.9%	1.8%
2. Agriculture	2.7%	0.9%	7.9%	1.2%	0.3%	8.5%	0.0%	0.5%	1.5%	1.2%	1.9%	5.9%
cattle breeding	2.7%	0.9%	0.9%	1.1%	0.3%	3.3%	0.0%	0.4%	1.2%	1.2%	1.3%	3.8%
plant growing	0.0%	0.0%	7.0%	0.1%	0.0%	5.2%	0.0%	0.0%	0.3%	0.0%	0.6%	2.2%
3. Construction	7.0%	22.7%	2.1%	19.3%	0.9%	13.9%	0.1%	2.7%	7.4%	1.2%	0.5%	7.3%
4. Transport and communication	9.0%	0.4%	0.5%	0.2%	9.5%	0.9%	0.0%	0.9%	3.1%	1.4%	2.3%	2.1%
5. Trade	21.3%	19.2%	23.8%	11.4%	20.7%	15.4%	46.3%	14.6%	12.2%	19.7%	37.4%	19.5%
wholesale	18.0%	11.3%	9.4%	3.8%	14.9%	1.4%	39.7%	8.9%	10.4%	8.6%	8.1%	10.7%
retail	3.2%	7.9%	14.4%	7.6%	5.8%	14.0%	6.6%	5.7%	1.9%	11.1%	29.3%	8.8%
6. Catering and other services	0.9%	3.4%	7.8%	3.8%	2.9%	6.5%	2.0%	4.0%	7.0%	5.4%	10.2%	4.0%
7. Financial sector	3.0%	15.9%	6.8%	16.8%	15.7%	0.5%	15.9%	1.2%	0.9%	2.4%	12.6%	6.4%
o/w: resident banks	1.8%	0.0%	5.2%	11.6%	10.1%	0.0%	15.9%	0.0%	0.9%	1.5%	12.6%	4.0%
8. Consumer loans	11.4%	16.0%	13.7%	31.9%	16.3%	20.2%	11.3%	16.9%	31.4%	1.1%	12.1%	18.3%
9. Mortgage lending	3.7%	9.1%	9.9%	5.1%	12.6%	15.8%	11.7%	18.7%	3.2%	7.4%	1.4%	11.2%
10. Other sectors of economy	10.7%	3.7%	6.6%	1.0%	8.4%	5.5%	0.0%	2.8%	1.2%	15.4%	0.6%	5.7%
<b>Total by banks</b>	<b>100.0%</b>											
<b>Share of sectors of economy in banks' loan investments</b>												
1. Industry	10.8%	0.7%	4.5%	1.6%	1.3%	2.7%	1.2%	16.6%	12.1%	3.3%	2.0%	100.0%
mining	6.9%	0.0%	0.0%	0.0%	0.6%	0.0%	0.0%	50.2%	1.3%	2.4%	0.2%	100.0%
energy	1.1%	0.0%	4.6%	4.8%	0.0%	0.0%	0.0%	5.2%	4.1%	8.0%	0.0%	100.0%
food products	8.0%	0.1%	7.2%	0.1%	2.1%	2.6%	2.9%	21.4%	8.5%	2.0%	2.7%	100.0%
light	0.0%	0.0%	5.8%	0.2%	2.3%	2.0%	0.0%	3.5%	5.9%	8.2%	21.3%	100.0%
chemical	0.0%	0.0%	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%	85.9%	0.0%	0.1%	100.0%
building materials	48.6%	0.8%	0.2%	2.7%	0.0%	0.6%	0.0%	24.7%	3.7%	0.1%	2.7%	100.0%
precious metals	0.0%	9.8%	1.0%	5.5%	0.0%	1.0%	0.0%	9.0%	38.3%	0.0%	1.8%	100.0%
metallurgy	35.2%	0.0%	0.0%	0.5%	0.0%	0.0%	0.0%	0.0%	54.2%	0.0%	0.2%	100.0%
machine-building and electrical	0.0%	0.5%	0.0%	0.0%	0.6%	0.5%	8.0%	1.0%	59.7%	0.0%	0.0%	100.0%
other branches of industry	0.2%	4.3%	9.2%	0.3%	4.4%	18.0%	1.2%	8.7%	1.3%	4.4%	0.9%	100.0%
2. Agriculture	3.2%	0.2%	5.7%	0.7%	0.1%	5.9%	0.0%	0.7%	1.8%	0.3%	0.6%	100.0%
cattle breeding	5.0%	0.4%	1.1%	1.0%	0.1%	3.6%	0.0%	0.9%	2.4%	0.5%	0.6%	100.0%
plant growing	0.0%	0.0%	13.8%	0.1%	0.0%	10.0%	0.0%	0.2%	0.9%	0.0%	0.5%	100.0%
3. Construction	6.8%	5.2%	1.3%	8.9%	0.3%	7.9%	0.0%	3.2%	7.5%	0.2%	0.1%	100.0%
4. Transport and communication	30.8%	0.3%	1.0%	0.4%	9.0%	1.7%	0.0%	3.9%	11.2%	1.0%	2.1%	100.0%
5. Trade	7.7%	1.6%	5.2%	2.0%	2.1%	3.3%	4.5%	6.5%	4.6%	1.4%	3.6%	100.0%
wholesale	11.9%	1.8%	3.7%	1.2%	2.7%	0.5%	7.1%	7.2%	7.2%	1.2%	1.4%	100.0%
retail	2.6%	1.5%	7.0%	2.9%	1.3%	6.6%	1.4%	5.6%	1.6%	1.8%	6.3%	100.0%
6. Catering and other services	1.7%	1.4%	8.3%	3.2%	1.4%	6.8%	1.0%	8.7%	13.1%	1.9%	4.9%	100.0%
7. Financial sector	3.3%	4.2%	4.6%	8.9%	4.8%	0.3%	4.8%	1.6%	1.1%	0.5%	3.8%	100.0%
o/w: resident banks	3.1%	0.0%	5.6%	9.7%	4.9%	0.0%	7.6%	0.0%	1.7%	0.6%	6.0%	100.0%
8. Consumer loans	4.4%	1.5%	3.2%	5.9%	1.8%	4.6%	1.2%	8.0%	12.7%	0.1%	1.3%	100.0%
9. Mortgage lending	2.3%	1.3%	3.8%	1.5%	2.2%	5.8%	2.0%	14.4%	2.1%	0.9%	0.2%	100.0%
10. Other sectors of economy	13.2%	1.1%	4.9%	0.6%	2.9%	4.0%	0.0%	4.3%	1.5%	3.9%	0.2%	100.0%
<b>Total by banks</b>	<b>7.1%</b>	<b>1.7%</b>	<b>4.3%</b>	<b>3.4%</b>	<b>2.0%</b>	<b>4.1%</b>	<b>1.9%</b>	<b>8.7%</b>	<b>7.4%</b>	<b>1.4%</b>	<b>1.9%</b>	<b>100.0%</b>

**Annex 12. Non-Performing and Written-Off Loans and Receivables of Commercial Banks**
*thousand drams*

Indicator	Non-performing assets		Off-balance sheet	
	AMD	FX	AMD	FX
<b>2007</b>				
<b>Non-performing and off-balance sheet assets (total)</b>	7079384	4228756	4804854	5246028
1. Residents' non-performing and off-balance sheet assets (total)	7073971	4153506	4294277	4714875
1.1 Industry	736934	930065	784617	508029
mining	24470	0	246000	66928
energy	0	0	0	73612
food products	586682	892037	320948	214134
light	22381	0	11522	106438
chemical	0	0	160568	0
building materials	34315	38028	0	12852
precious items	0	0	10102	9982
metallurgy	0	0	0	0
machine-building and electrical	4106	0	0	0
other branches of industry	64980	0	35477	24083
1.2 Agriculture	168353	129365	95255	244258
1.3 Construction	601698	784591	421027	59294
1.4 Transport and communication	82	0	7668	26623
1.5 Trade	511790	1019221	449152	695288
1.6 Public catering and other services	1028212	60290	101360	166323
1.7 Financial sector	0	0	2651	418952
1.8 Consumer loans	3002548	431087	736122	1021193
1.9 Mortgage loans	561582	606387	35006	54682
1.10 Other Sectors of Economy	462772	192500	1661439	1520253
2. Non-residents' non-performing and off-balance sheet assets (total)	5413	75250	510577	531153
<b>2008</b>				
<b>Non-performing and off-balance sheet assets (total)</b>	18377022	10472073	5202804	4964112
1. Residents' non-performing and off-balance sheet assets (total)	17947391	10454732	5120116	4493497
1.1 Industry	2028382	3437048	795993	1086247
mining	779224	1163190	1	0
energy	61778	17181	0	74219
food products	797158	1122513	564029	498847
light	43962	91630	22919	212034
chemical	0	0	151307	0
building materials	211549	279944	8595	6824
precious items	0	1821	0	10064
metallurgy	0	0	0	0
machine-building and electrical	99984	189767	730	0
other branches of industry	34727	571002	48412	284259

1.2 Agriculture	516709	236406	221311	507491
1.3 Construction	896892	2547919	345284	69227
1.4 Transport and communication	187763	195441	42862	19989
1.5 Trade	1458441	2133993	618471	783630
1.6 Public catering and other services	1340944	223973	187374	76238
1.7 Financial sector	16184	0	16393	407663
1.8 Consumer loans	7575786	336151	1551901	916236
1.9 Mortgage loans	3254563	1182574	143825	63540
1.10 Other Sectors of Economy	671727	161227	1196702	763236
2. Non-residents' non-performing and off-balance sheet assets (total)	429632	17341	82688	470615
<b>2009</b>				
<b>Non-performing and off-balance sheet assets (total)</b>	16709734	20156661	14004592	12157437
1. Residents' non-performing and off-balance sheet assets (total)	16595849	20132618	13904051	11603917
1.1 Industry	1334125	4216788	1332426	2438745
mining	46614	231124	4063	183225
energy	38299	170289	0	91438
food products	917877	2419212	1111888	855569
light	50523	125958	41609	255257
chemical	0	2829	41307	12399
building materials	54854	89335	57850	316491
precious items	13889	295850	11091	0
metallurgy	6499	19699	0	0
machine-building and electrical	26789	385457	1287	10626
other branches of industry	178782	477055	63331	713739
1.2 Agriculture	576163	1657961	576322	900091
1.3 Construction	868477	3160339	706423	1217236
1.4 Transport and communication	428359	147447	127198	32838
1.5 Trade	2686106	7082769	1588863	1782974
1.6 Public catering and other services	568360	520634	165619	311588
1.7 Financial sector	0	0	32492	502238
1.8 Consumer loans	6209934	797165	5473520	1379472
1.9 Mortgage loans	3531743	2159373	1831312	1346499
1.10 Other Sectors of Economy	392582	390142	2069877	1692237
2. Non-residents' non-performing and off-balance sheet assets (total)	113885	24043	100541	553520

**Annex 13. Accrued Allowances on Loans, Receivables and Off-Balance Sheet Items Containing Credit Risk**  
(thousand drams)

Loans	Loan Investments	Share	Reserve on loans granted	
			balance	% of total
<b>31.12.07</b>				
1. Standard	410912046	97.56%	4422713	1.08%
2. Watched	5844085	1.39%	584409	10.00%
3. Non-standard	1280733	0.30%	256148	20.00%
4. Doubtful	3149668	0.75%	1574835	50.00%
<b>Total</b>	<b>421186532</b>	<b>100%</b>	<b>6838105</b>	<b>1.62%</b>

Loans	Loan Investments	Share	Reserve on loans granted	
			balance	% of total
<b>31.12.08</b>				
1. Standard	605703382	95.60%	6440121	1.06%
2. Watched	21810724	3.44%	2181075	10.00%
3. Non-standard	3353567	0.53%	670711	20.00%
4. Doubtful	2713194	0.43%	1356598	50.00%
<b>Total</b>	<b>633580867</b>	<b>100%</b>	<b>10648506</b>	<b>1.68%</b>

Loans	Loan Investments	Share	Reserve on loans granted	
			balance	% of total
<b>31.12.09</b>				
1. Standard	719962763	95.20%	7751708	1.08%
2. Watched	14875372	1.97%	1498998	10.08%
3. Non-standard	10104375	1.34%	2025192	20.04%
4. Doubtful	11344692	1.50%	5686766	50.13%
<b>Total</b>	<b>756287201</b>	<b>100%</b>	<b>16962663</b>	<b>2.24%</b>

Receivables	Receivables	Share	Reserve on receivables	
			balance	% of total
<b>31.12.07</b>				
1. Standard	58080083	98.25%	634454	1.09%
2. Watched	687193	1.16%	68721	10.00%
3. Non-standard	299683	0.51%	67727	22.60%
4. Doubtful	46777	0.08%	23389	50.00%
<b>Total</b>	<b>59113736</b>	<b>100%</b>	<b>794291</b>	<b>1.34%</b>

Receivables	Receivables	Share	Reserve on receivables	
			balance	% of total
<b>31.12.08</b>				
1. Standard	96851471	98.99%	1030078	1.06%
2. Watched	676007	0.69%	67600	10.00%
3. Non-standard	199442	0.20%	39889	20.00%
4. Doubtful	108164	0.11%	54082	50.00%
<b>Total</b>	<b>97835085</b>	<b>100%</b>	<b>1191649</b>	<b>1.22%</b>

Receivables	Receivables	Share	Reserve on receivables	
			balance	% of total
<b>31.12.09</b>				
1. Standard	119728787	99.52%	1234113	1.03%
2. Watched	347190	0.29%	34719	10.00%
3. Non-standard	143519	0.12%	28703	20.00%
4. Doubtful	91206	0.08%	45603	50.00%
<b>Total</b>	<b>120310701</b>	<b>100%</b>	<b>1343139</b>	<b>1.12%</b>

Off-balance sheet items	Off-balance sheet items	Share	Reserve on off-balance sheet items	
			balance	% of total
<b>31.12.07</b>				
1. Standard	69151554	99.21%	691797	1.00%
2. Watched	170896	0.25%	17089	10.00%
3. Non-standard	21439	0.03%	4287	20.00%
4. Doubtful	247954	0.36%	123977	50.00%
5. Bad	113744	0.16%	113744	100.00%
<b>Total</b>	<b>69705387</b>	<b>100%</b>	<b>950894</b>	<b>1.36%</b>

Off-balance sheet items	Off-balance sheet items	Share	Reserve on off-balance sheet items	
			balance	% of total
<b>31.12.08</b>				
1. Standard	84011859	120.52%	844031	1.00%
2. Watched	162674	0.23%	16266	10.00%
3. Non-standard	21554	0.03%	4312	20.00%
4. Doubtful	35790	0.05%	17895	50.00%
5. Bad	24048	0.03%	24048	100.00%
<b>Total</b>	<b>84255925</b>	<b>100%</b>	<b>906552</b>	<b>1.08%</b>

Off-balance sheet items	Off-balance sheet items	Share	Reserve on off-balance sheet items	
			balance	% of total
<b>31.12.09</b>				
1. Standard	95039740	99.59%	959956	1.01%
2. Watched	264264	0.28%	26427	10.00%
3. Non-standard	33473	0.04%	6695	20.00%
4. Doubtful	15289	0.02%	7645	50.00%
5. Bad	80037	0.08%	80037	100.00%
<b>Total</b>	<b>95432802</b>	<b>100%</b>	<b>1080759</b>	<b>1.13%</b>

**Annex 14. Main Prudential Standards of Commercial Banks**

	31.12.07	31.12.08	31.03.09	30.06.09	30.09.09	31.12.09
Total capital adequacy	30.1	27.5	26.1	28.0	28.3	28.4
Total liquidity	33.7	23.8	29.1	32.0	35.2	34.4
Current liquidity	98.2	103.1	135.4	145.3	146.3	140.8
Maximum risk on a single borrower	12.4	13.5	14.0	13.2	16.2	15.9
Maximum risk on major borrowers	88.1	85.5	94.3	88.8	96.8	104.5
Maximum risk on a bank related party	1.6	2.5	2.9	2.4	2.6	2.9
Maximum risk on bank related all parties	5.3	8.4	8.3	7.6	9.1	8.7

**Annex 15. Credit Organizations Operating in Armenia and their branches as of 31.12.2009**

	Credit organization	Branches	
		31.12.2008	31.12.2009
1	Credit Union "Arfin"	-	-
2	Leasing Credit Company "Agroleasing"	-	-
3	Credit Company "AGBA Leasing"	-	-
4	Universal Credit Company "SEF International"	2	2
5	Universal Credit Company "Express"	-	-
6	Universal Credit Company "Gladzor"	-	2
7	Universal Credit Company "First Mortgage Company"	-	-
8	Universal Credit Company "Ismirlian Eurasia"	-	-
9	Universal Credit Company "Cascade Credit"	-	-
10	Universal Credit Company "Washington Capital"	-	-
11	Universal Credit Company "Aregak"	23	23
12	Universal Credit Company "Gami Invest"	-	-
13	Universal Credit Company "Malatia"	11	13
14	Universal Credit Company "Norvick"	-	-
15	Universal Credit Company "New Horizon"	4	4
16	Universal Credit Company "Finca"	8	11
17	Universal Credit Company "Ecumenical Church Lending Fund"	-	-
18	Universal Credit Company "Bless"	-	-
19	Universal Credit Company "GFC General Financial and Credit Company"	-	-
20	UCC commercial cooperative "Farm Credit Armenia"	-	-
21	Universal Credit Company "Avangard Invest"	-	-
22	Leasing Credit Company "VTB Leasing"	-	-
23	Universal Credit Company "Card Agrocredit"	-	-
24	Credit Company "Uni Leasing"	-	-
25	Universal Credit Company "Aniv"	-	-
	<b>Total</b>	<b>48</b>	<b>55</b>

Annex 16. Survey Balance Sheet Indicators of Credit Organizations

Indicator		31.12.07	31.12.08	Change 31.12.08- 31.12.07	31.03.09	Change 31.03.09- 31.12.08	30.06.09	
Assets	Cash	185084	109571	-40.8%	139760	27.6%	164797	
	Current accounts with banks	1784744	2266561	27.0%	4120064	81.8%	2058300	
	Claims on banks and other financial organizations	1432984	4298936	200.0%	5461655	27.0%	8847576	
	Government securities	0	295909	100.0%	24740	-91.6%	0	
	Loans to legal entities	11360986	18853385	65.9%	20563687	9.1%	19961313	
	Loans to natural persons	23961000	33638285	40.4%	35366218	5.1%	32648512	
	Loans to interrelated parties and employees	497573	415352	-16.5%	459433	10.6%	541351	
	Fixed assets	743616	844135	13.5%	1012581	20.0%	1172148	
	Leasing, factoring	2893933	4944096	70.8%	5633168	13.9%	5503647	
	Other securities	23680	3680	-84.5%	3680	0.0%	3680	
	Other assets	704049	231167	-67.2%	2056956	789.8%	1320392	
	Interest receivable	325793	450635	38.3%	493867	9.6%	1095113	
	Asset loss reserves	-543033	-1112737	104.9%	-1360946	22.3%	-1536230	
	<b>Total assets</b>	<b>43370409</b>	<b>65238976</b>	<b>50.4%</b>	<b>73974863</b>	<b>13.4%</b>	<b>71780600</b>	
Liabilities	Demand liabilities	53764	38618	-28.2%	38630	0.0%	49870	
	Liabilities to banks and other financial organizations	18969765	32151165	69.5%	37882187	17.8%	36015811	
	Time liabilities to natural persons	1410554	1936487	37.3%	2022356	4.4%	2216821	
	Time liabilities to legal entities*	9044337	10869261	20.2%	10636370	-2.1%	10651273	
	Interest payable	235697	623569	164.6%	834551	33.8%	766091	
	Other liabilities	1209399	1788297	47.9%	2328669	30.2%	1462597	
	<b>Total liabilities</b>	<b>30923516</b>	<b>47407396</b>	<b>53.3%</b>	<b>53742763</b>	<b>13.4%</b>	<b>51162463</b>	
Capital	Paid-in statutory capital	10935620	13871364	27%	15230605	9.8%	15287606	
	o/w: non-residents' participation	6721581	9280622	38%	10232622	10.3%	10289622	
	General reserve	167906	329392	96%	329634	0.1%	436068	
	Repurchased capital by credit organizations	-41060	-41060	0%	0	-100.0%	0	
	Undistributed profit (loss)	Current period	1777551	2970998	67%	3239532	9.0%	1840028
		Previous period	-532395	604775	-214%	1338698	121.4%	2963903
<b>Total balance sheet capital</b>	<b>12446893</b>	<b>17831580</b>	<b>43.3%</b>	<b>20232100</b>	<b>13.5%</b>	<b>20618137</b>		
<b>Memorandum item: total number of credit organizations</b>		<b>21</b>	<b>24</b>		<b>25</b>		<b>25</b>	

Indicator		Change 30.06.09- 31.03.09	30.09.2009	Change 30.09.09- 30.06.09	31.12.2009	Change 31.12.09- 30.09.09	Change 31.12.09- 31.12.08	
Assets	Cash	-7.8%	146438	11.3%	109571	-25.2%	-40.8%	
	Current accounts with banks	29.4%	1584221	-29.7%	2281906	44.0%	27.9%	
	Claims on banks and other financial organizations	163.7%	3451744	-6.0%	4299262	24.6%	200.0%	
	Government securities		294241		-436340	100.0%	100.0%	
	Loans to legal entities	26.2%	17918766	7.6%	18853385	5.2%	65.9%	
	Loans to natural persons	9.6%	31444438	9.5%	34179971	8.7%	42.6%	
	Loans to interrelated parties and employees	1.6%	373268	-39.2%	427765	14.6%	-14.0%	
	Fixed assets	-0.4%	810705	8.8%	844726	4.2%	13.6%	
	Leasing, factoring	3.5%	4474773	15.7%	4944096	10.5%	70.8%	
	Other securities	100.0%	23686		3680	-84.5%	100.0%	
	Other assets	-47.3%	780689	23.9%	979264	25.4%	38.1%	
	Interest receivable	5.9%	428762	6.2%	453633	5.8%	39.2%	
	Asset loss reserves	23.2%	-906334	9.8%	-1124317	24.1%	107.0%	
	<b>Total assets</b>	<b>16.7%</b>	<b>60825395</b>	<b>6.8%</b>	<b>65816602</b>	<b>8.2%</b>	<b>51.7%</b>	
Liabilities	Demand liabilities	100.0%	55463		38618	-100.0%		
	Liabilities to banks and other financial organizations	28.9%	28842139	4.4%	32491753	12.7%	71.3%	
	Time liabilities to natural persons	15.3%	1962529	19.0%	1954277	-0.4%	-38.5%	
	Time liabilities to legal entities*	4.1%	11659968	4.7%	10869261	-6.8%	20.2%	
	Interest payable	21.9%	700550	33.0%	624835	-10.8%	165.1%	
	Other liabilities	-6.4%	1666777	35.4%	1782338	6.9%	51.6%	
	<b>Total liabilities</b>	<b>19.4%</b>	<b>44887426</b>	<b>6.4%</b>	<b>47761082</b>	<b>6.4%</b>	<b>54.6%</b>	
Capital	Paid-in statutory capital	6.0%	12680907	4.4%	14142067	11.5%	29.3%	
	o/w: non-residents' participation	4.2%	8111602	1.1%	9280622	14.4%	27.9%	
	General reserve	83.9%	324612	3.3%	329392	1.5%	96.2%	
	Repurchased capital by credit organizations	-100.0%	-41060		-41060			
	Undistributed profit (loss)	Current period	-43.2%	1530771	-16.8%	2583136	68.7%	-13.1%
		Previous period	121.4%	3004333	1.4%	3318765	10.5%	448.8%
<b>Total balance sheet capital</b>		<b>1.9%</b>	<b>25931280</b>	<b>25.8%</b>	<b>26247055</b>	<b>1.2%</b>	<b>47.2%</b>	
<b>Memorandum item: total number of credit organizations</b>			<b>27</b>		<b>27</b>			

\* Including liabilities to government.

## Annex 17. Structure of Survey Balance Sheet Indicators of Credit Organizations

Indicator		31.12.2007	31.12.2008	Change 31.12.08- 31.12.07	31.03.2009	Change 31.03.09- 31.12.08	30.06.2009
Assets	Cash	0.4%	0.2%	-0.3%	0.2%	0.0%	0.2%
	Current accounts with banks	4.1%	3.5%	-0.6%	5.6%	2.1%	2.9%
	Claims on banks and other financial organizations	3.3%	6.6%	3.3%	7.4%	0.8%	12.3%
	Government securities	0.0%	0.5%	0.5%	0.0%	-0.4%	0.0%
	Loans to legal entities	26.2%	28.9%	2.7%	27.8%	-1.1%	27.8%
	Loans to natural persons	55.2%	51.6%	-3.7%	47.8%	-3.8%	45.5%
	Loans to interrelated parties and employees	1.1%	0.6%	-0.5%	0.6%	0.0%	0.8%
	Fixed assets	1.7%	1.3%	-0.4%	1.4%	0.1%	1.6%
	Leasing, factoring	6.7%	7.6%	0.9%	7.6%	0.0%	7.7%
	Other securities	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
	Other assets	1.6%	0.4%	-1.3%	2.8%	2.4%	1.8%
	Interest receivable	0.8%	0.7%	-0.1%	0.7%	0.0%	1.5%
	Asset loss reserves	-1.3%	-1.7%	-0.5%	-1.8%	-0.1%	-2.1%
	<b>Total assets</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>	<b>100.0%</b>	<b>0.0%</b>	<b>100.0%</b>
Liabilities	Demand liabilities	0.2%	0.1%	-0.1%	0.1%	0.0%	0.1%
	Liabilities to banks and other financial organizations	61.3%	67.8%	6.5%	70.5%	2.7%	70.4%
	Time liabilities to natural persons	4.6%	4.1%	-0.5%	3.8%	-0.3%	4.3%
	Time liabilities to legal entities*	29.2%	22.9%	-6.3%	19.8%	-3.1%	20.8%
	Interest payable	0.8%	1.3%	0.6%	1.6%	0.2%	1.5%
	Other liabilities	3.9%	3.8%	-0.1%	4.3%	0.6%	2.9%
	<b>Total liabilities</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>	<b>100.0%</b>	<b>0.0%</b>	<b>100.0%</b>
Capital	Paid-in statutory capital	87.9%	77.8%	-10.1%	75.3%	-2.5%	74.1%
	o/w: non-residents' participation	54.0%	52.0%	-2.0%	50.6%	-1.5%	49.9%
	General reserve	1.3%	1.8%	0.5%	1.6%	-0.2%	2.1%
	Repurchased capital by credit organizations	-0.3%	-0.2%	0.1%	0.0%	0.2%	0.0%
	Undistributed profit (loss)						
Current period	14.3%	16.7%	2.4%	16.0%	-0.6%	8.9%	
Previous period	-4.3%	3.4%	7.7%	6.6%	3.2%	14.4%	
<b>Total capital</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>	<b>100.0%</b>	<b>0.0%</b>	<b>100.0%</b>	

Indicator		Change 30.06.09- 31.03.09	30.09.2009	Change 30.09.09- 30.06.09	31.12.2009	Change 31.12.09- 30.09.08	Change 31.12.09- 31.12.08	
Assets	Cash	0.0%	0.3%	0.1%	0.9%	0.6%	0.7%	
	Current accounts with banks	-2.7%	8.3%	5.5%	4.2%	-4.2%	0.7%	
	Claims on banks and other financial organizations	4.9%	22.5%	10.2%	21.4%	-1.1%	14.8%	
	Government securities	0.0%	2.4%	2.4%	2.8%	0.5%	2.4%	
	Loans to legal entities	0.0%	17.1%	-10.7%	15.8%	-1.3%	-13.1%	
	Loans to natural persons	-2.3%	39.4%	-6.1%	42.2%	2.8%	-9.4%	
	Loans to interrelated parties and employees	0.1%	1.2%	0.4%	1.4%	0.2%	0.8%	
	Fixed assets	0.3%	1.5%	-0.2%	1.5%	0.1%	0.3%	
	Leasing, factoring	0.1%	7.0%	-0.7%	7.0%	0.0%	-0.6%	
	Other securities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
	Other assets	-0.9%	1.5%	-0.3%	4.0%	2.4%	3.6%	
	Interest receivable	0.9%	0.6%	-0.9%	0.6%	0.0%	-0.1%	
	Asset loss reserves	-0.3%	-1.8%	0.3%	-1.7%	0.1%	0.0%	
	<b>Total assets</b>	<b>0.0%</b>	<b>100.0%</b>	<b>0.0%</b>	<b>100.0%</b>	<b>0.0%</b>	<b>0.0%</b>	
Liabilities	Demand liabilities	0.0%	72.5%	72.4%	0.3%	-72.2%	0.2%	
	Liabilities to banks and other financial organizations	-0.1%	72.5%	2.1%	64.3%	-8.2%	-3.5%	
	Time liabilities to natural persons	0.6%	4.5%	0.2%	4.7%	0.2%	0.7%	
	Time liabilities to legal entities*	1.0%	17.7%	-3.1%	26.3%	8.6%	3.4%	
	Interest payable	-0.1%	1.4%	-0.1%	1.2%	-0.1%	-0.1%	
	Other liabilities	-1.5%	3.6%	0.8%	3.1%	-0.6%	-0.7%	
	<b>Total liabilities</b>	<b>0.0%</b>	<b>100.0%</b>	<b>0.0%</b>	<b>100.0%</b>	<b>0.0%</b>	<b>0.0%</b>	
Capital	Paid-in statutory capital	-1.1%	80.4%	6.3%	75.4%	-5.0%	-2.4%	
	o/w: non-residents' participation	-0.7%	32.9%	-17.0%	35.1%	2.2%	-16.9%	
	General reserve	0.5%	1.7%	-0.4%	1.7%	0.0%	-0.1%	
	Repurchased capital by credit organizations	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	
	Undistributed profit (loss)	Current period	-7.1%	5.9%	-3.0%	9.8%	3.9%	-6.8%
		Previous period	7.8%	11.6%	-2.8%	12.6%	1.1%	9.3%
<b>Total capital</b>	<b>0.0%</b>	<b>100.0%</b>	<b>0.0%</b>	<b>100.0%</b>	<b>0.0%</b>	<b>0.0%</b>		

\* Including liabilities to government.

**Annex 18. Credit Organizations: Income and Expense**

Indicator	31.12.07	31.12.08	Change 31.12.08- 31.12.07	31.03.09	30.06.09	30.09.09	31.12.09	Change 31.12.09- 31.12.08
Interest income	5790473	9315613	60.9%	2761852	5527931	7918978	10546924	13.2%
Interest expense	1519656	2844321	87.2%	828688	1726164	2452066	3291741	15.7%
<i>Net interest income</i>	4270817	6471292	51.5%	1933164	3801767	5466912	7255183	12.1%
Non-interest income	1500291	2554463	70.3%	1072290	1868807	2994992	3768260	47.5%
Non-interest expense	3245515	4579593	41.1%	1267684	2463316	3726897	4976162	8.7%
<i>Net non-interest income</i>	-1745225	-2025130	16.0%	-195393	-594508	-731904	-1207902	-40.4%
Loss provision	1929007	2766597	43.4%	1143270	2568043	5161219	5994273	116.7%
Recovery from loss reserve	1636744	2085015	27.4%	681383	1373340	2323287	3209628	53.9%
<i>Net provision</i>	292263	681582	133.2%	461887	1194704	2837932	2784645	308.6%
<i>Gross income</i>	8927507	13916915	55.9%	4515526	8770078	13237257	17524812	25.9%
<i>Gross expense</i>	6694178	10144674	51.5%	3239642	6757523	11340182	14262176	40.6%
Pre-tax profit	2233329	3764580	68.6%	1275884	2012555	1897075	3262636	-13.3%
Net profit	1777556	2977297	67.5%	1107858	1711604	1530772	2589929	-13.0%
<b>Undistributed profit</b>	<b>1777556</b>	<b>2977297</b>	<b>67.5%</b>	<b>1107858</b>	<b>1711604</b>	<b>1530772</b>	<b>2589929</b>	<b>-13.0%</b>

**Annex 19. Loan Investments of Credit Organizations**

Sectors	31.12.07	31.12.08	Change 31.12.08- 31.12.07	31.03.09	30.06.09	30.09.09	31.12.09	Change 31.12.09- 31.12.08
Industry	4562656	6198714	35.9%	6813715	7138168	2586405	3339535	-46.1%
Agriculture	3838987	8034839	109.3%	9526830	10014686	9577522	10159519	26.4%
Construction	1883456	6748167	258.3%	9738265	9166686	7960496	5178975	-23.3%
Transport and communications	1580953	2781262	75.9%	3015124	2926263	2842838	2709392	-2.6%
Trade	7481221	9927066	32.7%	11013628	9973157	9028421	9329382	-6.0%
Public catering and other services	1143760	1486750	30.0%	1879231	1857008	2092433	1979228	33.1%
Financial sector	1237561	4279563	245.8%	5155352	8510960	17308990	16370619	282.5%
Consumer loans (including mortgage loans)	7062322	8330707	18.0%	7434649	6080995	5045689	4416498	-47.0%
Mortgage loans	4563706	6885271	50.9%	7659927	7316429	7020536	7777295	13.0%
Other sectors	6234925	7823384	25.5%	4739745	3966801	4011783	4667416	-40.3%
<b>Total</b>	<b>39589547</b>	<b>62495722</b>	<b>57.9%</b>	<b>66976466</b>	<b>66951153</b>	<b>67475113</b>	<b>65927859</b>	<b>5.5%</b>

**Annex 20. Structure of Loan Investment of Credit Organizations by Sectors of Economy**

Sector	31.12.07	31.12.08	Change 31.12.08- 31.12.07	31.03.09	30.06.09	30.09.09	31.12.09	Change 31.12.09- 31.12.08
Industry	11.5%	9.9%	-1.6%	10.2%	10.7%	5.8%	5.1%	-4.9%
Agriculture	9.7%	12.9%	3.2%	14.2%	15.0%	14.2%	15.4%	2.6%
Construction	4.8%	10.8%	6.0%	14.5%	13.7%	11.8%	7.9%	-2.9%
Transport and communications	4.0%	4.5%	0.5%	4.5%	4.4%	4.2%	4.1%	-0.3%
Trade	18.9%	15.9%	-3.0%	16.4%	14.9%	13.4%	14.2%	-1.7%
Public catering and other services	2.9%	2.4%	-0.5%	2.8%	2.8%	3.1%	3.0%	0.6%
Financial sector	3.1%	6.8%	3.7%	7.7%	12.7%	25.7%	24.8%	18.0%
Consumer loans (including mortgage loans)	17.8%	13.3%	-4.5%	11.1%	9.1%	7.5%	6.7%	-6.6%
Mortgage loans	11.5%	11.0%	-0.5%	11.4%	10.9%	10.4%	11.8%	0.8%
Other sectors	15.7%	12.5%	-3.2%	7.1%	5.9%	5.9%	7.1%	-5.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>

**Annex 21. Structure of Loans and Receivables of Credit Organizations by Risk Categories**

Risk class	31.12.07	Share in total	31.12.08	Share in total	31.03.09	Share in total	30.06.09	Share in total	30.09.09	Share in total	31.12.09	Share in total
1. Standard	41622519	98.2%	62136871	96.0%	67655172	92.6%	65297407	92.1%	69386898	95.2%	65995550	95.9%
2. Watched	594606	1.4%	1665528	2.6%	4781342	6.5%	3035054	4.3%	1925850	2.6%	1567416	2.3%
3. Non-standard	99995	0.2%	430906	0.7%	299262	0.4%	2413019	3.4%	946845	1.3%	601350	0.9%
4. Doubtful	88090	0.2%	493503	0.8%	286731	0.4%	188778	0.3%	655446	0.9%	637646	0.9%
5. Bad	0	x	0	x	0	x	0	x	243	x	0	x
<b>Total</b>	<b>42405210</b>	<b>100.0%</b>	<b>64726807</b>	<b>100.0%</b>	<b>73022507</b>	<b>100.0%</b>	<b>70934258</b>	<b>100.0%</b>	<b>72915282</b>	<b>100.0%</b>	<b>68801961</b>	<b>100.0%</b>

**Annex 22. Investment companies as of 31.12.2009**

1	"Alfa Securities, Ltd."
2	CJSC "Armenbrok"
3	CJSC "Ameria Invest"
4	CJSC "Renessa"
5	CJSC "Capital Asset Management"
6	CJSC "Cascade investments, Ltd"
7	"Tonton, Ltd."
8	"Future Capital Market, Ltd."

**Annex 23. Financial Indicators of Securities Market Professional Participants <sup>1</sup>**

*million drams*

Indicator	2003	2004	2005	2006	2007	2008	2009
Total assets, including:	8239	7471	7726	10530	8754	7728	15572
Non-current financial investments	929	514	1215	1603	2667	1786	
Current financial investments	6246	5636	5656	5426	4353	4925	
Total liabilities, including:	7626	6090	6694	9282	6668	4900	12637
Short-term borrowings	5114	2024	4523	7964	6057	4076	
Equity capital	607	1382	1032	1248	2086	2721	2935
Accrued profit	217	908	543	629	737	146	
Net profit	344	970	672	667	594	16	

<sup>1</sup> Data before 2008 is on professional participants of securities market; data for 2008 is on investment companies.

**Annex 24. Brokerage/Dealership Turnover of Securities Market Professional Participants<sup>3, 4</sup>**

Securities/ mln drams	2008	2009												2009
		J	F	M	A	M	J	J	A	S	O	N	D	
Securities	15713	254	662	927	794	5993	2055	1328	625	852	1160	1217	309	16175
o/w: traded on stock exchange	524	2	5	0	0	1	-	164	0	2	1	20	0	196
Government bonds	122437	11628	16172	14551	34460	26708	50274	19824	31416	33625	16781	17091	22326	294854
Government short-term bonds	38991	3939	7568	2253	13669	9915	6744	5060	2593	6021	3994	2945	4189	68890
o/w: traded on stock exchange	117	-	-	-	-	-	9	139	-	-	-	-	-	148
Government medium-term bonds	50267	4129	6311	2661	15341	13969	27796	14654	22134	11415	10998	14145	18136	161690
o/w: traded on stock exchange	1644	79	3944	30	18	18	727	43	136	1199	788	53	192	7228
Government long-term bonds	35179	3559	2293	9637	5450	2824	15734	109	6689	16189	1788	1	1	64274
o/w: traded on stock exchange	1563	105	2	99	-	-	46	-	114	814	102	-	-	1283
Corporate bonds	5806	1969	4301	3238	1300	2417	3759	335	1047	785	4145	626	1388	25310
o/w: traded on stock exchange	4443	495	3934	2960	574	2167	2920	324	1047	785	3969	529	1388	21091
Other securities	93	86	185	-	-	-	-	-	-	-	-	-	-	271
o/w: traded on stock exchange	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repo agreements	668750	29745	28063	32392	38681	44227	65531	77790	104456	167489	131349	113074	161676	994474
o/w: traded on stock exchange	-	-	1229	895	625	2899	1464	-	905	4367	3226	740	2233	18583
<b>Total</b>	144049	43682	49382	51107	75234	79345	121619	99278	137544	202751	153434	132009	185699	133108
o/w: traded on stock exchange	8291	681	9113	3985	1218	5087	5168	670	2202	7167	8087	1342	3813	48531
Number of investment service renderers <sup>5</sup>	32	32	32	32	31	31	31	31	30	30	30	30	30	32
o/w: banks rendering investment services	22	22	22	22	22	22	22	22	22	22	22	22	22	22
o/w: investment companies	10	10	10	10	9	9	9	9	8	8	8	8	8	8

<sup>3</sup> Indicators are calculated through aggregation of data on persons rendering investment services, due to which the volume of turnover in regulated market is different from data presented in the table "Operations with Securities in Regulated Market".

<sup>4</sup> Due to report re-submission the data for 2008 is changed

<sup>5</sup> Data before 2008 is on professional participants of securities market, while data for 2008 is on investment companies.

**Annex 25. Armenian Stock Exchange Transactions and their Structure by Instruments**

*million drams*

Period	Number of transactions	Value of Buy/Sell Transactions in Stock Exchange			Total
		Shares	Government bonds	Corporate bonds	
2005	1596	605			<b>605</b>
2006	1181	2150		477	<b>2627</b>
2007	319	1539		703	<b>2242</b>
2008	480	262	1662	2222	<b>4146</b>
2009	1108	98	4331	10545	<b>14975</b>
January	33	1	92	247	<b>340</b>
February	148	2	1973	1967	<b>3942</b>
March	130	0	66	1480	<b>1546</b>
April	51	0	9	287	<b>296</b>
May	86	1	9	1083	<b>1093</b>
June	113		392	1460	<b>1852</b>
July	65	82	91	162	<b>335</b>
August	55	0	125	523	<b>649</b>
September	186	1	1007	392	<b>1400</b>
October	113	1	445	1985	<b>2430</b>
November	29	10	27	264	<b>301</b>
December	99	0	96	694	<b>790</b>

**Annex 26. Number of Register Running Issuers and Holders of Securities in the Central Depository**

Period	Number of holders of securities (persons)			Number of Register running issuers		
	Registered securities	Non-registered securities		Registered securities	Non-registered securities	
2004	97725	37210	134935	212	436	648
2005	94949	39550	134499	210	458	668
2006	28316	102584	130900	36	674	710
2007	24928	102559	127487	33	701	734
2008	6627	121702	128329	20	1182	1202
2009	7807	119901	127708	19	1508	1527

**Annex 27. Insurance Companies in Armenia as of 31.12.2008**

1	CJSC "Alfa Insurance"
2	"ISG, Ltd."
3	CJSC "Guarant-Limens"
4	CJSC "Griar Insurance"
5	CJSC "Ingo Armenia"
6	"London-Yerevan, CO, Ltd."
7	"Cascade Insurance, Ltd."
8	"Nairi Insurance, Ltd."
9	"Rasco, Ltd."
10	CJSC "Resso"
11	CJSC "Rosgosstrakh-Armenia"
12	"Sil Insurance, Ltd."

**Annex 28. Balance Sheet Indicators of Insurance Companies**

*thousand drams*

<b>Indicators</b>		<b>31.12.2007</b>	<b>31.12.2008</b>	<b>31.12.2009</b>
<b>Assets</b>	Cash and cash equivalents	82746	149842	237750
	Bank accounts	1293947	495244	1774950
	Receivables on direct insurance, o/w:	925848	1536682	1761958
	<i>from insured</i>	921132	1529390	1751183
	<i>from intermediaries</i>	435	597	691
	<i>from other persons</i>	4281	6695	10084
	Insurance premiums from co-insurers	150	90	3352
	Claims on indemnity, o/w:	202674	155159	165061
	<i>on co-insurers</i>	217	431	266
	<i>on reinsurers</i>	202457	154728	164795
	<i>on other persons</i>			
	Claims due to subrogation	11425	14650	43922
	Deposits with banks	3582661	6304308	10351503
	Borrowings to financial organizations	220000		
	Borrowings to natural persons and private entrepreneurs	1300	7171	5398
	Borrowing to legal entities	15244		127000
	Government securities (including CBA-issued securities)	931854	1046711	812473
	Non-government securities	282449	462473	418989
	Reserves for securities depreciation held till maturity		-203	-103
	Non-current investments in other parties statutory capital and other non-current claims on them	4	4	4
	Reserves for receivables on direct insurance, co-insurance, reinsurance, on investments and borrowings	-7992	-138294	-313536
	Interest receivable	77134	146473	214230
	Fixed assets	374623	523156	624126
	Other assets	382080	978425	755123
	<b>Total assets</b>	<b>8376148</b>	<b>11681889</b>	<b>16982199</b>

Liabilities	Compensations payable, o/w:	22775	42541	20149
	<i>on direct insurance</i>	22775	41814	20149
	<i>on co-insurance</i>		727	
	<i>on reinsurance risks</i>			
	Payables to intermediaries	19893	43128	11946
	Refundable insurance premiums	6224	10621	4130
	Insurance premiums transferable to co-insurers		1272	650
	Insurance premiums transferable to reinsurers	1067167	1547779	1579012
	Borrowings and loans from financial organizations		40000	
	Interest payable		153	
	Insurance reserves, o/w:	1625902	2152729	2723326
	<i>unearned insurance premium reserve</i>	1403653	1751446	2050887
	<i>reserve for loss presented to the insurer yet unregulated</i>	101865	174684	306001
	<i>reserve for loss occurred yet not presented to the insurer</i>	98676	170801	232994
	<i>mathematical reserve</i>			
	<i>other reserves</i>	21707	55798	133444
	Other liabilities	286817	394976	338987
	<b>Total liabilities</b>	<b>3028778</b>	<b>4233199</b>	<b>4678201</b>
	Capital	Statutory capital	4639288	6615539
General reserve		84854	172001	197137
Current period undistributed profit/loss		633942	579348	794415
Previous period undistributed profit/loss		-46665	45853	336133
<b>Total capital</b>		<b>5347368</b>	<b>7448690</b>	<b>12303998</b>

**Annex 29. Income and Expenditure of Insurance Companies**
*thousand drams*

Indicator	From the year beginning up to 31.12.2007*	From the year beginning up to 31.12.2008	From the year beginning up to 31.12.2009
<b>Earned insurance premiums</b>	<b>2505703</b>	<b>5454102</b>	<b>3766980</b>
Accrued insurance premiums	2734355	3800483	4066420
<i>Gross total</i>	4813592	7769056	8102476
<i>Premiums transferred to reinsurer</i>	-2079257	-3968574	-4036056
Change in reserve for unearned insurance premiums	428632	346381	299440
<b>Other income on insurance</b>	<b>287398</b>	<b>480184</b>	<b>577453</b>
Indemnity from coinsurers		1858	358
Mediator fees	159864	261433	224860
Other income	127535	216893	352235
<b>Insurance compensations</b>	<b>417222</b>	<b>821024</b>	<b>1009986</b>
Non-life insurance		821024	1009986
<i>Gross value</i>		1375015	1900596
<i>Share of insurer</i>		-553991	-890610
<b>Technical reserves</b>	<b>-3646065</b>	<b>-1496187</b>	<b>-2175839</b>
Claimed, but not yet paid claim reserve		-1295057	-1830484
<i>Gross value</i>		-2286981	-4423314
<i>Share of reinsurer</i>		991924	2592830
Other reserves		-201130	-345356
<i>Gross value</i>		-201130	-345356
<i>Share of insurer</i>			
<b>Returns from technical reserves</b>	<b>3399148</b>	<b>1287430</b>	<b>1893949</b>
Claimed, but not yet paid claim reserve		1242513	1761996
<i>Gross value</i>		1342116	2246025
<i>Share of reinsurer</i>		-99603	-484030
Other reserves		44917	131954
<i>Gross value</i>		44917	131954
<i>Share of insurer</i>			
<b>Other insurance expenses</b>	<b>615550</b>	<b>699058</b>	<b>844220</b>
Premium return on suspended agreements		217261	314275
Expenses on mediator fees	259760	420955	476594
Other operational expenses	355790	60841	53351

<b>Interest income</b>	<b>292958</b>	<b>562133</b>	<b>710790</b>
Interest income on deposits of financial organizations and borrowings to them	223752	451261	589152
Interest income on borrowings to natural persons	8	-	22
Interest income on borrowings to legal entities	56	-	6698
Interest income on government securities	61815	64741	79722
Interest income on non-government securities	7038	36957	32382
Other interest income	288	9174	2813
<b>Expenses on interest</b>	<b>588</b>	<b>5887</b>	<b>11328</b>
Interest expenses on loans from financial organizations and borrowings	397	2549	1748
Other interest expenses	191	3338	9580
<b>Non-interest income</b>	<b>200203</b>	<b>-60979</b>	<b>1069316</b>
Net income on assets disposal (selling)	-2187	399	-6567
Net income on revaluation of financial assets	3584	-16608	9182
Net income from currency revaluation	12346	-98766	1040446
Other non-interest income	186461	53996	26254
<b>Non-interest expenses</b>	<b>884746</b>	<b>1514560</b>	<b>2120007</b>
Management expenses	510699	1089737	1503451
Educational expenses	4454	5549	8073
PR expenses	145317	137469	143141
Other non-interest expenses	224276	281804	465342
<b>Allocation to reserve for assets loss (non-collectibility)</b>	<b>499</b>	<b>229183</b>	<b>758398</b>
<b>Profit/loss on usual activity</b>	<b>920739</b>	<b>956972</b>	<b>1098711</b>
<b>Profit before profit tax</b>	<b>920739</b>	<b>956971</b>	<b>1098711</b>
<b>Profit tax</b>	<b>177606</b>	<b>259744</b>	<b>183185</b>
<b>Profit after profit tax</b>	<b>743133</b>	<b>697228</b>	<b>915526</b>
<b>Dividends</b>	<b>11266</b>	<b>115731</b>	<b>121111</b>
<b>Undistributed profit</b>	<b>731867</b>	<b>581497</b>	<b>794415</b>

\* Due to the change of reporting format, some indicators for 2007, 2008 and 2009 are not compatible.

Annex 30. Main Indicators of Insurance Companies by Types of Insurance

thousand drams

Type of Insurance	Number of insurance contracts in force as of 31/12/2009	Insurance amount of insurance contracts in force as of 31/12/2009	Reinsurance amounts of insurance contracts in force as of 31/12/2009	Insurance premiums from the beginning of the year up to 31/12/2009	Reinsurance premiums from the beginning of the year up to 31/12/2009	Accrued insurance compensations in 2009	Share of reinsurers in accrued compensations in 2009
1 Accident insurance	4985	50324696	14450520	208491	22858	29301	3794
2 Health insurance	2735	27868985	-	786176	698	426485	58
3 Motor transport insurance	14342	86046753	31975214	1402707	493335	853966	414980
4 Rail transport insurance	-	-	-	-	-	-	-
5 Air transport insurance	9	198591901	193300308	982742	891462	-	-
6 Water transport insurance	3	352218	35621360	3156	2264	-	-
7 Freight insurance	458	69571193	65248345	431086	204273	55656	42379
8 Fire and natural disaster insurance	9624	1034188612	920342553	1533540	1212026	60517	15029
9 Property damage insurance	5662	86911461	56527520	239610	94173	1488	-
10 Responsibility for use of motor transport insurance	2835	33887913	13984020	168330	45441	49853	23489
11 Responsibility for use of air transport insurance	11	1399523917	1398596009	634355	571790	621	-
12 Responsibility for use of water transport insurance	1	884263	826068	2220	1316	-	-
13 General responsibility insurance	255	147529551	142352861	300106	260563	23838	21279
14 Loan insurance	-	-	-	-	-	-	-
15 Guarantee insurance	2613	31009603	17031166	445825	170226	2688	-
16 Financial loss insurance	17	90521953	84838797	382817	89454	351644	361272
17 Judicial and extrajudicial costs insurance	-	-	-	-	-	-	-
18 Assistance insurance	7087	129368126	23109376	198072	31981	44538	8332
<b>Total</b>	<b>50637</b>	<b>3386581145</b>	<b>2998204119</b>	<b>7719235</b>	<b>4091860</b>	<b>1900594</b>	<b>890613</b>

**Annex 31. Pawnshops***million drams*

<b>Indicator</b>	<b>Loans provided</b>	<b>Funds attracted</b>	<b>Number of pawnshops</b>
31.12.2007	2410	1673	63
31.03.2008	2824	1848	64
30.06.2008	3108	2106	64
30.09.2008	3314	2156	66
31.12.2008	3921	2433	68
31.12.2009	5147	3312	103

**Annex 32. Value of Transfers by Non-Cash Payment Instruments in Banking System**
*million drams*

Transfers	2005	2006	2007	2008	2009	2009			
						QI	QII	QIII	QIV
Paper based payment orders <sup>1</sup>	2114168	2076422	3384516	4804497	6806481	1679511	1820037	1919211	1387722
Electronic payment orders <sup>1</sup>	2743646	3394735	5852703	10289081	7793560	1401391	1593896	2571034	2227240
Checks	9663	7571	5954	17286	23744	6023	6368	6022	5330
Other debit instruments <sup>2</sup>	4782	4416	2466	693	866	404	252	128	81
Non-cash transactions by cards		11322	17035	24109	30750	6528	7205	7855	9162
Total	4872259	5494466	9262675	15135666	14655401	3093858	3427758	4504250	3629535
Transactions by cards	90136	138245	213633	326370	428209	85146	98219	107967	136879

**Annex 33. Number of Transfers by Non-Cash Payment Instruments in Banking System**

Transfers	2005	2006	2007	2008	2009	2009			
						QI	QII	QIII	QIV
Paper based payment orders <sup>1</sup>	717219	988964	1197760	1418090	1803287	372423	451181	433525	546158
Electronic payment orders <sup>1</sup>	1280968	1412116	1933016	2972924	3943374	789316	872395	1040500	1241163
Checks	12207	8931	7152	11790	14174	2934	3476	3616	4148
Other debit instruments <sup>2</sup>	744	5318	3195	2014	2512	538	638	678	658
Non-cash operations by cards		212387	442100	638753	916178	210933	229141	227042	249062
Total	2011138	2627716	3583223	5043571	6679525	1376144	1556831	1705361	2041189
Cards in circulation	137186	190232	327852	454357	579431	483243	502106	539661	579431
Paper payment orders <sup>1</sup>	2184492	3029569	4428550	6586134	8846164	1791575	2156250	2242503	2655836

<sup>1</sup> Orders to beneficiary bank/branch. Intra-bank transfers of commercial banks are not included, except for customer-customer transfers.

<sup>2</sup> Debit orders and other transfers.

**Annex 34. Value of Transfers Sent and Received via International Money Transfer Systems**
*million drams*

System		2005	2006	2007	2008	2009	2009			
							QI	QII	QIII	QIV
MONEY GRAM	sent	2199	3279	663	1177	2404	474	595	631	703
	received	28176	38151	7834	9126	18886	3415	4897	4977	5597
ANELIK	sent	3679	4143	5637	4933	4931	741	1422	1285	1483
	received	37799	40687	38471	42104	30648	4860	7512	8674	9602
UNISTREAM	sent	13421	18516	19968	17832	20561	3683	4712	5659	6509
	received	95342	149130	201120	227582	182535	25630	42081	57791	57033
Other <sup>1</sup>	sent	13313	12575	12956	15004	13862	2726	3063	3517	4556
	received	82926	87500	136435	160687	130634	17674	29294	41383	42283
Total	sent	32612	38513	39224	38945	41759	7624	9791	11092	13251
	received	244243	315469	383860	439499	362703	51579	83784	112825	114515
Turnover		276855	353981	423084	478444	404462	59203	93575	123917	127766

**Annex 35. Number of Transfers Sent and Received via International Money Transfer Systems**

System		2005	2006	2007	2008	2009	2009			
							QI	QII	QIII	QIV
MONEY GRAM	sent	6401	9399	1522	3311	7140	1555	1648	1903	2034
	received	104796	163767	40638	50959	92480	20077	23460	22537	26406
ANELIK	sent	11236	10525	9727	9360	6595	1750	1548	1600	1697
	received	228894	230041	209792	176398	120134	25054	31264	31740	32076
UNISTREAM	sent	16240	24020	29537	29003	40951	8742	10012	10105	12092
	received	290043	424449	587595	669967	671504	119529	169260	194406	188309
Other <sup>1</sup>	sent	16904	51516	40777	47104	52402	12011	11850	12809	15732
	received	347899	435380	684395	739359	655137	110143	159741	196483	188770
Total	sent	50781	95460	81563	88778	107088	24058	25058	26417	31555
	received	971632	1253637	1522420	1636683	1539255	274803	383725	445166	435561
Turnover		1022413	1349097	1603983	1725461	1646343	298861	408783	471583	467116

<sup>1</sup> Transfers Sent and Received via WESTERN UNION system are included in "Other" line

### Annex 36. Number of Cards in Circulation

Plastic Card	2005	2006	2007	2008	2009	2009			
						QI	QII	QIII	QIV
ArCa	55697	92283	142482	200190	282164	219933	238946	262841	282164
VISA	62839	90733	139280	165894	201589	170355	175352	187196	201589
MASTER Card	5901	11817	23665	47769	61108	49950	52398	54571	61108
Other international cards*	12749	14280	22425	40504	34570	43005	35410	35053	34570
Total	137186	209113	327852	454357	579431	483243	502106	539661	579431

### Annex 37. Value of Transactions by Cards

million drams

Plastic Card	2005	2006	2007	2008	2009	2009			
						QI	QII	QIII	QIV
ArCa	27821	45471	74889	117550	173445	31510	37951	43824	60161
VISA	39595	60511	90234	127129	151623	30889	35656	37909	47169
MASTER Card	7689	12664	19904	39164	62331	13408	15010	16031	17881
Other international cards*	15030	19598	28608	42528	40849	9377	9601	10203	11668
Total	90136	138245	213634	326371	428248	85184	98219	107967	136879

\* "HSBC Debit" and other international cards.

### Annex 38. Number of Transactions by Cards

Plastic Cards	2005	2006	2007	2008	2009	2009			
						QI	QII	QIII	QIV
ArCa	1023304	1408879	2081054	2915892	4177660	783123	989053	1068345	1337139
VISA	692100	1008054	1436478	2090858	2602572	543711	640478	651366	767017
MASTER Card	89937	169523	319341	653957	1158843	255374	295749	296553	311167
Other international cards*	379151	443113	591677	925427	908977	211255	230970	226259	240513
Total	2184492	3029569	4428550	6586134	8848052	1793463	2156250	2242503	2655836

\* "HSBC Debit" and other international cards.

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