



**CENTRAL BANK
OF THE REPUBLIC OF ARMENIA**

Annual Financial Statements | 2012

Contents

Independent auditor's report	74
Consolidated statement of comprehensive income.....	76
Consolidated statement of financial position	77
Consolidated statement of changes in equity	79
Consolidated statement of cash flows	80
Notes to consolidated financial statements	82

1. Background	82
2. Basis of preparation	83
3. Significant accounting policies	83
4. Interest income	95
5. Interest expense	95
6. Net foreign exchange gain	96
7. Net gain on financial instruments at fair value through profit or loss	96
8. Other income	96
9. Costs of production of banknotes, coins and numismatics	97
10. Other expenses	97
11. Placements with banks and other financial institutions	97
12. Financial instruments at fair value through profit or loss	98
13. Investment securities	100
14. International Monetary Fund	101
15. Loans and reverse repurchase agreements	102
16. Property and equipment	103
17. Intangible assets	104
18. Other assets	105
19. Deposits and accounts of financial and other institutions	105
20. Other borrowed funds	106
21. Other liabilities	106
22. Due to the Government of the Republic of Armenia	106
23. Issued bonds	107
24. Equity	107
25. Commitments	107
26. Related party transactions	108
27. Cash and cash equivalents	111
28. Fair value of financial instruments	111
29. Risk management	114
30. Maturity analysis	126

**CENTRAL BANK
OF THE REPUBLIC OF ARMENIA**

Consolidated financial statements and
Independent auditor's report

31 December 2012

INDEPENDENT AUDITOR'S REPORT

To the only founder and Board of the Central Bank of the Republic of Armenia:

We have audited the accompanying consolidated financial statements of the Central Bank of the Republic of Armenia and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as of December 31, 2012, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Central Bank of the Republic of Armenia and its subsidiaries as at December 31, 2012, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gagik Gyulbudaghyan

Managing Partner



Emil Vassilyan

Auditor



Grant Thornton CJSC

22 March 2013

Yerevan



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Consolidated statement of comprehensive income

(In thousand Armenian drams)

	Note	Year ended 31 December, 2012	Year ended 31 December, 2011
Interest income	4	14,304,760	11,880,230
Interest expense	5	(10,158,878)	(10,144,881)
Net interest income		4,145,882	1,735,349
Fee and commission income		104,719	70,910
Fee and commission expense		(401,025)	(350,914)
Net fee and commission expense		(296,306)	(280,004)
Net foreign exchange gain	6	15,071,694	19,181,238
Net realized gain on available-for-sale assets		285,018	60,729
Net gain on financial instruments at fair value through profit or loss	7	1,719,492	1,997,356
Other income	8	2,366,931	2,804,325
Impairment losses	11,13	(30,239,216)	(11,564,863)
Costs of production of banknotes, coins and numismatics	9	(3,429,758)	(2,383,348)
Other expenses	10	(10,309,302)	(10,987,815)
Income tax		(202,944)	(99,043)
Loss/(profit) for the year		(20,888,509)	463,924
Other comprehensive income			
Net unrealized gain from changes in fair value		321,537	470,530
Net gain reclassified to profit or loss on disposal of available-for-sale assets		(285,018)	(60,729)
Total comprehensive loss for the year		(20,851,990)	873,725

These consolidated financial statements were approved by the Board of the Central Bank of the Republic of Armenia on March 22, 2013 and were signed on its behalf by:

Arthur JAVADYAN
Chairman of the
Central Bank of the Republic of Armenia



Haykanush HAKOBYAN
Chief Accountant of the
Central Bank of the Republic of Armenia



Consolidated statement of financial position

(In thousand Armenian drams)

	Note	Year ended 31 December, 2012	Year ended 31 December, 2011
ASSETS			
<i>Foreign currency assets</i>			
Cash		5,937,942	5,013,113
Placements with banks and other financial institutions	11	248,667,357	236,415,264
Financial instruments at fair value through profit or loss	12	273,543,277	344,720,503
Available-for-sale assets	13	1,646	1,646
Held to maturity assets	13	185,240,208	137,340,298
Placements with the IMF	14	69,868,364	76,489,346
Other assets		20,615	1,228,086
		783,279,409	801,208,256
<i>Domestic currency assets</i>			
Loans and reverse repurchase agreements	15	197,519,120	149,245,576
Available-for-sale assets	13	110,280,152	106,922,985
Held to maturity assets	13	147,107	3,265,916
Property and equipment	16	64,364,878	38,369,456
Intangible assets	17	977,063	640,389
Other assets	18	3,155,011	6,253,627
		376,443,331	304,697,949
Total assets		1,159,722,740	1,105,906,205
LIABILITIES AND EQUITY			
<i>Foreign currency liabilities</i>			
Deposits and accounts of financial and other institutions	19	87,905,163	104,346,523
Due to the Government of the Republic of Armenia	22	2,718,775	3,974,934
Financial liabilities at fair value through profit or loss	12	2,015,617	1,771,245
Due to the IMF	14	299,023,415	306,460,839
Other borrowed funds	20	53,206,929	38,846,294
Other liabilities		244,322	153,901
		445,114,221	455,553,736

(In thousand Armenian drams)

	Note	Year ended 31 December, 2012	Year ended 31 December, 2011
Domestic currency liabilities			
Notes and coins in circulation		440,117,123	398,777,362
Deposits and accounts of financial and other institutions	19	179,841,895	166,827,933
Due to the Government of the Republic of Armenia	22	110,748,428	80,229,419
Debt securities issued		1,441,464	963,593
Other liabilities	21	3,013,237	3,255,800
		735,162,147	650,054,107
Total liabilities		1,180,276,368	1,105,607,843
Equity			
Issued capital	23	100,000	100,000
General reserve	23	17,389,049	17,389,049
Additional paid in capital	13	107,531,884	107,531,884
Revaluation reserve for available-for-sale assets		(1,182,440)	(1,218,959)
Accumulated losses		(144,392,121)	(123,503,612)
Total equity		(20,553,628)	298,362
Total liabilities and equity		1,159,722,740	1,105,906,205

Consolidated statement of changes in equity

(In thousand Armenian drams)

	Issued capital	General reserve	Additional paid in capital	Revaluation reserve for available-for-sale assets	Accumulated loss	Total equity
Balance as of 1 January, 2011	100,000	17,389,049	85,663,194	(1,628,760)	(123,967,536)	(22,444,053)
Extension of the promissory note by the Government of the Republic of Armenia	-	-	21,868,690	-	-	21,868,690
Profit for the year	-	-	-	-	463,924	463,924
Other comprehensive income	-	-	-	409,801	-	409,801
Balance as of 31 December, 2011	100,000	17,389,049	107,531,884	(1,218,959)	(123,503,612)	298,362
Loss for the year	-	-	-	-	(20,888,509)	(20,888,509)
Other comprehensive income	-	-	-	36,519	-	36,519
Balance as of 31 December, 2012	100,000	17,389,049	107,531,884	(1,182,440)	(144,392,121)	(20,553,628)

Consolidated statement of cash flows

(In thousand Armenian drams)

	Note	Year ended 31 December, 2012	Year ended 31 December, 2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) for the year		(20,888,509)	463,924
Depreciation and amortization		1,397,386	1,223,482
Impairment losses		30,239,216	11,564,863
Loss from disposal of property and equipment		2,616	367,180
Interests receivable		2,388,286	661,507
Interests payable		(70,683)	103,910
Net (gains)/losses from revaluation of monetary assets and liabilities		(15,326,890)	(19,326,197)
Net loss from remeasurement of financial instruments at fair value		1,237,708	1,450,482
Other		(135)	238
Cash flows from operating activities before changes in operating assets and liabilities		(1,021,005)	(3,490,611)
(Increase)/decrease in operating assets			
Placements with banks and other financial institutions		68,673,095	(65,998,845)
Financial instruments at fair value through profit or loss		79,752,984	80,622,949
Placements with the IMF		1,699	12,099
Available-for-sale assets		(4,104,029)	4,060,543
Held-to-maturity assets		(46,587,871)	(33,289,368)
Loans and reverse repurchase agreements		(48,883,906)	(78,951,506)
Other assets		6,867,102	(1,845,736)
Increase/(decrease) in operating liabilities			
Notes and coins in circulation		41,339,761	50,612,628
Deposits and accounts of financial and other institutions		(5,142,461)	84,090,265
Due to the IMF		(8,282,626)	(8,199,434)
Due to the Government of the Republic of Armenia		28,958,588	(26,489,725)
Debt securities issued		477,871	963,593
Other liabilities		(845,634)	1,283,912
Net cash from operating activities		111,203,568	3,380,764

(In thousand Armenian drams)

	Note	Year ended 31 December, 2012	Year ended 31 December, 2011
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, equipment and intangible assets		(27,738,073)	(13,729,298)
Proceeds from sale of property and equipment		5,975	24,160
Net cash used in investing activities		(27,732,098)	(13,705,138)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans received		36,380,888	70,340,555
Loans redeemed		(38,264,348)	(39,530,684)
Net cash from/(used in) financing activities		(1,883,460)	30,809,871
Net increase in cash and cash equivalents		81,588,010	20,485,497
Cash and cash equivalents at the beginning of the year		167,744,627	139,497,528
Exchange differences on cash and cash equivalents		13,929,250	7,761,602
Cash and cash equivalents at the end of the year	27	263,261,887	167,744,627
Supplementary information			
Interest received		11,916,475	11,218,722
Interest paid		(10,088,195)	(10,248,791)

Notes to 2012 consolidated financial statements

1. Background

Principal activities

The Central Bank of the Republic of Armenia or the Central Bank of Armenia (the “Bank”) is the parent entity in the Group. It is a legal entity the sole founder of which is the Republic of Armenia.

The registered address of the Bank is 6 Vazgen Sargsyan Street, Yerevan 0010, Republic of Armenia. The average number of employees of the Bank during 2012 was 773 (2011: 765).

The basic objective of the Bank is ensuring stability of prices in the Republic of Armenia. It is achieved through elaboration and implementation of monetary policy. In addition to its basic objective, the Bank is also responsible for:

- ❖ ensuring the stability, liquidity, solvency and other necessary conditions for sound operation of the financial system in the Republic of Armenia; and,
- ❖ creation and development of an effective payment and settlement system.

The Bank also:

- ❖ issues the national currency of the Republic of Armenia and regulates its circulation;
- ❖ organizes and regulates anti money laundering and terrorism financing activities;
- ❖ is the financial agent and advisor of the Government of the Republic of Armenia;
- ❖ licenses commercial banks and, cases envisaged by the legislation, other entities, supervises and regulates their activities;
- ❖ is the lender of last resort to commercial banks; and,
- ❖ owns, uses and manages international reserves of the Republic of Armenia.

The Bank's subsidiaries are as follows:

Name	Country of incorporation	Principal activity	Controlled %		Date of establishment
			2012	2011	
“Armenian Card” CJSC	Republic of Armenia	Payment and settlement services	57.5	59	March 2000
“ArmCollection” CJSC	Republic of Armenia	Transportation/ delivery of cash	100	100	April 1998
“Panarmenian bank” OJSC	Republic of Armenia	Banking	100	100	December 2009
“National Mortgage Company” RCO CJSC	Republic of Armenia	Mortgage refinancing	100	100	June 2009
“Home for Youth” UCO CJSC	Republic of Armenia	Mortgage refinancing	100	100	February 2010
“Small and medium business credit support” CJSC	Republic of Armenia	Lending support	100	100	December 2010

2. Basis of preparation

2.1. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

2.2. Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading and available-for-sale securities, derivative financial instruments have been measured at fair value.

2.3. Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram (“AMD”), which is the Bank's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand unless otherwise indicated.

2.4. Use of estimates and judgments

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

- ❖ Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.
- ❖ The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

3. Significant accounting policies

3.1. Changes in accounting policies

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to the existing Standards have been published but are not yet effective. The Bank has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Bank's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Bank's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Bank's financial statements.

New standards, amendments and interpretations to the existing Standards that are not yet effective

IAS 32 (Amendment) Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- ❖ The meaning of 'currently has a legally enforceable right of set-off': the amendments clarify that a right of set-off is required to be legally enforceable in the normal course of business, the event of default and the event of insolvency or bankruptcy of the entity and all of the counterparties, and that the right must also exist for all counterparties.
- ❖ Since there was diversity in practice related to the interpretation of 'simultaneous settlement' in IAS 32, the IASB has therefore clarified the principle behind net settlement and included an example of a gross settlement system with characteristics that would satisfy the IAS 32 criterion for net settlement.

The amendments are effective for annual reporting periods beginning on or after 1 January 2014 and are required to be applied retrospectively.

IFRS 7 (Amendment) Offsetting Financial Assets and Financial Liabilities

The amendment adds qualitative and quantitative disclosures to IFRS 7 relating to gross and net amounts of recognized financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position.

The amendments are effective for annual reporting periods beginning on or after 1 January 2013, and are required to be applied retrospectively.

IFRS 9 Financial Instruments

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

The IASB has issued an amendment to IFRS 9 which deferred the mandatory effective date of IFRS from 1 January 2013 to 1 January 2015. This means that all the phases of the project to replace IAS 39 will now have the same mandatory effective date. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Additional transition disclosures will now be required to help understand the initial application of the Standard.

IFRS 10 Consolidated Financial Statements

IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same. The standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities. The standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 13 *Fair Value Measurement*

IFRS 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013.

IAS 27 *Separate Financial Statements (revised in 2011)*

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 1 *Presentation of Financial Statements*

The IAS 1 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Bank's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

The Bank's management have yet to assess the impact of this new standard on the financial statements.

3.2. Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

3.3. Foreign currency translation and presentation of foreign currency items

Transactions in foreign currencies are initially recognized at the functional currency, converted at the exchange rate published by the Central Bank of the Republic of Armenia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are recalculated at the exchange rate published by the Central Bank of the Republic of Armenia at the reporting date.

Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of financial position as net foreign exchange gain\ (loss). Non-monetary items measured at fair value in a foreign currency are recalculated using the exchange rates of functional currency published by the Central Bank of the Republic of Armenia at the date of the transaction.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate published by the Central Bank of the Republic of Armenia at the date of the transaction are included in the consolidated statement of comprehensive income.

The exchange rates at the reporting dates used by the Bank in the preparation of the consolidated financial statements are as follows:

	31 December, 2012	31 December, 2011
AMD/1 US Dollar	403.58	385.77
AMD/1 Euro	532.24	498.72
AMD/1 SDR	620.27	592.26

3.4. Cash and cash equivalents

The Group considers cash, nostro accounts with banks and SDR holdings in the IMF to be cash and cash equivalents.

3.5. Financial instruments

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial instruments at fair value through profit or loss, loans and receivables, held-to-maturity assets, or available-for-sale assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial instruments classified as held for trading are included in the category “Financial assets measured at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss.

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in profit or loss as net gain on financial instruments at fair value through profit or loss or net foreign exchange gain/(loss), depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value on the trading portfolio with changes in fair value recognised in profit or loss.

Held-to-maturity assets

Non-derivative assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity assets are subsequently measured at amortised cost. Gains and losses are recognised in consolidated statement of comprehensive income when the assets are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets include placements with banks and other financial institutions, placements with the IMF, loans and reverse repurchase agreements. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in consolidated statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale assets

Available-for-sale assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale assets are measured at fair value with gains or losses being recognised in other comprehensive income until the assets are derecognised or until the assets are determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- ❖ a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- ❖ other financial assets may be reclassified to available-for-sale or held to maturity categories only in rare circumstances.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include deposits and accounts of financial and other institutions, amounts due to the Government of the Republic of Armenia and the IMF, other borrowed funds and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

Determination of fair value

- ❖ The fair value of financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions) without any deduction for transaction costs.
- ❖ For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques.
- ❖ Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

3.6. Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- ❖ the rights to receive cash flows from the asset have expired;
- ❖ the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- ❖ the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

3.7. Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

3.8. Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repo") are treated as secured financial transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within deposits and accounts of financial and other institutions. The difference between the sale and repurchase price is treated as interest and accrued over the life of the repo agreements.

3.9. Securities lending and borrowing

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within net gain on financial instruments at fair value through profit or loss in profit or loss. The obligation to return them is recorded within financial liabilities at fair value through profit or loss.

3.10. Notes and coins in circulation

Notes and coins in circulation issued by the Bank are presented in the consolidated statement of financial position as a liability at nominal value. Printing and production costs of notes and coins are recognized in profit or loss as incurred.

3.11. Numismatic coins

Numismatic coins are measured at the lower of cost and net realisable value. The cost of numismatic coins is based on the first-in first-out principle, and includes expenses incurred in acquiring the numismatic coins and bringing them to their existing location. Net realisable value is the estimated selling price less the estimated costs necessary to make the sale. During the sale the inflow amount is recognized as income in the consolidated statement of comprehensive income of the current year, and the amount of carrying value is recognised as expense in the consolidated statement of comprehensive income of the current year.

3.12. Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

All other repair and maintenance costs are recognised in profit or loss as incurred.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

Depreciation

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	2012	2011
Land and buildings	30-50 years	30-50 years
Networks, computer and other equipment	2-15 years	2-15 years
Vehicles	5 years	5 years

The assets' residual values and useful lives are reviewed, and adjusted as appropriate, at each financial year-end.

3.13. Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Computer software maintenance costs are recognized in profit or loss as incurred.

3.14. Operating leases – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

3.15. Impairment

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Placements with banks and other financial institutions and loans and reverse repurchase agreements

For amounts due from financial institutions carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the

Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of comprehensive income. The interest income is accrued at the initial effective interest rate of asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognized in profit or loss as income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity assets

For held-to-maturity assets the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are recognized in profit or loss as income.

Available-for-sale assets

For available-for-sale assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition costs and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Non financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

All impairment losses are recognised in consolidated statement of comprehensive income and reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised.

3.16. Pensions

The Group does not have any pension arrangements separate from the State pension system of the Republic of Armenia, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-employment benefits or significant other compensated benefits requiring accrual.

3.17. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

3.18. Taxation

The Bank is not subject to any taxes except for import duties. At the same time the Bank acts as a tax agent according to the procedures envisaged by the laws of the Republic of Armenia.

The Bank's subsidiaries are subject to income tax and other taxes on their operations in accordance with the laws of the Republic of Armenia.

3.19. Share capital

Share capital

Ordinary shares are classified as equity.

The promissory notes extended by the Government of the Republic of Armenia.

The promissory notes extended by the Government of the Republic of Armenia as envisaged by the article 11.4 of the law of the Republic of Armenia "On the Central Bank of Armenia" to cover excess of the losses of the Bank over the general reserve is recognized as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

3.20. Contingencies

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

3.21. Interest income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

3.22. Fee and commission income

Fees earned for the provision of services over a period of time are accrued over that period.

4. Interest income

(In thousand Armenian drams)

	2012	2011
Interest income from foreign currency assets		
Term deposits	365,287	1,485,131
Held to maturity assets	833,652	778,609
Nostro accounts	123,684	180,383
Placements with the IMF	18,373	33,309
Other	-	352
	1,340,996	2,477,784
Interest income from domestic currency assets		
Loans and reverse repurchase agreements	10,768,156	7,359,989
Available-for-sale assets	1,763,067	1,760,350
Held to maturity assets	-	282,082
Other	432,541	25
	12,963,764	9,402,446
	14,304,760	11,880,230

5. Interest expense

(In thousand Armenian drams)

	2012	2011
Interest expense on foreign currency liabilities		
Due to the IMF	3,214,641	3,383,675
Other borrowings	523,058	263,492
Other	21,236	26,994
	3,758,935	3,674,161
Interest expense from domestic currency assets		
Due to the Government of the Republic of Armenia	5,292,189	5,613,007
Deposits and accounts of financial and other institutions	904,609	770,412
Debt securities issued	96,426	8,930
Other	106,719	78,371
	6,399,943	6,470,720
	10,158,878	10,144,881

6. Net foreign exchange gain

(In thousand Armenian drams)

	2012	2011
Net gain from revaluation of monetary assets and monetary liabilities	15,326,890	19,326,197
Net (loss)/gain on spot transactions	(571,267)	593,752
Net gain/(loss) on currency derivatives	316,071	(738,711)
	15,071,694	19,181,238

Included in the net gain from revaluation of monetary assets and liabilities is a foreign exchange revaluation gain of AMD 9,582,688 thousand on financial instruments at fair value through profit or loss (2011: gain in amount AMD 21,040,517 thousand).

7. Net gain on financial instruments at fair value through profit or loss

(In thousand Armenian drams)

	2012	2011
Net gain on assets under trust management (excluding foreign exchange revaluation*)	175,624	166,294
Net gain/(loss) on foreign securities under own management (excluding foreign exchange revaluation*)	1,773,882	2,492,809
Net gain/(loss) on money market instruments under own management	3,256	(3,577)
Net loss on futures under own management (excluding foreign exchange revaluation*)	(123,460)	(525,985)
Trust management fees (excluding foreign exchange revaluation*)	(109,810)	(132,185)
	1,719,492	1,997,356

* The foreign exchange revaluation of assets is included in "Net foreign exchange gain. See Note 6.

8. Other income

(In thousand Armenian drams)

	2012	2011
Financial agency fee of the Government of the Republic of Armenia	1,510,902	1,637,706
Numismatic coins	732,638	686,002
Credit registry	62,247	61,929
Other	61,144	418,688
	2,366,931	2,804,325

9. Costs of production of banknotes, coins and numismatics

(In thousand Armenian drams)

	2012	2011
Production of banknotes and coins	2,975,326	1,982,853
Production of numismatic coins	454,432	400,495
	3,429,758	2,383,348

10. Other expenses

(In thousand Armenian drams)

	2012	2011
Employee compensation, staff training and related payments	5,168,650	4,674,578
Promotion of economic education and research	500,000	2,000,000
Depreciation and amortization	1,397,386	1,223,482
Security	836,512	803,473
Repairs and maintenance	457,938	323,924
Professional services	328,862	183,542
Other	1,619,954	1,778,816
	10,309,302	10,987,815

11. Placements with banks and other financial institutions

(In thousand Armenian drams)

	2012	2011
Placements with banks and other financial institutions in foreign currency		
Nostro accounts	244,521,147	140,731,605
Term deposits	4,035,800	105,856,548
Cash included in assets under trust management	68,738	76,449
Accrued interest on deposits and nostro accounts	733	76,314
Margin requirement of interest rate futures	-	71,710
Other	40,939	18,420
	248,667,357	246,831,046
Allowance for impairment	-	(10,415,782)
	248,667,357	236,415,264

Reconciliation of impairment allowance is presented below.

(In thousand Armenian drams)

	2012	2011
Opening balance	(10,415,782)	-
Increase in provision	(26,189,918)	(10,415,782)
Used of provision	36,605,700	-
Closing balance	-	(10,415,782)

Concentration of placements with banks and other financial institutions

As at 31 December 2012 and 2011 the Group had placements in 4 banks with individual balances exceeding 10% of total placements. The gross value of this balances as of 31 December 2012 amounted to AMD 238,551,594 thousand (2011: to AMD 170,902,429 thousand).

The term deposits have up to 3 months remaining maturity with interest rates ranging from 0.15% to 3.6% (2011: up to one year, 0.15%-3.6%).

12. Financial instruments at fair value through profit or loss

(In thousand Armenian drams)

	2012	2011
Assets		
Debt and other fixed-income instruments - Quoted		
Foreign bonds	263,450,841	344,720,503
Money market instruments under own management	10,092,247	-
Derivative financial instruments - Quoted	273,543,088	344,720,503
Interest rate futures contracts under own management	189	-
	273,543,277	344,720,503

As at 31 December 2012 and 2011 foreign securities at fair value under own management include:

(In thousand Armenian drams)

	2012	2011
Government bonds	104,376,407	224,738,574
State agency bonds	54,503,107	33,517,440
Other securities	67,143,401	41,216,144
Total	226,022,915	299,472,158

The foreign bonds under trust management include:

(In thousand Armenian drams)

	2012	2011
Foreign governments bonds	44,488,581	37,133,087
Foreign corporate bonds	3,031,592	8,115,258
Total	47,520,173	45,248,345

Securities and derivative financial instruments under trust management represent financial instruments under discretionary asset management at IBRD. The risk exposure limits and investment guidance are set by the Group.

Derivative financial instruments

(In thousand Armenian drams)

	Nominal value		Fair value			
	2012	2011	2012		2011	
			Asset	Liability	Asset	Liability
Commodity futures	-	1,624,742	-	-	-	2,961
Interest rate futures	2,669,493	2,445,368	189	-	-	535
Total foreign exchange futures contracts under trust management	2,669,493	4,070,110	189	-	-	3,496
Interest rate futures contracts under own management	-	192,268,980	-	-	-	-
Currency swap contracts	7,649,301	7,649,301	-	528,939	-	145,161
Currency forward contracts	89,668,206	47,925,837	-	1,486,678	-	1,622,588
Total	99,987,000	251,914,228	189	2,015,617	-	1,771,245

13. Investment securities

(In thousand Armenian drams)

Available-for-sale investments in foreign currency - Unquoted		
Equity investments at cost		
	2012	2011
SWIFT	1,646	1,646
	1,646	1,646
Available-for-sale investments in domestic currency		
Debt instruments		
Treasury bonds of the Government of the Republic of Armenia	15,940,243	12,952,668
Promissory note of the Government of the Republic of Armenia	77,512,700	77,512,700
	93,452,943	90,465,368
Equity investments at cost		
Other investments	16,827,209	16,457,617
	16,827,209	16,457,617
Total available-for-sale investments in domestic currency	110,280,152	106,922,985
Total available-for-sale investments	110,281,798	106,924,631
Held-to-maturity investments in foreign currency		
Foreign bonds	185,240,208	137,340,298
	185,240,208	137,340,298
Held-to-maturity investments in domestic currency		
Government bonds	147,107	-
Discount bond	-	4,414,997
Allowance for impairment	-	(1,149,081)
Total held-to-maturity investments	147,107	3,265,916
	185,387,315	140,606,214

Reconciliation of impairment allowance is presented below.

(In thousand Armenian drams)

	2012	2011
Opening balance	(1,149,081)	-
Increase in provision	(4,049,298)	(1,149,081)
Use of provision	5,198,379	-
Closing balance	-	(1,149,081)

In 2011 a non-interest on demand promissory note was issued in amount of AMD 77,512,700 thousand by the Government of the Republic of Armenia as a gratis investment in the Bank. The promissory note was issued according to the Law on the Central Bank to cover the negative net assets of the Bank.

The management believes that the carrying amount of the bond approximates its fair value.

Available-for-sale debt investment securities of the Government of the Republic of Armenia are recorded at fair value determined using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

14. International Monetary Fund

Assets due from the IMF

(In thousand Armenian drams)

Placements with the IMF in foreign currency	2012	2011
Membership quota in the IMF (subscription)	57,064,852	54,487,874
SDR holdings in the IMF	12,802,798	21,999,909
Accrued interest	714	1,563
	69,868,364	76,489,346

The Republic of Armenia is a member of the International Monetary Fund (the IMF). The Bank holds the quota for the Republic of Armenia membership in the IMF.

The Group maintains an SDR-denominated current account with the IMF used for processing and settlement of transactions with the IMF. This current account bears interest based on the SDR Interest Rate.

Liabilities due to the IMF

(In thousand Armenian drams)

	2012	2011
Securities account	140,663,079	140,663,079
Adjustment account for AMD liabilities to the IMF	4,715,335	(2,916,354)
Account 1	77,448,715	90,168,906
Account 2	2,365	2,842
SDR allocation	54,576,737	52,112,119
ECF	21,082,982	25,906,615
Interest accrued	534,202	523,632
	299,023,415	306,460,839

For a part of its liabilities to the IMF and the membership quota the Group issued a promissory note.

The Securities account, Adjustment account and Accounts 1 represent the amounts of Stand-By Arrangement, Extended Fund Facility (the “ECF”) and the quota. Account 2 is used by the IMF for administrative purposes.

The Group received the following loans from the IMF: Extended Credit Facility, Extended Fund Facility, and Stand-By Arrangement.

The Extended Credit Facility provides financial assistance to the countries with protracted balance of payments problems. The ECF was created under the newly established Poverty Reduction and Growth Trust (the PRGT) as part of a broader reform to make the IMF’s financial support more flexible and better tailored to the diverse needs of Low Income countries, including in times of crisis. As at 31 December 2012 the ECF bears no interest (2011: 0%). The loan matures in November, 2018.

The Extended Fund Facility (the EFF) is provided to the countries to overcome medium-term payment problems. The EFF interest rate is floating and published by the IMF on weekly basis as Adjusted Rate of Charge. The loan matures in February, 2022. As at 31 December 2012 the amount withdrawn by the Group under these funds equaled to AMD 65,128,364 thousand (2011: AMD 41,458,142 thousand).

The Stand-By Arrangement (the SBA) is provided by the IMF to member countries to overcome their payment problems during crisis. The SBA interest rate is floating and published by the IMF on weekly basis as Adjusted Rate of Charge. Till 2012 November the IMF accounted surcharge of 2% per annum on the part of the SBA and the EFF exceeding 300% of the membership quota. By 2012 November the IMF accounts surcharge of 3% per annum, as it is already 3 years that the amounts of SBA and the EFF exceeds 300% of the membership quota. As 31 December 2012 amount withdrawn under these funds equaled to AMD 100,633,866 thousand (2011: AMD 131,969,653 thousand).

The IMF for the purpose of increasing the international reserves of the member countries makes SDR allocations in the member countries. The SDR allocation interest rate is floating and published by the IMF on weekly basis as SDR interest rate. The SDR allocation has no maturity date but can be cancelled by the IMF.

15. Loans and reverse repurchase agreements

(In thousand Armenian drams)

	2012	2011
Reverse repurchase agreements	71,578,447	46,345,414
Loans to resident financial institutions under arrangement with the KFW and World bank	60,994,824	42,439,125
Subordinated loans	30,273,269	30,285,580
Mortgage refinancing	25,940,451	21,477,990
Other loans	8,732,129	8,697,467
	197,519,120	149,245,576

Concentration of loans and reverse repurchase agreements

As at 31 December 2012, 2 bank had the balances individually exceeding 10% of total loans and reverse repurchase agreements amount, which amounted to AMD 49,822,810 thousand (2011: 1 bank amounting to 32,597,195 thousand).

Loans to resident banks under the agreement with the KFW and World bank are provided to 18 domestic banks (2011: 14) and 5 financial institutions (2011: 4) at interest rates from 5.5% to 9% (2011: from 5.5% to 9%).

In consideration of Armenia's banking sector reliability and long-term stability, the Group has provided loans on subordinated terms to 10 banks at interest rate ranging from 7.5% to 8% and having 5 years of maturity, aimed to build sufficient capacity in the system to absorb potential crisis-derived risks.

Mortgage refinancing has been provided to financial institutions at interest rates ranging from 5.5% to 8.75% and up to 13 years of maturity period.

In other loans is included a loan in amount of AMD 7,321,822 thousand (2011: AMD 7,324,711 thousand) with the purpose of merger between domestic banks at 7.5% interest rate and 1 year maturity period (2011: 7.5%, 2 years).

The Group accepted securities on reverse repurchase agreements as collateral for commercial loans, which the Group is permitted to sell or repledge. As of 31 December 2012 amounts receivable under reverse repurchase agreements are with 12 resident banks (2011: 11 banks) and are collateralised by the following securities.

(In thousand Armenian drams)

	2012	2011
Treasury bonds of The Government of the Republic of Armenia	71,273,616	46,289,474
	71,273,616	46,289,474

16. Property and equipment

(In thousand Armenian drams)

	Land and buildings	Networks, computer and other equipment	Vehicles	Construction in progress	Total
Cost					
Balance at 1 January 2011	7,137,725	7,977,729	317,061	17,109,035	32,541,550
Additions	53,914	455,080	43,140	13,021,550	13,573,684
Disposals	(719,280)	(649,450)	(29,503)	-	(1,398,233)
Transfer	9,887,781	77,911	-	(9,965,692)	-
Balance at 31 December 2011	16,360,140	7,861,270	330,698	20,164,893	44,717,001
Additions	58,725	372,090	79,459	26,759,193	27,269,467
Disposals	-	(355,732)	-	-	(355,732)
Transfer	45,028	37,383	-	(82,411)	-
Balance at 31 December 2012	16,463,893	7,915,011	410,157	46,841,675	71,630,736

	Land and buildings	Networks, computer and other equipment	Vehicles	Construction in progress	Total
<i>Depreciation</i>					
Balance at 1 January 2011	2,295,606	3,726,750	207,005	-	6,229,361
Charge for the period	238,984	837,200	43,403	-	1,119,587
Disposals	(331,269)	(642,106)	(28,028)	-	(1,001,403)
Balance at 31 December 2011	2,203,321	3,921,844	222,380	-	6,347,545
Charge for the period	408,774	818,525	38,173	-	1,265,472
Disposals	-	(347,159)	-	-	(347,159)
Transfer	(43)	43	-	-	-
Balance at 31 December 2012	2,612,052	4,393,253	260,553	-	7,265,858
<i>Carrying amount</i>					
At 31 December 2012	13,851,841	3,521,758	149,604	46,841,675	64,364,878
At 31 December 2011	14,156,819	3,939,426	108,318	20,164,893	38,369,456

17. Intangible assets

(In thousand Armenian drams)

	Computer software
<i>Cost</i>	
Balance at 1 January 2011	788,494
Additions	172,455
Disposals	(97,971)
Balance at 31 December 2011	862,978
Additions	468,606
Disposals	(750)
Balance at 31 December 2012	1,330,834
<i>Amortization</i>	
Balance at 1 January 2011	205,315
Charge for the period	103,895
Disposals	(86,621)
Balance at 31 December 2011	222,589

	Computer software
Charge for the period	131,914
Disposals	(732)
Balance at 31 December 2012	353,771
<i>Carrying amount</i>	
At 31 December 2012	977,063
At 31 December 2011	640,389

18. Other assets

(In thousand Armenian drams)

	2012	2011
Receivables and prepayments	1,738,761	5,117,579
Numismatic coins	1,236,763	960,172
Other	179,487	175,876
	3,155,011	6,253,627

As at 31 December 2012 included in the receivables and prepayments is the prepayments connected with the construction in amount AMD 1,391,730 thousand (2011: AMD 4,803,352 thousand).

19. Deposits and accounts of financial and other institutions

(In thousand Armenian drams)

	2012	2011
Foreign currency liabilities		
Vostro accounts and deposits of domestic banks	86,032,970	102,512,913
Term deposit of Deposit Guarantee Fund	1,863,061	1,746,015
Current accounts of other legal entities	9,132	87,595
	87,905,163	104,346,523
Domestic currency liabilities		
Vostro accounts and deposits of domestic banks	179,534,907	166,362,507
Accounts of other legal entities	306,988	465,426
	179,841,895	166,827,933

Concentration of deposits and accounts of financial and other institutions

As of 31 December 2012 3 counterparty banks had balances individually exceeding 10% of total amount of deposits and accounts of financial and other institutions amounting to AMD 108,976,644 thousand (2011: 2 banks, AMD 96,773,190 thousand).

Term deposits due to Deposit Guarantee Fund mature in 2013 at floating rate based on 6m EURLIBOR.

20. Other borrowed funds

(In thousand Armenian drams)

	2012	2011
Due to the KFW	32,953,398	23,338,090
Due to the World Bank	20,253,531	15,508,204
	53,206,929	38,846,294

The loans due to the KFW are provided under an intergovernmental agreement on financial cooperation between the Government of the Republic of Armenia and the Federal Republic of Germany to finance special loan programs placed through domestic commercial banks (Note 15). The loans mature from 2012 through 2048, and bear interest of 0.75-1.9% for the used part of the loan (2011; 0.75%-2.3%), and 0.25% for the unused part of the loan. The repayment of loans to the KFW is guaranteed by the Government of the Republic of Armenia.

The loan due to the World Bank is provided by the World Bank for financing small and medium enterprises through domestic commercial banks and financial institutions (Note 15). The loans mature in from 2012 through 2035, and bears interest of 0.8%.

During the periods presented the Bank did not have any defaults of principal, interest or other breaches with respect to its liabilities.

21. Other liabilities

(In thousand Armenian drams)

	2012	2011
Payables	2,127,091	2,500,577
Demand deposits of employees	886,146	755,223
	3,013,237	3,255,800

22. Due to the Government of the Republic of Armenia

(In thousand Armenian drams)

	2012	2011
Foreign currency liabilities		
Current accounts of the Government of the Republic of Armenia	2,718,775	3,964,955
Payables	-	9,979
	2,718,775	3,974,934
Domestic currency liabilities		
Current accounts of the Government of the Republic of Armenia	70,664,568	40,130,613
Term deposits	40,083,860	40,098,806
	110,748,428	80,229,419

Term deposits of the Government of RA have short terms, interest rate is ranging from 9.65%-10% (2011: 10.67%-11.67%).

23. Issued bonds

The 6-months discount bonds have been issued by the subsidiary company of the Group at AMD 1,500,000 thousand par value. The average annual yield on these bonds is 8.84% to 9.55%.

24. Equity

Issued capital

The issued capital of the Bank is owned by the Republic of Armenia and cannot be pledged, sold or otherwise disposed.

Additional paid in capital

Additional paid in capital represents a contribution made by the Government of the Republic of Armenia in the form of a promissory note (Note 13).

General reserve

The general reserve is formed according to law on the Central Bank of the Republic of Armenia and cannot be distributed.

25. Commitments

Capital commitments

The capital commitments outstanding at 31 December 2012 related to the construction of the Group's premises is AMD 5,918,500 thousand (2011: AMD 17,720,517 thousand).

Litigation

The Group management is unaware of any actual, pending or threatened significant claims against the Bank.

Guarantees

As at 31 December 2012 and 2011 the Bank has given guarantees in the amount of AMD 658,000 thousand issued from 1994 to 1995 on behalf of construction companies and relates to earthquake zone construction. Guarantees represent irrevocable assurance that the bank will make payments in the event that a customer cannot meet its obligations to third parties and carry credit risk.

26. Related party transactions

Transactions with members of the key management

Total remuneration is included in employee compensation, staff training and related payments (Note 10).

(In thousand Armenian drams)

	2012	2011
Key management including the Bank's Board members	254,797	220,502
Social security costs	17,922	18,923

The outstanding balances and average effective interest rates as of 31 December 2012 with members of the key management are as follows:

(In thousand Armenian drams)

	2012	Average effective Interest rate	2011	Average effective Interest rate
Consolidated statement of financial position				
Assets				
Loans				
Balance at 1 January	37,376		65,674	
Additions	44,271		6,996	
Disposal	(13,071)		(35,284)	
Movement	(73)		(10)	
Balance at 31 December	68,503	3-5%	37,376	3-5%
Liabilities				
Deposits				
Balance at 1 January	121,235		59,785	
Additions	75,812		84,945	
Disposal	(79,164)		(23,525)	
Movement	92		30	
Balance at 31 December	117,975	13.5%	121,235	13.5%
Salary payable	-	-	7,660	-

Amounts included in the statement of comprehensive income in relation to transactions with the key management are as follows:

(In thousand Armenian drams)

	2012	2011
Statement of comprehensive income		
Interest expense	(15,036)	(9,574)
Interest income	2,120	2,520

Transactions with the Government of the Republic of Armenia

The outstanding balances and average effective interest rates as of 31 December 2012 with the Government of the Republic of Armenia are as follows:

(In thousand Armenian drams)

	2012	Average effective Interest rate	2011	Average effective Interest rate
Consolidated statement of financial position				
Assets				
The Government of Republic of Armenia treasury bonds (Note 13)	15,940,243	10%	12,952,668	11.5%
The Government of Republic of Armenia promissory note extended to the Bank as additional paid in capital (Note 13)				
Balance at 1 January	77,512,700		55,644,010	
Additions	-		21,868,690	
Disposal	-		-	
Balance at 31 December	77,512,700	0.00%	77,512,700	0.00%
Liabilities				
Due to the Government of the Republic of Armenia (domestic currency, Note 22)	110,748,428	9.9%	80,229,419	10%
Due to the Government of the Republic of Armenia (foreign currency, Note 22)	2,718,775	0.00%	3,974,934	0.00%

The movement of deposits included in liabilities due to the Government of the Republic of Armenia, in domestic currency:

(In thousand Armenian drams)

	2012	2011
Balance at 1 January	40,098,806	79,230,385
Additions	619,143,328	630,269,499
Disposal	(619,158,274)	(669,401,078)
Balance at 31 December	40,083,860	40,098,806

Amounts included in the statement of comprehensive income in relation to transactions with the Government of the Republic of Armenia are as follows:

(In thousand Armenian drams)

	2012	2011
Consolidated statement of comprehensive income		
Interest income	1,763,067	1,760,350
Net foreign exchange gain	1,900,654	2,194,298
Interest expense	(5,292,188)	(5,613,007)

In 2011 the building with carrying value of AMD 371,656 thousand was granted to the Government of the Republic of Armenia.

According to the agreement with the Government of the Republic of Armenia in 2013 the Group is obliged to exchange main foreign currency denominated state budget inflows and outflows at 405.52 AMD per one US dollar (2012: 378.96) and as at 31 December 2012 the Government of the Republic of Armenia has a right to purchase US dollars at 370.17 AMD per one US dollar (2011: 370.17) from the Group in amount required to service 39.98% (2011: 39.98%) of the debt amounting to 500 million US dollars of the Government of the Republic of Armenia to Russian Federation in accordance with the loan agreement dated 20 May 2009.

Transactions with the Deposit Guarantee Fund

(In thousand Armenian drams)

	2012	Average effective Interest rate	2011	Average effective Interest rate
Consolidated statement of financial position				
Liabilities				
Due to the Deposit Guarantee Fund (domestic currency, Note 19)	7,876	0.00%	6,102	0.00%
Due to the Deposit Guarantee Fund (foreign currency, Note 19)	1,863,061	0.6%	1,746,015	1.73%

(In thousand Armenian drams)

	2012	2011
Consolidated statement of comprehensive income		
Interest expense	27,023	26,994

27. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is composed of the following items:

(In thousand Armenian drams)

	2012	2011
Cash	5,937,942	5,013,113
Nostro accounts (Note 11)	244,521,147	140,731,605
SDR holdings in the IMF (Note 14)	12,802,798	21,999,909
	263,261,887	167,744,627

28. Fair value of financial instruments

The Bank estimates the fair value of most financial assets and liabilities not to be materially different from their carrying values. The estimated fair values of its financial assets and liabilities, except for available-for-sale assets held in unquoted equity securities, is calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instruments at the reporting date:

(In thousand Armenian drams)

	2012			2011		
	Carrying value	Fair value	Unrecognised gain/(loss)	Carrying value	Fair value	Unrecognised gain/(loss)
Financial assets						
Cash	5,937,942	5,937,942	-	5,013,113	5,013,113	-
Placements with banks and other financial institutions	248,667,357	248,667,357	-	236,415,264	236,415,264	-
Loans and reverse repurchase agreements	197,519,120	194,939,431	(2,579,689)	149,245,576	146,152,233	(3,093,343)
Placements with the IMF	69,868,364	69,868,364	-	76,489,346	76,489,346	-
Financial instruments at fair value through profit or loss	273,543,277	273,543,277	-	344,720,503	344,720,503	-
Investment securities:						
- available-for-sale assets	110,281,798	110,281,798	-	106,924,631	106,924,631	-
- held-to-maturity	185,387,315	182,700,980	(2,686,335)	140,606,214	140,505,420	(100,794)
Financial liabilities						
Deposits and accounts of financial and other institutions	267,747,058	267,747,058	-	271,174,456	271,174,456	-
Due to the Government of the Republic of Armenia	113,467,203	113,467,203	-	84,204,353	84,204,353	-
Financial liabilities at fair value through profit or loss	2,015,617	2,015,617	-	1,771,245	1,771,245	-
Due to the IMF	299,023,415	299,023,415	-	306,460,839	306,460,839	-
Debt securities issued	1,441,464	1,441,464	-	963,593	963,593	-
Other borrowed funds	53,206,929	53,206,929	-	38,846,294	38,846,294	-
Total unrecognised change in unrealised fair value			(5,266,024)			(3,194,137)

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

Fair value hierarchy

Financial assets and liabilities measured at fair value in the statement of financial position are presented according to the fair value hierarchy. The hierarchy divides the financial assets and liabilities into three levels based on the materiality of instruments used when measuring their fair value. The fair value hierarchy has the following three levels:

- ❖ Level 1: quoted prices on active markets for the same assets and liabilities (non-adjusted);
- ❖ Level 2: inputs, other than quoted prices specified in Level 1, which are observable for the asset and liability directly (i.e. as prices) and indirectly (i.e. available based on prices);
- ❖ Level 3: inputs which are not based on observable market data (non-observable inputs).

(In thousand Armenian drams)

2012				
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss	260,451,472	13,091,616	-	273,543,088
Available-for-sale assets	-	15,940,243	-	15,940,243
Derivative financial assets	189	-	-	189
Total	260,451,661	29,031,859	-	289,483,520
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	-	2,015,617	2,015,617
Total	-	-	2,015,617	2,015,617
Net fair value	260,451,661	29,031,859	(2,015,617)	287,467,903

2011				
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss	325,964,611	18,755,892	-	344,720,503
Available-for-sale assets	-	12,952,668	-	12,952,668
Total	325,964,611	31,708,560	-	357,673,171
Financial liabilities				
Financial liabilities at fair value through profit or loss	3,496	-	1,767,749	1,771,245
Total	3,496	-	1,767,749	1,771,245
Net fair value	325,961,115	31,708,560	(1,767,749)	355,901,926

29. Risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

The Board of the Central Bank of Armenia is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board

The Board of the Bank is responsible for the overall risk management approach and for approving the strategies and principles.

Audit Group

Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with the Board, and reports its findings and recommendations to the Audit Committee.

Institutional framework

International reserves of the Republic of Armenia are Central Bank claims on non-residents in freely convertible foreign currencies. The reserves are reflected in the consolidated statement of financial position of the Central Bank of Armenia (CBA). The CBA manages the reserves in accordance with the principles envisaged by the article 52 of the law of Republic of Armenia "On the Central Bank of Armenia", by investing the reserves within the Investment framework set by the Board of the CBA.

The reserves can be used to finance external payments\trade imbalances, to regulate indirectly the impact of such imbalances on the exchange rate, and to ensure the international obligations of Armenia are duly performed. The CBA uses reserves to provide foreign exchange services to the Government and state agencies of Armenia, e.g. foreign currency conversions or external debt servicing.

Starting from 2007 the Central Bank of Armenia has established a new reserve management framework in compliance with best international practices. First of all, strategic and tactical decision-making were separated and segregation of responsibilities for the decision-making at the levels of the Board, the Investment Committee and reserve management dealers (the Foreign Markets Operations unit of the Financial Department of the Bank) was adopted. In other words, the Group adopted a three level decision-making system, whereby the Bank's Board sets the Strategic Asset Allocation framework for the reserves management for a long-term time horizon (3 years), whereas the Investment Committee of the Bank was given executive power on short-term tactical benchmarks. Portfolio managers, in turn, have been delegated authority to decide on current management issues within the framework of tactical benchmarks and active risk tolerance.

Administration and control

According to the Group's structure, the Financial Department is responsible for Armenia's international reserves management. The Foreign Markets Operations unit of the Financial Department is in charge of operations related to day-to-day management of reserves. The related to International Risk Management unit is responsible for risks assessment, development of strategic asset allocation and benchmarking, compliance monitoring, performance evaluation and reporting.

Investment Committee as a rule meets once a month to discuss issues related to reserves management. The Committee includes heads of structural units involved in the entire process of reserves management, as well as the Bank's Chairman and Deputy Chairman. Formerly, the Committee was only a consultative body but, after the introduction of the three level system for management, it has been granted executive power. The Financial Department reports on the performance of reserves management to the Investment Committee on a quarterly basis and to the Bank's Board on a semi-annual basis. Each quarter the Bank presents information on condition and composition of international reserves to the Government and the National Assembly, and makes that information publicly available.

Reserve management process is under the control of the Bank's Audit Group, which reports directly to the Board.

Asset allocation and risk management

According to the principles set forth in article 52 of the Armenian law "On the Central Bank", Armenia's international reserves are managed based on with the principle of profit maximization while ensuring proper liquidity and security of reserves. For this purpose, the Financial Department develops drafts of strategic asset allocation and tactical benchmarks subject to approval by the Banks' Board and the Investment Committee, respectively. The investment benchmarks include all limits and rules governing the investment process as well as the structure of assets consistent with the reserves management principles set by the Board.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. The Central Bank of the Republic of Armenia evaluates the counterparty creditworthiness based on the credit ratings assigned by leading internationally recognized credit rating agencies.

The Group sets minimum rating requirement for securities issued by governments, government agencies, other government authorities, and supranational organizations. These ratings cannot be lower than AA- (S&P)/Aa3 (Moody's) for long-term issues and A1+ (S&P)/P1 (Moody's) for short-term issues.

To monitor the credit risk the Group uses an in-house developed model, which allows assessing the issuer default probability based on stock prices and balance sheet data. It belongs to the class of structural models, providing an economically meaningful explanation of default based on the asset-liability structure and financial leverage. The model is based on the barrier option price equation which is one of components of implied rating issued by FITCH. Ratings and model results are used to build a matrix of investment limits for each rating group, maturity, individual counterparties, and asset classes. The matrix is the main tool for the credit risk management.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Maximum credit risk without collateral or other credit enhancement

The table below presents the worst scenario of the Group's exposure to credit risk as of 31 December 2012, and 31 December 2011, without consideration of security.

(In thousand Armenian drams)

	Note	Gross maximum risk, as of 31 December 2012	Gross maximum risk, as of 31 December 2011
Placements with banks and other financial institutions	11	248,667,357	246,831,046
Financial instruments at fair value through profit or loss	12	273,543,277	344,720,503
Loans and reverse repurchase agreements	15	197,519,120	149,245,576
Available-for-sale assets	13	110,281,798	106,924,631
Held-to-maturity assets	13	185,387,315	141,755,295
Placements with the IMF	14	69,868,364	76,489,346
Total credit risk		1,085,267,231	1,065,966,397

Where financial instruments are recorded at fair value, the amounts above presented will denote the current risk but not the maximum one, which may arise in future as a result of changes in fair value.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the consolidated statement of financial position, based on the Group's credit rating system.

In the table below loans to banks and customers of high grade are those having a minimal level of credit risk, normally with a credit rating on or close to sovereign level or highly collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired. For debt securities high grade is equivalent to Moody's Baa3 rating and above, sub-standard – below Baa3 but above B3, standard – below B3.

(In thousand Armenian drams)

	2012					
	Neither past due nor impaired					
	Notes	High grade	Standard grade	Sub-standard grade	Individually impaired	Total
Placements with banks and other financial institutions	11	248,667,357	-	-	-	248,667,357
Loans and reverse repurchase agreements	15	-	197,519,120	-	-	197,519,120
Available-for-sale assets		1,646	110,280,152	-	-	110,281,798
Held to maturity assets	13	185,240,208	147,107	-	-	185,387,315
Total		433,909,211	307,946,379	-	-	741,855,590

	2011					
	Neither past due nor impaired					
	Notes	High grade	Standard grade	Sub-standard grade	Individually impaired	Total
Placements with banks and other financial institutions	11	212,050,966	-	-	24,364,298	236,415,264
Loans and reverse repurchase agreements	15	-	149,245,576	-	-	149,245,576
Available-for-sale assets		1,646	106,922,985	-	-	106,924,631
Held to maturity assets	13	137,340,298	-	-	3,265,916	140,606,214
Total		349,392,910	256,168,561	-	27,630,214	633,191,685

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

The geographical concentration of Group's monetary assets and liabilities is set out below:

(In thousand Armenian drams)

	2012			
	Armenia	OECD	CIS and other foreign banks	Total
Assets:				
Cash	5,937,942	-	-	5,937,942
Placements with banks and other financial institutions	-	248,491,262	176,095	248,667,357
Financial instruments at fair value through profit or loss	-	273,543,277	-	273,543,277
Loan and reverse repurchase agreements	197,519,120	-	-	197,519,120
Available-for-sale assets	110,280,152	1,646	-	110,281,798
Held-to-maturity assets	147,107	185,240,208	-	185,387,315
Placements with the IMF	-	69,868,364	-	69,868,364
Property and equipment and intangible assets	65,341,941	-	-	65,341,941
Other assets	3,175,626	-	-	3,175,626
	382,401,888	777,144,757	176,095	1,159,722,740
Liabilities:				
Notes and coins in circulation	440,117,123	-	-	440,117,123
Deposits and accounts of financial and other institutions	267,737,274	9,784	-	267,747,058
Financial liabilities at fair value through profit or loss	2,015,617	-	-	2,015,617
Due to the Government of the Republic of Armenia	113,467,203	-	-	113,467,203
Due to the IMF	-	299,023,415	-	299,023,415
Other borrowed funds	-	53,206,929	-	53,206,929
Debt securities issued	1,441,464	-	-	1,441,464
Other liabilities	3,257,559	-	-	3,257,559
	828,036,240	352,240,128	-	1,180,276,368
Net assets	(445,634,352)	424,904,629	176,095	(20,553,628)

	2011			
	Armenia	OECD	CIS and other foreign banks	Total
Assets:				
Cash	5,013,113	-	-	5,013,113
Placements with banks and other financial institutions	-	212,049,951	24,365,313	236,415,264
Financial instruments at fair value through profit or loss	-	344,720,503	-	344,720,503
Loan and reverse repurchase agreements	149,245,576	-	-	149,245,576
Available-for-sale assets	106,922,985	1,646	-	106,924,631
Held-to-maturity assets	-	137,340,298	3,265,916	140,606,214
Placements with the IMF	-	76,489,346	-	76,489,346
Property and equipment and intangible assets	39,009,845	-	-	39,009,845
Other assets	7,481,713	-	-	7,481,713
	307,673,232	770,601,744	27,631,229	1,105,906,205
Liabilities:				
Notes and coins in circulation	398,777,362	-	-	398,777,362
Deposits and accounts of financial and other institutions	271,126,358	48,098	-	271,174,456
Financial liabilities at fair value through profit or loss	1,767,750	3,495	-	1,771,245
Due to the Government of the Republic of Armenia	84,204,353	-	-	84,204,353
Due to the IMF	-	306,460,839	-	306,460,839
Other borrowed funds	-	38,846,294	-	38,846,294
Debt securities issued	963,593	-	-	963,593
Other liabilities	3,409,701	-	-	3,409,701
	760,249,117	345,358,726	-	1,105,607,843
Net assets	(452,575,885)	425,243,018	27,631,229	298,362

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. As a fiscal agent of the Government and the monetary authority of the Republic of Armenia, the Bank is responsible for public debt service, the Government's foreign payments service and for smoothing out sharp fluctuations in national currency in the domestic market. From this perspective proper cash and liquidity management is crucial.

Based on the international reserve management objectives and grouping liquidity needs based liabilities' term structure, Armenia's international reserves have been divided into three tranches – working capital, liquidity and investment tranches. While the first two are designed to meet short-term/instant and mid-term liquidity requirements, the purpose of the investment tranche is accumulation of wealth.

Depending on the designation of portfolio/tranche the policy varies in terms of benchmarks and the choice between active or passive management.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Group's financial liabilities at 31 December 2012 based on contractual undiscounted repayment obligations except for trading derivatives which are shown at fair value in a separate column and gross settled derivatives which are shown by contractual maturity. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many counterparties will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

(In thousand Armenian drams)

2012							
	Demand or less than 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	No maturity	Total
Financial liabilities							
Notes and coins in circulation	-	-	-	-	-	440,117,123	440,117,123
Deposits and accounts of financial and other institutions	265,883,996	42,892	1,871,862	-	-	-	267,798,750
Financial liabilities at fair value through profit or loss	-	528,939	1,486,678	-	-	-	2,015,617
Due to the Government of the Republic of Armenia	69,198,845	44,663,078	-	-	-	-	113,861,923
Due to the IMF	111,650,219	15,450,309	59,222,286	80,379,020	33,078,899	-	299,780,733
Other borrowed funds	-	82,510	2,560,431	15,902,012	40,440,967	-	58,985,920
Debt securities issued	-	500,000	1,000,000	-	-	-	1,500,000
Total non-discounted financial liabilities	446,733,060	61,267,728	66,141,257	96,281,032	73,519,866	440,117,123	1,184,060,066

(In thousand Armenian drams)

2011							
	Demand or less than 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	No maturity	Total
Financial liabilities							
Notes and coins in circulation	-	-	-	-	-	398,777,362	398,777,362
Deposits and accounts of financial and other institutions	269,428,441	7,460	1,768,724	-	-	-	271,204,625
Financial liabilities at fair value through profit or loss	1,771,245	-	-	-	-	-	1,771,245
Due to the Government of the Republic of Armenia	44,105,548	40,497,830	-	-	-	-	84,603,378
Due to the IMF	106,618,215	-	45,125,117	131,504,618	23,809,952	-	307,057,902
Other borrowed funds	-	-	360,427	17,886,032	26,255,488	-	44,501,947
Debt securities issued	-	-	1,000,000	-	-	-	1,000,000
Total non-discounted financial liabilities	421,923,449	40,505,290	48,254,268	149,390,650	50,065,440	398,777,362	1,108,916,459

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on sensitivity analysis. Non-trading positions are managed and monitored using other sensitivity analysis. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of comprehensive income.

Within the three level management structure the Board defines the overall risk tolerance, which is the acceptable level of interest rate risk in the long run. It also outlines portfolio optimization principles. The risk tolerance is defined as a minimum acceptable return over a certain period of time (now 3 years) with a 95 percent confidence level. The authority to set tactical benchmarks is delegated to the Investment Committee.

The purpose of tactical benchmarks is to maximize return in a shorter period (1 year). In contrast to strategic decisions, benchmarks take into account current market trends and forecasts. Optimal portfolios are constructed based on scenario analysis using VAR-MGARCH model simulated yield curves as well as internal and market consensus expectations on interest rates and credit spreads. For optimal portfolio selection Markowitz Model with certain limitations is used.

For risk monitoring, the Risk Management division of the Financial Department uses a number of widely used risk measures like Key Rate Duration, Information Ratio, Spread Duration, PCA Duration, and Tracking Error.

The following table demonstrates the sensitivity of the Bank's equity, which is calculated by revaluing fixed rate available-for-sale assets at 31 December 2012 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

(In thousand Armenian drams)

Currency	2012		2011	
	Change in Yield Curve	Effect on profit	Change in Yield Curve	Effect on profit
AMD	+6.57%	(2,521,734)	+6.57%	(3,529,492)
AMD	-6%	3,616,171	-6%	3,223,281

The following table demonstrates the sensitivity to profit of the Bank, which is calculated by revaluing financial instruments at fair value through profit and loss as of 31 December 2012, based on the assumption of changing interest rates.

(In thousand Armenian drams)

Currency	2012		2011	
	Increase in basis points	Sensitivity of net interest income	Increase in basis points	Sensitivity of net interest income
USD	25	(221,718)	15	(23,216)
EUR	25	(122,359)	15	(11,879)

(In thousand Armenian drams)

Currency	2012		2011	
	Increase in basis points	Sensitivity of net interest income	Increase in basis points	Sensitivity of net interest income
USD	-25	221,718	-15	23,216
EUR	-25	122,359	-15	11,879

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency based on the regulations. Positions are monitored on a daily basis.

The following table shows the currencies which can affect the Bank's non-commercial dram-denominated assets and liabilities and projected flows thereon, as of 31 December, 2012. The analysis measures the impact of possible foreign currency fluctuations vis-à-vis the Armenian dram (provided that other variables remain constant) on profit or loss determined by the change in fair value of non-commercial dram-denominated assets and liabilities sensitive to the foreign currency. In the table below, the negative value denotes net potential decrease while the positive value denotes net potential increase, in profit or loss or in equity.

Currency	2012		2011	
	Increase in currency rate in %	Effect on profit	Increase in currency rate in %	Effect on profit
EUR	17.23%	33,494,788	17.23%	32,384,098
GBP	14.18%	7,106,751	14.18%	6,484,220
JPY	16.46%	10,878,064	16.46%	11,276,229
USD	11.13%	27,854,975	11.13%	30,866,071
SDR	14.18%	(24,402,048)	14.18%	(32,611,118)

Currency	2012		2011	
	Increase in currency rate in %	Effect on profit	Increase in currency rate in %	Effect on profit
EUR	-17.23%	(33,494,788)	-17.23%	(32,384,098)
GBP	-14.18%	(7,106,751)	-14.18%	(6,484,220)
JPY	-16.46%	(10,878,064)	-16.46%	(11,276,229)
USD	-11.13%	(27,854,975)	-11.13%	(30,866,071)
SDR	-14.18%	24,402,048	-14.18%	32,611,118

The currency composition of reserves is defined for each liquidity tranche, aiming to hedge the factors underlying the creation of each tranche. Armenia's foreign public debt is the major reason for holding reserves and is the main foreign currency demand driving factor. As a result, the currency composition of the reserves mainly mirrors the currency composition of debt. Currency composition for short term liquidity tranche is affected by the composition of the flows generated from foreign trade as well as possible intervention needs and current payments. The currency composition is subject to revision at least semi-annually.

Operational risk

Operational risk is the risk of a loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to a financial loss. The Group cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

30. Maturity analysis

The following table shows banking assets and liabilities by remaining contractual maturity dates as at 31 December 2012 and 2011. As most financial instruments of the Bank have fixed rates, the contract maturities present the dates on which the contract interest rate is revised.

(In thousand Armenian drams)

2012							
	Less than 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	No maturity	Total
Assets							
Cash	5,937,942	-	-	-	-	-	5,937,942
Placements with banks and financial institutions	248,626,418	40,939	-	-	-	-	248,667,357
Financial instruments at fair value through profit or loss	273,543,088	189	-	-	-	-	273,543,277
Loans and reverse repurchase agreements	6,223,438	72,934,091	19,731,193	67,142,340	31,488,058	-	197,519,120
Available-for-sale assets	-	2,730,128	79,592,656	3,526,169	7,603,991	16,828,854	110,281,798
Held-to-maturity assets	-	111,193,342	60,065,312	14,128,661	-	-	185,387,315
Placements with the IMF	12,803,512	-	-	-	57,064,852	-	69,868,364
Property and equipment and intangible assets	-	-	-	-	-	65,341,941	65,341,941
Other assets	3,175,626	-	-	-	-	-	3,175,626
Total assets	550,310,024	186,898,689	159,389,161	84,797,170	96,156,901	82,170,795	1,159,722,740
Liabilities							
Notes and coins in circulation	-	-	-	-	-	440,117,123	440,117,123
Deposits and accounts of financial and other institutions	265,883,996	-	1,863,062	-	-	-	267,747,058
Financial liabilities at fair value through profit or loss	-	528,939	1,486,678	-	-	-	2,015,617
Due to the Government of the Republic of Armenia	69,198,845	44,268,358	-	-	-	-	113,467,203
Due to the IMF	111,650,219	15,450,309	59,222,286	79,774,587	32,926,014	-	299,023,415
Other borrowed funds	-	-	2,080,508	14,054,879	37,071,542	-	53,206,929
Debt securities issued	-	488,837	952,627	-	-	-	1,441,464
Other liabilities	3,257,559	-	-	-	-	-	3,257,559
Total liabilities	449,990,619	60,736,443	65,605,161	93,829,466	69,997,556	440,117,123	1,180,276,368
Net position as at 31 December 2012	100,319,405	126,162,246	93,784,000	(9,032,296)	26,159,345	(357,946,328)	(20,553,628)

(In thousand Armenian drams)

2011								
	Less than 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	No maturity	Overdue	Total
Assets								
Cash	5,013,113	-	-	-	-	-	-	5,013,113
Placements with banks and financial institutions	140,884,367	91,637,197	-	-	-	-	3,893,700	236,415,264
Financial instruments at fair value through profit or loss	344,720,503	-	-	-	-	-	-	344,720,503
Loans and reverse repurchase agreements	1,890,545	47,354,230	6,048,985	69,099,271	24,852,545	-	-	149,245,576
Available-for-sale assets	-	-	78,299,365	4,662,508	7,503,495	16,459,263	-	106,924,631
Held-to-maturity assets	-	89,011,650	48,358,880	3,235,684	-	-	-	140,606,214
Placements with the IMF	22,001,472	-	-	-	54,487,874	-	-	76,489,346
Property and equipment and intangible assets	-	-	-	-	-	39,009,845	-	39,009,845
Other assets	7,481,713	-	-	-	-	-	-	7,481,713
Total assets	521,991,713	228,003,077	132,707,230	76,997,463	86,843,914	55,469,108	3,893,700	1,105,906,205
Liabilities								
Notes and coins in circulation	-	-	-	-	-	398,777,362	-	398,777,362
Deposits and accounts of financial and other institutions	269,428,441	-	1,746,015	-	-	-	-	271,174,456
Financial liabilities at fair value through profit or loss	-	148,657	1,622,588	-	-	-	-	1,771,245
Due to the Government of the Republic of Armenia	44,105,548	40,098,805	-	-	-	-	-	84,204,353
Due to the IMF	106,618,215	-	45,125,117	131,045,420	23,672,087	-	-	306,460,839
Other borrowed funds	-	-	202,464	15,719,569	22,924,261	-	-	38,846,294
Debt securities issued	-	-	963,593	-	-	-	-	963,593
Other liabilities	3,409,701	-	-	-	-	-	-	3,409,701
Total liabilities	423,561,905	40,247,462	49,659,777	146,764,989	46,596,348	398,777,362	-	1,105,607,843
Net position as at 31 December 2011	98,429,808	187,755,615	83,047,453	(69,767,526)	40,247,566	(343,308,254)	3,893,700	298,362

