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Financial System of the Republic of Armenia in Q2, 2013

BANKS FUNCTIONING IN ARMENIA

As of 30.06.2013, there were 21 commercial banks with a total of 476 branch offices, and a development bank (All-Armenian Bank), functioning in the territory of the Republic of Armenia. In the period under review the banking sector indicators¹ remained performing well.

TOTAL CAPITAL OF BANKING SECTOR

In the second quarter of 2013 total capital of the banking sector grew by 1.9 percent and amounted to AMD 413.2 billion, owing to the generated net profit.

The assets growth rates outpaced those of total capital by 0.8 pp, and the total capital to total assets ratio has reduced by 0.2 pp to 15.6 percent.

The total capital adequacy standard has dropped by 0.1 pp to 16.3 percent, due to surpassing growth of risk weighted assets over the growth of total regulatory capital.

TOTAL LIABILITIES OF BANKING SECTOR

In the period under review total liabilities of commercial banks have increased by 2.9 percent and amounted to AMD 2 trillion 227.5 billion. During the quarter 16 banks reported increases and 6 banks reported decreases in total liabilities.

The growth of total liabilities was attributable to total deposit portfolio of companies and individuals, with a reported increase of 5.9 percent (AMD 74.1 billion).

During the quarter demand and term deposits of companies grew by 11.3 percent and reached AMD 518.5 billion. Demand and term deposits of individuals have also increased by 2.7 percent to AMD 820.0 billion.

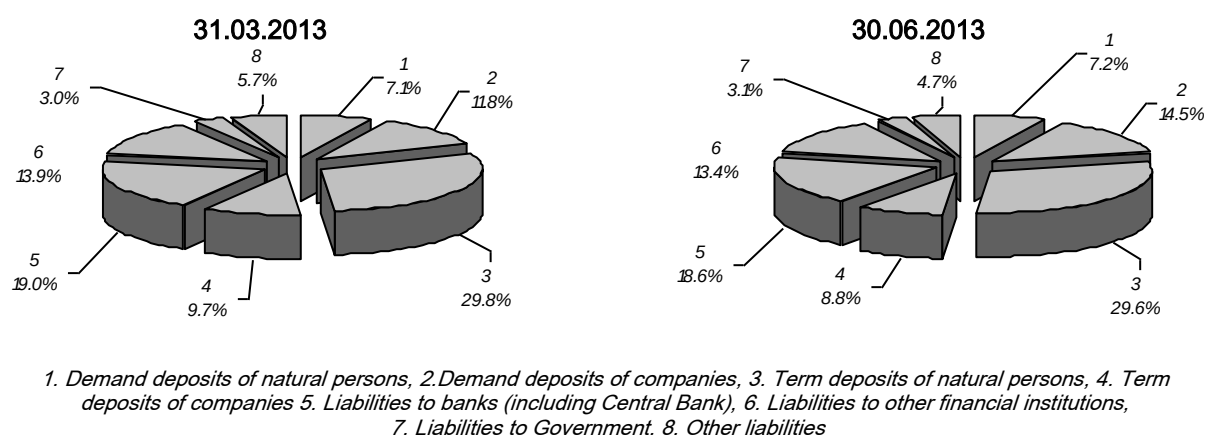
By maturity structure, the share of demand and term deposits of companies and individuals in total deposit portfolio has accounted for 36.0 percent and 64.0 percent (32.3 percent and 67.7 percent, as of 31.03.2013), respectively.

By currency structure, the dram and foreign currency deposits have grown by 3.4 percent and 6.8 percent, respectively. As a result, the share of foreign currency deposits in total deposit portfolio has increased by 0.7 pp to 72.9 percent at the end of the quarter.

The quarter saw a considerable change in the structure of total liabilities: the share of demand and term deposits of companies has grown by 1.7 pp while the share of liabilities to banks has reduced by 0.8 pp.

¹ Involves 21 commercial banks and All-Armenian Bank.

Structure of liabilities of the banking sector



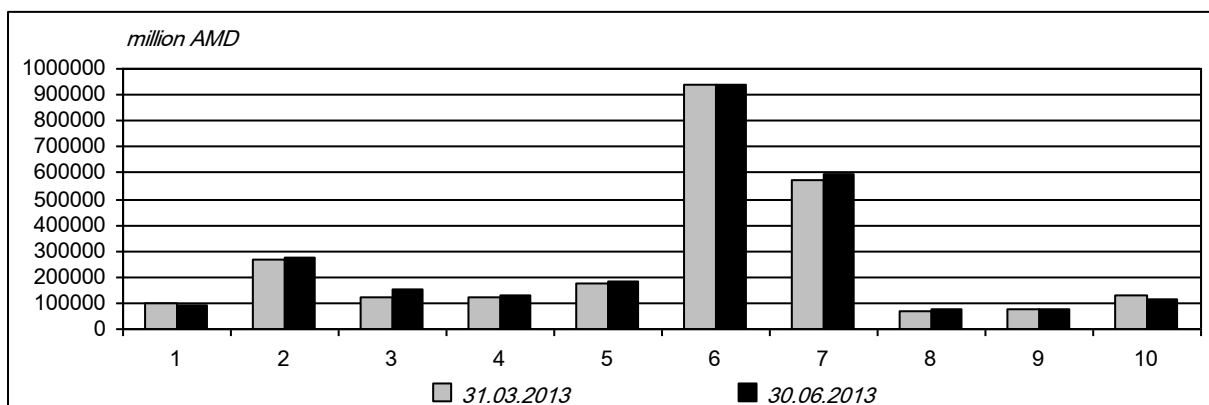
TOTAL ASSETS OF BANKING SECTOR

In the period under review total assets of the banking sector have increased by 2.8 percent and amounted to AMD 2 trillion 640.7 billion at the end of the quarter. During the quarter 16 banks reported increases and 6 banks reported decreases in assets.

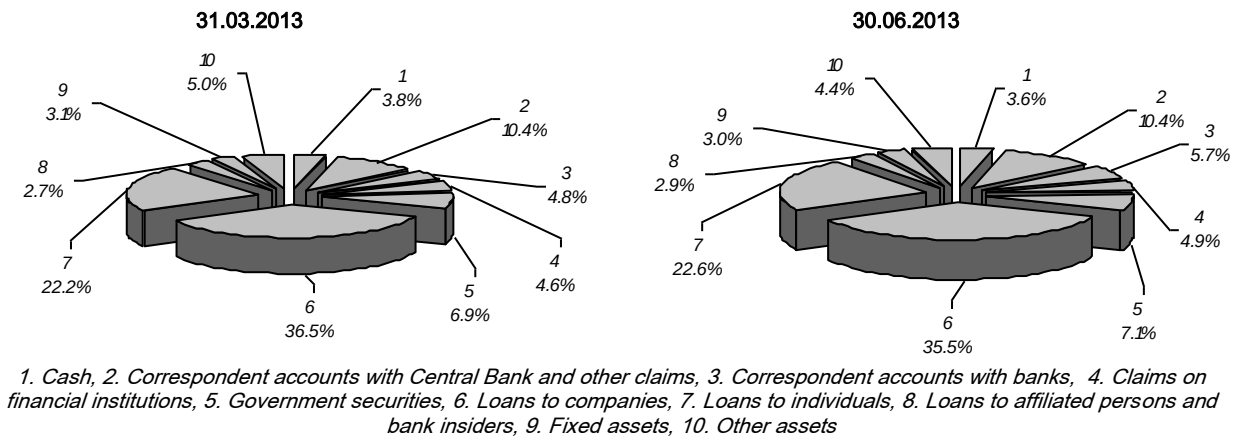
The main asset increases were reported in respect of correspondent accounts with banks, government securities and economy lending (factor and lease operations included) by 20.2 percent, 6.1 percent and 2.1 percent, respectively.

The value of loans to the economy (the factor and lease operations included) has been AMD 1 trillion 624.4 billion, as of 30.06.2013. The value of loans provided to companies, individuals, bank insiders has grown by 0.1 percent, 4.4 percent and 7.7 percent and reached AMD 937.9 billion, AMD 596.5 billion and AMD 75.6 billion, respectively. The value of the factor and lease operations (interbank leasing and factoring excluded) has increased by 8.4 percent to AMD 14.4 billion.

Assets of the banking sector



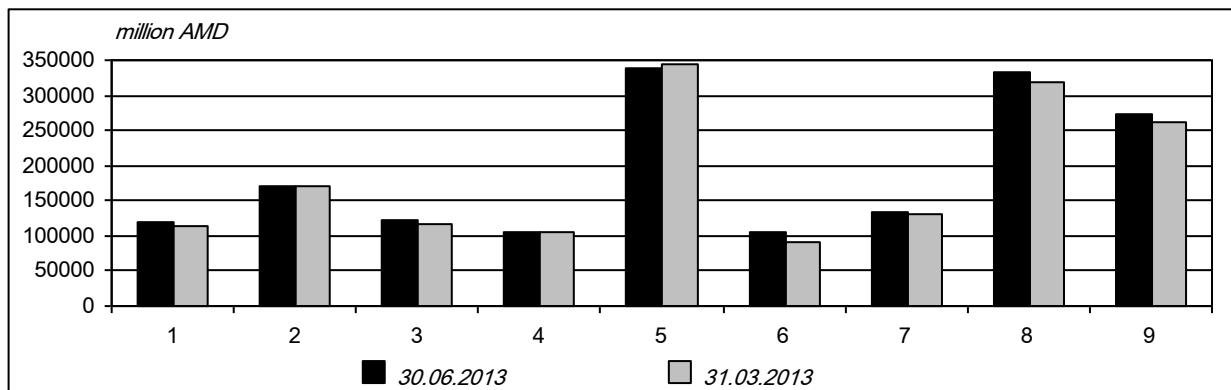
Total assets of the banking sector



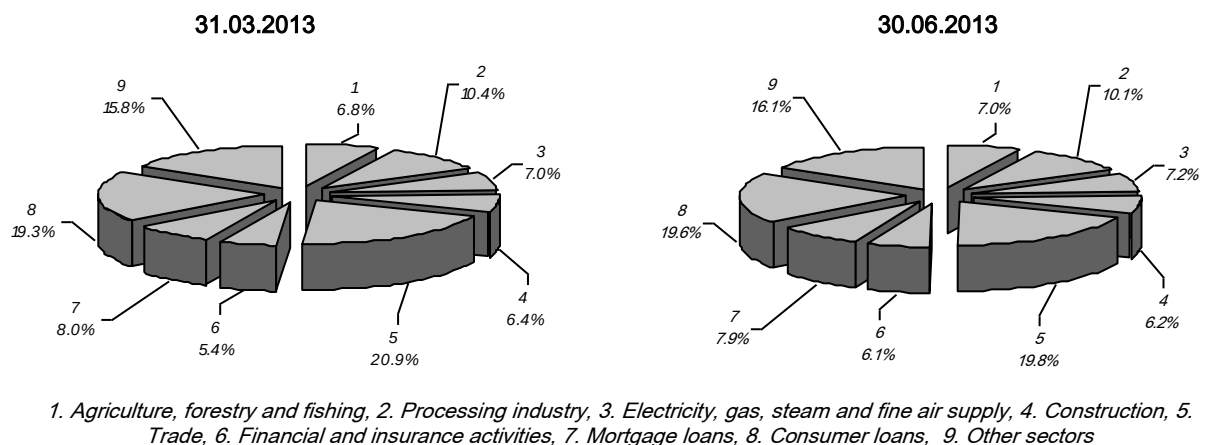
During the quarter, no considerable changes were observed in the assets structure.

By currency structure, the dram and foreign currency loans (the factor and lease operations included) have grown by 4.6 percent and 0.7 percent to AMD 571.8 billion and 1 trillion 52.6 billion, respectively. As a result, the share of foreign currency loans to total loans has contracted by 0.9 pp to 64.8 percent at the end of the quarter.

Banking sector loans to residents, by sectors of economy



Resident loan investment by the banking sector



Somewhat brisker growths were reported in the area of: a) financial and insurance services, b) electricity, gas, steam and fine air generation, and c) agriculture, forestry and fishing, with reported growth of 16.2 percent, 6.4 percent and 6.3 percent, respectively.

In the structure of resident loan investment during the quarter, the share of trade has reduced by 1.1 pp, whereas the share of credit to financial and insurance services has grown by 0.7 pp.

Loan investments in trade, consumer activities and manufacturing industries posted growths by 19.8 percent, 19.6 percent and 10.1 percent, respectively.

The share of non-performing loans and receivables in total loans and receivables has grown by 0.4 pp and reached 5.6 percent at the end of the quarter.

As of 30.06.2013, the shares of “watch” category loans and receivables of the banking system constituted 3.6 percent of the total; “substandard” category loans, 1.3 percent, and “doubtful” category loans, 0.8 percent (3.5 percent, 0.8 percent, and 0.9 percent, respectively, as of 31.03.2013).

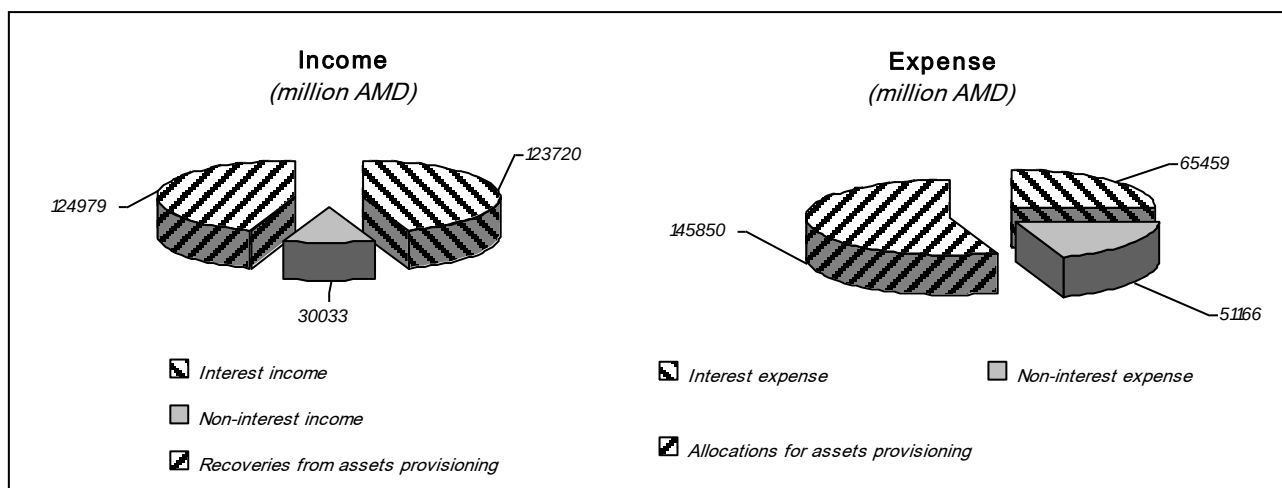
In the period under review, the total liquidity ratio of commercial banks remained unchanged, 26.1 percent, while the current liquidity ratio has dropped by 9.0 pp to 127.1 percent.

INCOME AND EXPENSE ACCOUNT OF COMMERCIAL BANKS

In the first half of 2013 the net profit of the banking system (profit after tax), calculated according to the supervision reports, was AMD 12.1 billion², return on assets³ (annualized) (RoA), 1.0 percent, and return on capital (annualized) (RoE), 6.0 percent. Bank performance was as follows: 19 banks operated with profit of 3 banks operated at a loss.

In the first half of 2013, the net profit of the banking system, calculated according to IFRS, was AMD 20.9 billion. Return on assets (annualized) (RoA) and return on equity (annualized) (RoE) indicators were 1.6 percent and 9.4 percent, respectively.

Banking sector income and expense structure



In the first half of 2013, gross profit and gross expense of the banking system, calculated according to reports submitted to the Central Bank, were AMD 278.7 billion and AMD 262.5 billion, respectively.

Proceeds from loans to economy accounted for the largest share, 83.9 percent, of interest income; commission fees accounted for 45.4 percent and FX trades accounted for 22.5 percent of non-interest income.

² The main reason for a large discrepancy between the Central Bank reports and reports submitted according to IFRS is the practice to make provisioning of standard assets to reserves on potential losses at the amount of 1 percent. This is the amount to which extent banks recognize it as expense.

³ Return on asset has been calculated as a ratio of net profit (profit after tax) to the value of average daily total assets since the beginning of the year; return on equity has been calculated as a ratio of net profit (profit after tax) to the value of daily total capital since the beginning of the year.

In the structure of interest expense on term deposits and interest expense on funds attracted from commercial banks and financial organizations amounted to 52.7 percent and 19.6 percent, respectively.

Bank employee salary and salary equivalents accounted for 48.3 percent of non-interest expense.

In the second quarter the share of net provisioning⁴ of commercial banks amounted to AMD 9.0 billion or 0.3 percent of average annual amount of total assets.

CREDIT ORGANIZATIONS

As of 30.06.2013 there were 33 credit organizations, with a total of 120 branch offices, functioning in the territory of the Republic of Armenia.

In the period under review, total assets of credit organizations have grown by 5.4 percent (AMD 9.7 billion) and amounted to AMD 189.6 billion at the end of the quarter. In the reporting period, 26 credit organizations reported increases and 7 reported decreases in assets.

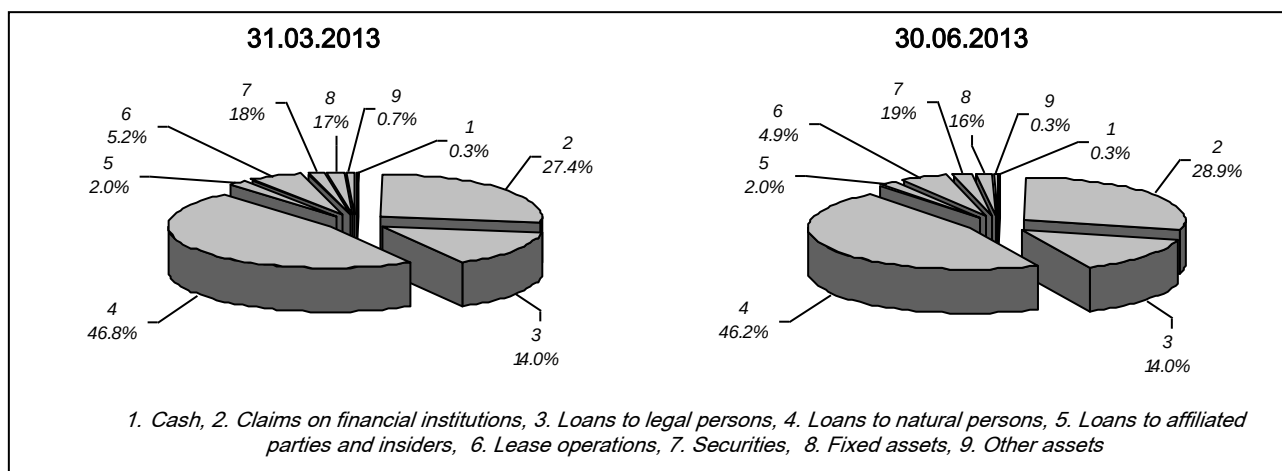
In the period under review total lending to the economy (the factor and lease operations included) by credit organizations grew by 3.9 percent (AMD 4.7 billion) and reached AMD 127.0 billion at the end of the quarter. The share of loans to natural persons accounted for 69.8 percent in total growth, loans to companies, 20.9 percent, loans to credit organization affiliated parties and employees, 2.9 percent, and leasing, 7.3 percent.

The value of loans to natural persons has increased by 3.9 percent (AMD 3.3 billion) and reached AMD 87.6 billion, and the value of loans to companies has grown by 5.1 percent (AMD 1.3 billion) and totaled AMD 26.5 billion. The volume of lease operations has reduced by 0.8 percent (AMD 77.3 million) to AMD 9.2 billion. The amount of lending to credit organization affiliated parties and employees has increased by 5.1 percent (AMD 180.3 million) to AMD 3.7 billion.

By currency structure, the value of dram loans to the economy (the factor and lease operations included) has grown by 3.5 percent (AMD 2.6 billion) and the value of foreign currency loans (the factor and lease operations included), by 4.4 percent (AMD 2.1 billion). As a result, the share of foreign currency loans (the factor and lease operations included) has grown by 0.2 pp to 39.3 percent in total.

In the structure of assets significant changes were observed on the part of claims on financial institutions and loans (including leasing and factoring) to economy: the share of claims on financial institutions has increased by 1.4 pp while the share of loans to the economy and lease operations has reduced by 0.8 pp.

Total assets of credit organizations



⁴ Net provisioning is the expense item "Provisions to assets loss reserve fund" less the income item "Recoveries from assets loss reserve fund", and the indicator 'net provisioning' is used for an analytical purpose. Item "Provisions to assets loss reserve fund" increases when the particular asset category deteriorates; similarly, item "Recoveries from assets loss reserve fund" increases when the particular asset category improves.

As regards risk classification of the loan portfolio, the share of non-performing loans and receivables has grown by 0.6 pp to 4.5 percent at the end of the quarter; as of 30.06.2013 the share of 'watch' category loans and receivables of credit organizations was 2.5 percent in total; the share of 'substandard' category loans and receivables, 1.1 percent; and the share of 'doubtful' loans and receivables, 0.9 percent (as of 31.03.2013, the figures were 2.2 percent, 1.0 percent and 0.7 percent, respectively).

In the period under review total capital of credit organizations has grown by 4.8 percent (AMD 3.3 billion) and reached AMD 72.5 billion; statutory capital of credit organization has increased by AMD 3.2 billion.

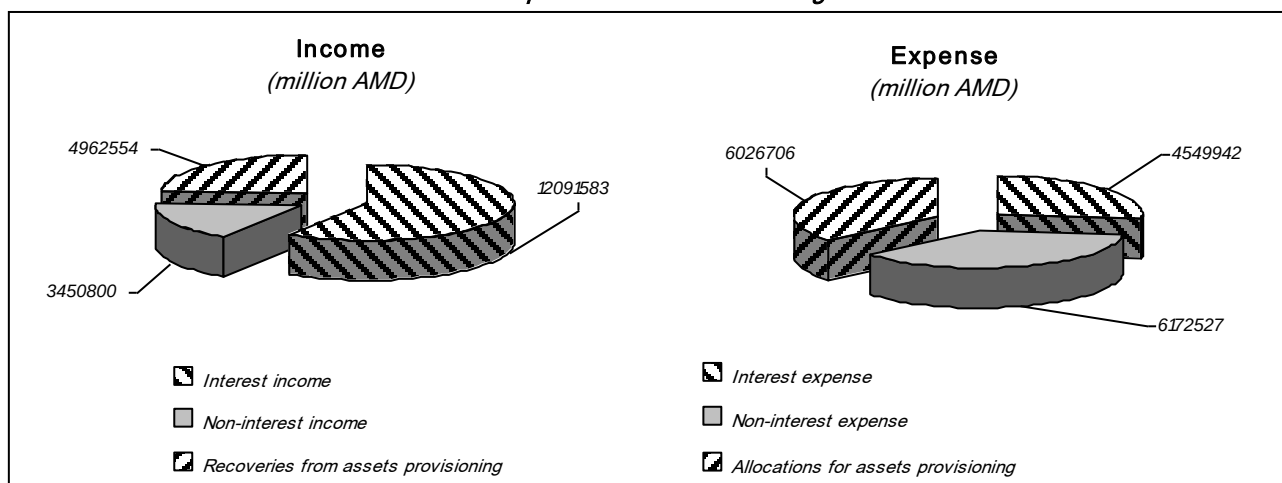
In the period under review total liabilities of credit organizations have increased by 5.8 percent (AMD 6.4 billion) and reached AMD 117.1 billion at the end-period. The increment was due to 18.5 percent growth (AMD 6.5 billion) of liabilities to banks as well as 10.7 percent increase (AMD 1.3 billion) of liabilities to the Government.

As of 30.06.2013, the total amount of demand and term liabilities to individuals and companies has been AMD 26.1 billion, with the value of liabilities to individuals having increased by 6.4 percent (AMD 544.5 million) to AMD 9.1 billion but with the value of liabilities to companies having decreased by 10.0 percent (AMD 1.9 billion) to AMD 17.0 billion at the end of the quarter, respectively.

In the liabilities structure of credit organizations, the share of liabilities to banks has increased by 3.8 pp whereas the share of liabilities to companies decreased by 2.6 pp.

In the second quarter of 2013 the net profit (profit after tax) of credit organizations, calculated according to the supervision reports, was AMD 3.2 billion. Since the beginning of the year, 27 credit organizations posted profit and 6 posted loss. Credit organizations' return on profit (annualized) has been 3.6 percent and return on equity (annualized), 9.3 percent.

Income and expense structure of credit organizations



In the first half of 2013, the net profit of credit organizations, calculated according to IFRS, was AMD 3.3 billion. Return on assets (annualized) (RoA) and return on equity (annualized) (RoE) indicators have dropped by 0.2 pp and 0.4 pp to 3.5 percent and 8.8 percent, respectively.

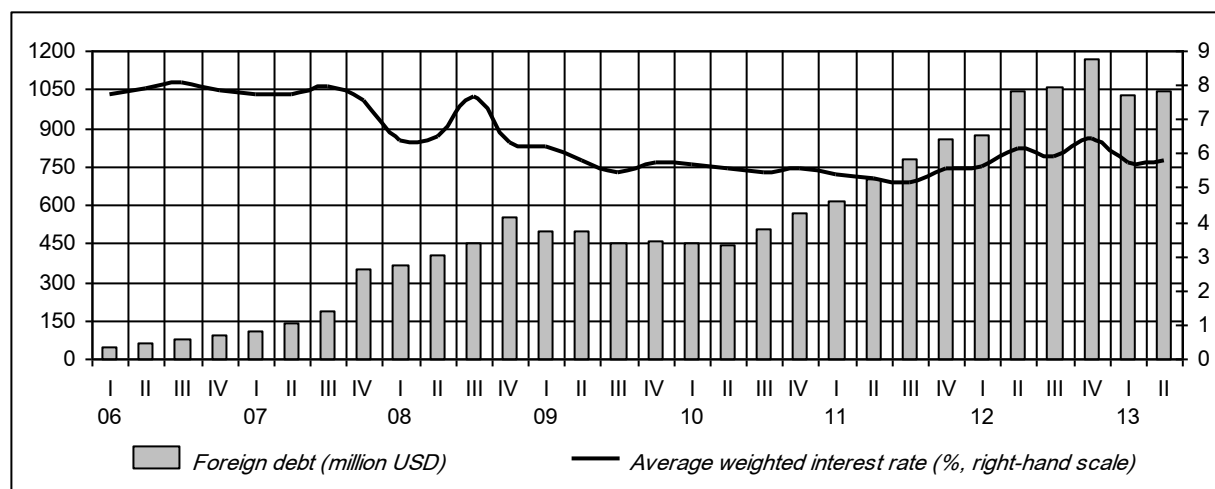
External debt of Armenian commercial banks and credit organizations as of end Q2, 2013

As of the end of the second quarter of 2013 loan obligations* of Armenian commercial banks and credit organizations to the rest of the world amounted to USD 1042.2 million against USD 1027.4 million recorded at the end of the previous quarter. Over the quarter commercial banks and credit organizations attracted loan resources of USD 714.3 million from the rest of the world and made amortization repayments in the amount of USD 691.1 million on the loans outstanding**. Long-term loans accounted for 13.1 percent of total credit resources attracted, with 25.7 percent of them disbursed from Russia, 23.8 percent from Luxemburg, 8.2 percent from Latvia, and 27 percent from international financial organizations.

At the end of the second quarter of 2013, the main lenders to commercial banks and credit organizations were Russia (with its share of 17.5 percent in total compared to 16.5 percent in previous quarter), Luxemburg (10.4 percent compared to 10.2 percent), the Netherlands (7.4 percent compared to 7.9 percent), and Germany (4.6 percent compared to 5.1 percent). About 38.8 percent of loans was disbursed from international financial institutions.

At the end of the second quarter of 2013 the average-weighted interest rate of attracted loans was 5.8 percent, representing a slight increase against the previous quarter. About 38.2 percent of external loans are with floating interest rates (LIBOR, EURIBOR, and etc.). The average maturity of the loans is 4.5 years. The share of short-term loans has reduced to 8 percent of total loans attracted.

Private debt of commercial banks, 2006 - 2013



* Excluding loans of international financial institutions and other lenders received through the Government in the framework of various programs.

** The amount of net attraction in previous and reporting periods varies from the actual figure as funds attracted are expressed in different currencies which is why, when expressed in dollar equivalent, they include the exchange rate revaluations.

INSURANCE COMPANIES

As of 30.06.2013, there were 9 insurance companies⁵ licensed to operate in the territory of the Republic of Armenia.

In the period under review, assets of insurance companies have grown by 16.2 percent and amounted to AMD 50.2 at the end of the quarter; liabilities have grown by 23.1 percent to AMD 35.9 billion; total capital has increased by 1.9 percent and reached AMD 14.3 billion.

In the assets portfolio of insurance companies, deposits with banks reported the largest share (29.6 percent), followed by accounts receivable in respect of direct insurance (23.3 percent).

In the liabilities portfolio of insurance companies, the share of reserve for unearned insurance premiums accounted for the largest share, 46.6 percent, and reserves for claims, 12.2 percent.

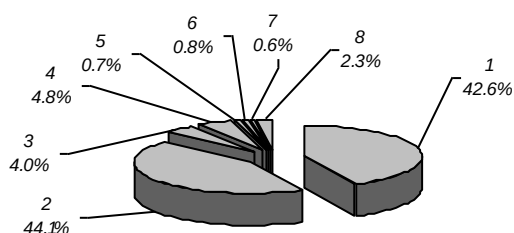
The first half 2013 results show that net loss of insurance companies, calculated according to supervision reports, amounted to AMD 171.9 million.

The first half 2013 results show that net loss of insurance companies, calculated according to IFRS, amounted to AMD 258.7 million.

The amount of insurance premium totaled AMD 22.7 billion and the amount of premiums transferable to the reinsurers reached AMD 1.3 billion or 5.8 percent of total insurance premium.

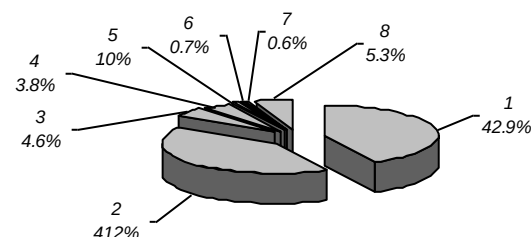
⁵ This includes indicators of 7 insurance companies active and reporting as of 30.06.2013.

Accrued insurance premium, by insurance class (H1, 2012)



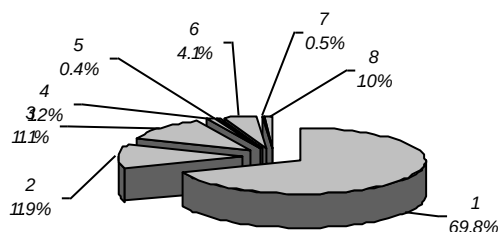
1. Mandatory motor insurance against third party liability, 2. Health insurance, 3. Land vehicle insurance, 4. Fire and natural disaster insurance, 5. Accident insurance, 6. General liability insurance, 7. Assistance insurance, 8. Other insurance

Accrued insurance premium, by insurance class (H1, 2013)



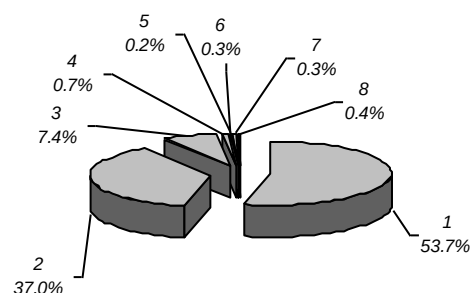
In the period under review, insurance indemnities reached AMD 9.7 billion, while sums on insurance indemnities from reinsurers amounted to AMD 372.3 million or 3.9 percent of all insurance indemnities.

Accrued insurance indemnity, by insurance class (H1, 2012)



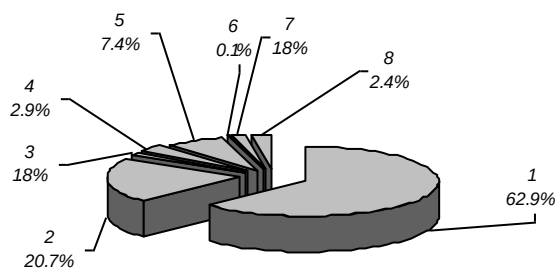
1. Mandatory motor insurance against third party liability, 2. Health insurance, 3. Land vehicle insurance, 4. Fire and natural disaster insurance, 5. Accident insurance, 6. General liability insurance, 7. Assistance insurance, 8. Other insurance

Accrued insurance indemnity, by insurance class (H1, 2013)



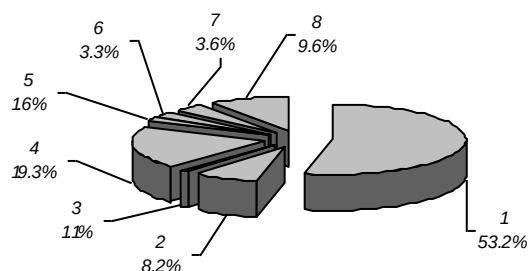
Insurance contracts and insurance sums, by insurance class

Insurance contracts, by insurance class (as of 30.06.2013)



1. Mandatory motor insurance against third party liability, 2. Health insurance, 3. Land vehicle insurance, 4. Fire and natural disaster insurance, 5. Accident insurance, 6. General liability insurance, 7. Assistance insurance, 8. Other insurance

Insurance sums, by insurance class (as of 30.06.2013)



As of 30.06.2013, there were 571.0 thousand contracts in use, with a total reported amount of AMD 8.3 trillion. The amount of reinsured risks transferred to reinsurers reached AMD 2.2 trillion or 26.5 percent of insurance sums.

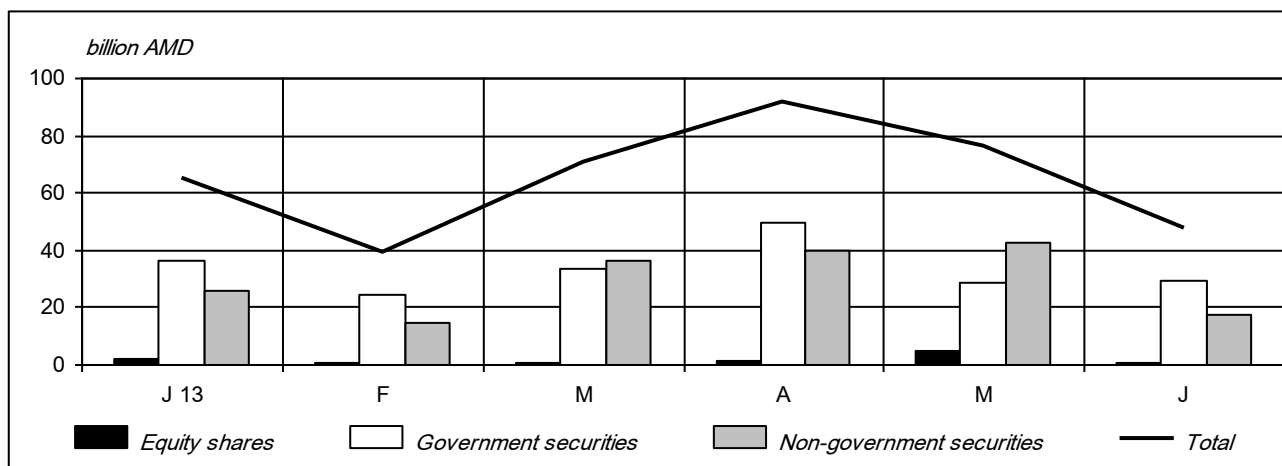
SECURITIES MARKET PARTICIPANTS

As of 30.06.2013, there were **21** banks providing investment services and **9** investment companies and **1** investment fund manager in the Armenian securities market. Of these investment companies, **seven** are entitled to carry out transactions with securities on their behalf or on their customers' behalf and to their expense or to their customers' expense; **seven** are entitled to take and handle orders from customers for carrying out transactions with securities; **seven** are entitled to provide advisory services relating to investment with securities; **six** are entitled to perform underwriting; **four** are entitled to manage securities portfolios.

As of 30.06.2013, total assets of investment companies have reached AMD 27.5 billion, representing a 6.6 percent increase in relation to the previous quarter. Total capital of investment companies has increased by 2.0 percent against the previous quarter to AMD 4.2 billion.

In the second quarter the volume of securities trading in the Armenian securities market for investment operations has increased by 51.9 percent to AMD 215.3 billion. Relative to the same quarter of the previous year, the volume of trading in corporate securities has increased by as much as 86.7 percent and reached AMD 100.3 billion. The volume of trading in shares has more than doubled to AMD 6.9 billion. The volume of trading in treasury bills has grown by 27.1 percent and amounted to AMD 108.1 billion. Based on the results of the second quarter, the operations with treasury bills remained prevailing, making up 50.2 percent of total securities market turnover. The share of operations with corporate bonds and shares constituted 46.6 percent and 3.2 percent, respectively, in total.

Securities trades by investment companies executed in Q2, 2013



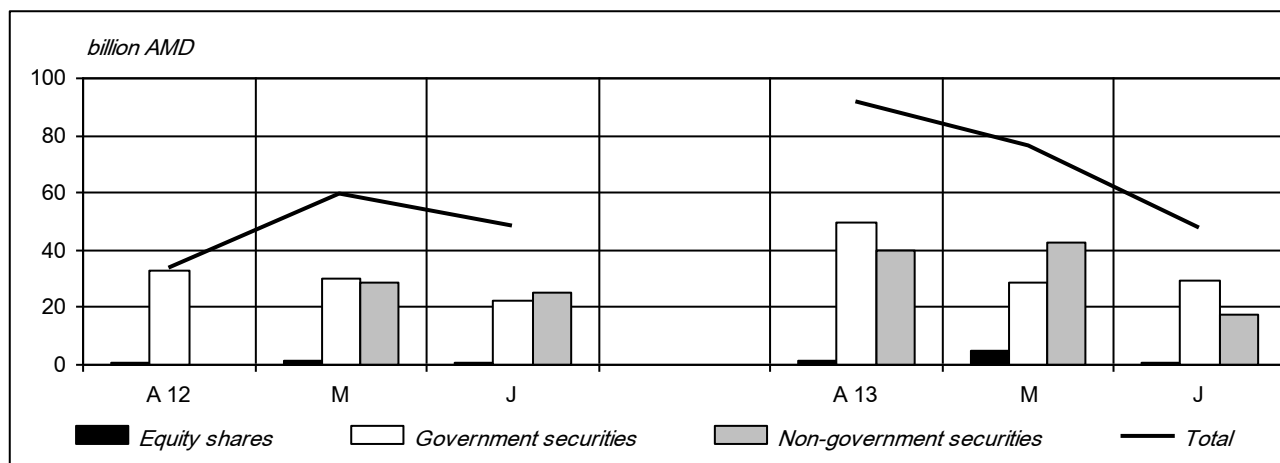
In the trades of government securities, the long-term treasury bills had the largest share, making up 57.5 percent of total operations. The share of medium-term and short-term treasury bills in the total traded volume of government securities constituted 32.7 percent and 9.7 percent, respectively.

The volume of securities trades executed in the regulated market by investment service providers constituted 0.8 percent of total investment operations carried out.

Relative to the second quarter of the previous year, the volume of operations carried out in the regulated market has grown by AMD 3.0 billion to AMD 4.1 billion, with trades on treasury bills, corporate securities and shares accounting for 43.0 percent, 32.9 percent and 15.2 percent, respectively, of total operations.

In the structure of investment operations, operations carried out by commercial banks as investment service providers accounted for 98.0 percent and operations carried out by investment companies constituted 2.0 percent, in total.

Securities trades by investment companies executed in second quarters of 2013 and 2013



The volume of repo and reverse repo operations performed as investment activities (including repo and reverse repo operations in the regulated market) has decreased by 53.1 percent to AMD 416.9 billion, in which rollovers amounted to AMD 186.5 billion.

As of 30.06.2013, the volume of transactions executed as trust management amounted to AMD 2.6 billion, representing some 3.5 percent increase in relation to the previous quarter.

As of 30.06.2013, there were 1929 registries of holders of nominal securities (the number of holders: 112415) run at the Central Depository of Armenia; the number of issuer companies reached 1925.

As of 30.06.2013, a total of **19** classes of securities of **14** reporting issuers were admitted to trading in the regulated market. These classes included **12** shares of **11** issuers and **7** bonds of **5** issuers. **Four** of the issuers were financial institutions. The total volume of shares reached AMD 53.4 billion. The volume of bonds amounted to AMD 2.8 billion. **One** of the issuers is reportable on both shares and bonds. Commercial banks accounted for 45 percent of equity shares issued.

PAYMENT AND SETTLEMENT ORGANIZATIONS

As of end of the second quarter of 2013, there were **6** money remittance organizations functioning in the Republic of Armenia, **two** of which permitted to carry out processing and clearing of payment instruments, **two** permitted to carry out money remittance and **one** organization licensed to carry out processing and clearing of payment instruments ("Armenian Card" CJSC).

In the period under review, money remittance organizations alone generated profit of AMD 55 million, while the organizations engaged in processing/clearing of payment instruments and money remittance posted profit of AMD 219 million.

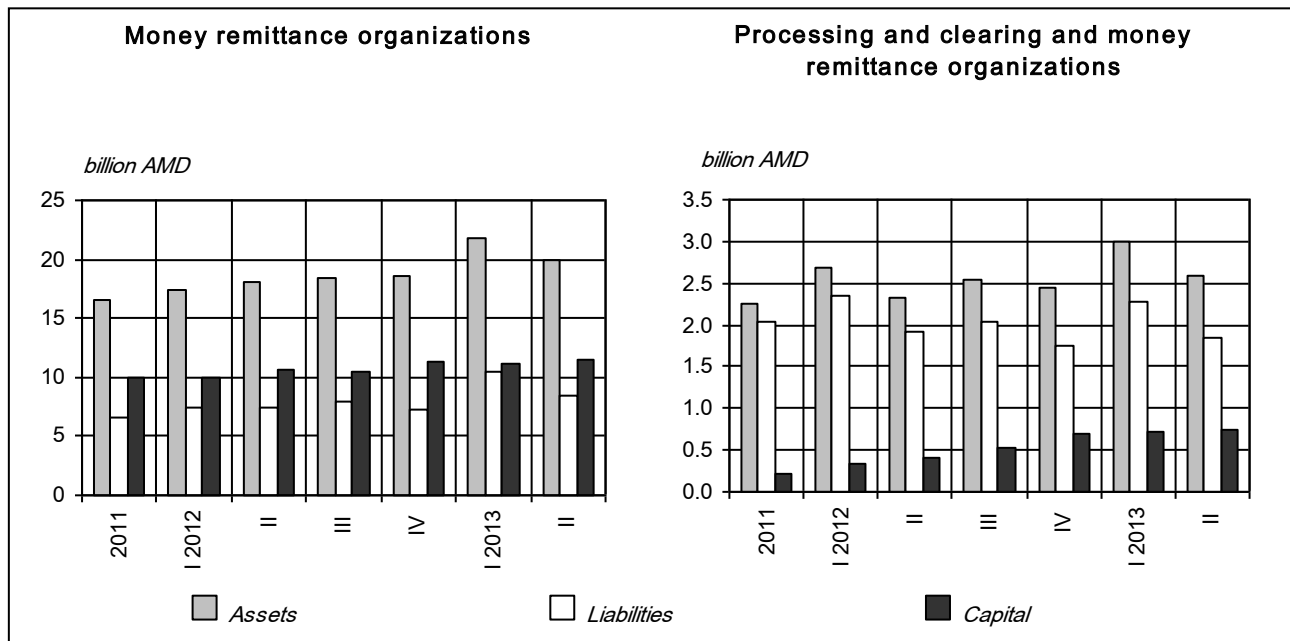
Two payment and settlement organizations engaged in money remittance served inbound transfers through their membership to international payment systems. The share of money remittance organizations in the total value of international transfers (including commercial banks) has been **0.2 percent** for outbound transfers and **0.3 percent** for inbound transfers. In the second quarter the payment and settlement organizations executed inbound and outbound payments totaling, respectively, AMD 454 million and AMD 35 million. The average value per inbound transfer to the customer through these organizations has been AMD 122 thousand.

Six organizations engaged in processing and clearing of payment instruments and money remittance accepted cash payments for public utility fees, **two** of which provided such services by the use of terminals.

Payment and settlement organizations accept payments for public utility services, phone and cellular phone and Internet fees, installments for credit repayment, fine/penalty amounts and other charges and state dues. In particular, **five** head-offices of payment and settlement organizations and their branch offices collected funds of AMD 25.4 billion of which AMD 22.8 billion as public utility fees. In the second quarter of 2013, **two** payment and settlement organizations used 934 self-service terminals, through which a total of

AMD 13.5 billion-worth of funds (5.5 million transactions in number) were collected, of which AMD 6.1 billion were public utility fees.

Financial performance by payment and settlement organizations



Funds of AMD 168 million were collected on a non-cash basis, of which AMD 162 million collected as public utility fees.

There are payment and settlement organizations that provide processing and clearing services to 12 commercial banks. In cooperation with payment and settlement organizations, these banks collected public utility fees and charges through their branch offices, and a total of 364 thousand transactions reaching AMD 1.1 billion were executed.

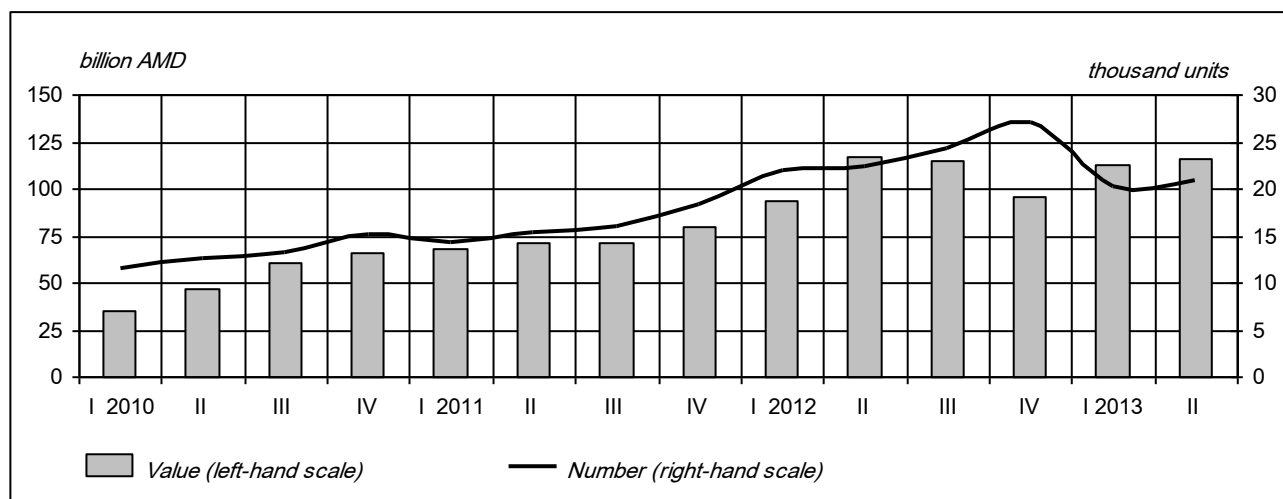
Payment and settlement developments

In the second quarter of 2013 the payment and settlement system of the Republic of Armenia showed trends of sustainable development.

PAYMENT SYSTEMS

In the period under review the average daily value of non-cash payments executed through the banking system has been AMD 137.6 billion, with 62 thousand transactions in number. The average daily value of non-cash payments executed through the Central Bank reached AMD 116.4 billion, with 21 thousand transactions in number. The average daily value of non-cash payments via the Central Bank remained at the previous quarter's level but the number has reduced by 7 percent.

Value and number of payments executed via the Central Bank systems (excluding stock exchange trades)



The average daily transfers executed through Electronic Payments System (stock exchange trades excluded) have increased by 7 percent against the second quarter of 2012 and reached AMD 33.1 billion, and the number has reduced by 7 percent to 20 thousand transactions.

The average daily transfers relating to the use of monetary instruments of the Central Bank have reduced by 1 percent against the same period of the previous year AMD 81.0 billion, with 523 transactions in number having reduced by 14 percent.

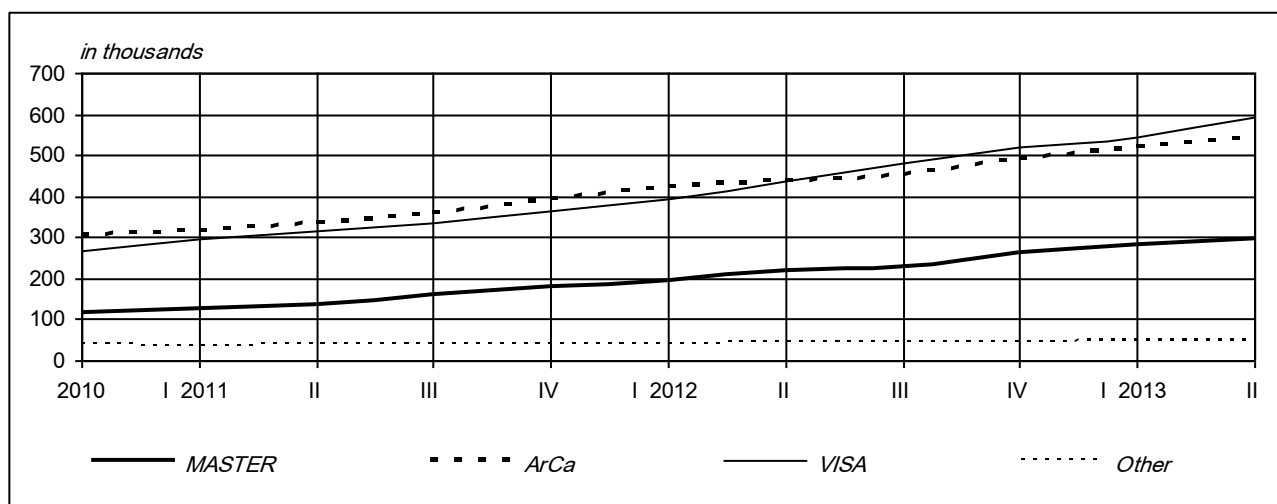
PAYMENT CARDS

As of end of the second quarter of 2013, there were 19 commercial banks, out of 21, having issued payment cards or provided services connected therewith. These 19 commercial banks are members to the "ArCa" ("Armenian Card" Unified Card Payment System).

In the period under review, 31 more ATMs were installed to serve payment cards, and as of end of the second quarter the total number of ATMs was 1213. During the quarter 178 more POS terminals were installed by commercial banks, and the total number reached 6861.

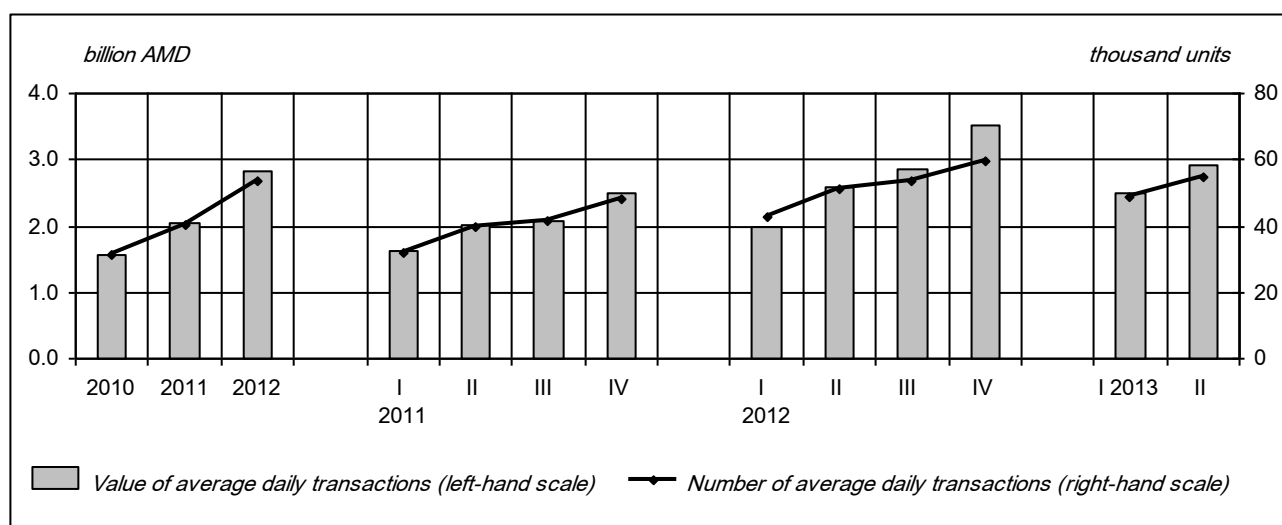
As of end of the second quarter, the total number of cards in use has been 1.5 million, which represents a 7 percent increase. In particular, the number of ArCa cards in use has increased by 5 percent and reached 545 thousand cards in total. The number of international system cards has increased by 7 percent to 938 thousand cards, with VISA having increased by 9 percent to 594 thousand cards and MasterCard having increased by 5 percent to 296 thousand cards.

Payment cards issued by commercial banks in Armenia



In the second quarter of 2013 a total of 5.0 million of transactions amounting to AMD 265.3 billion were executed in the Republic of Armenia by the use of payment cards. Of this, the value of non-cash card payments has been AMD 26.2 billion. Of the non-cash turnover, e-payments via Internet amounted to AMD 5.8 billion (including e-commerce totaling AMD 0.5 billion and card-to-card payments, AMD 5.3 billion). The value of card-based non-cash transactions has increased by 19 percent relative to the same period of the previous year and constituted 10 percent of total cards transactions.

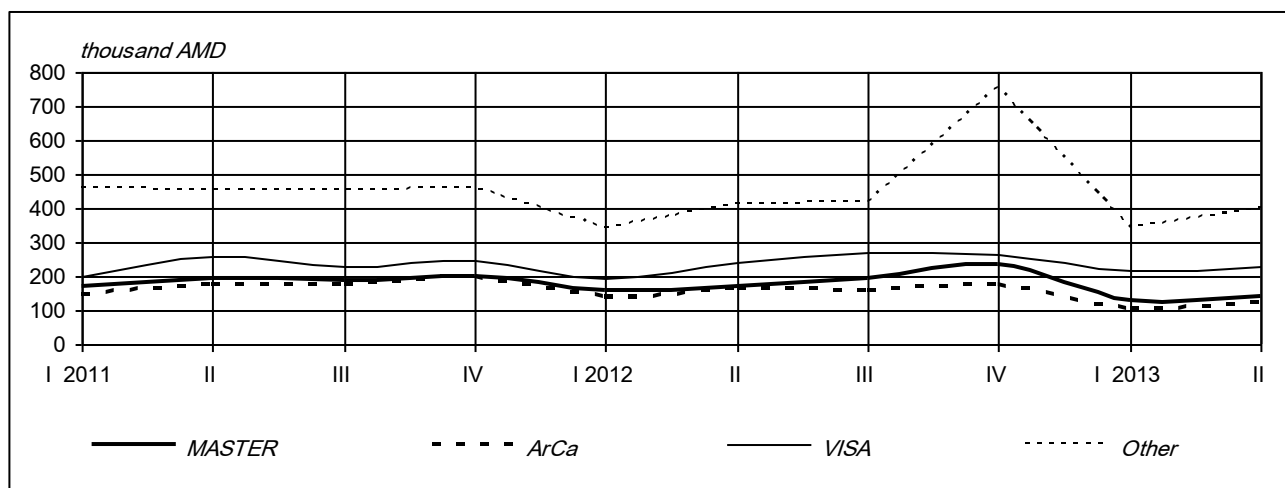
Average daily operations by payment cards executed in Armenia, 2010–2012 and by quarters of 2011-2013



Transactions executed through card servicing devices (Q1, 2013)

Device	Transactions			
	value (million AMD)	number	Including by ArCA cards	
			value (million AMD)	number
Automated teller machines	207147	4112204	52293	1390880
o/w, non-cash	518	74064	41	32055
POS – terminals / imprinters	52367	584101	14468	166204
o/w, non-cash	19930	473727	7136	113907
Internet	5758	291116	870	85015
Total	265273	4987421	67631	1642099
o/w, non-cash	26207	838907	8047	230977

Value of transactions per payment card issued by local and foreign banks, by quarters of 2011-2013



The value of transactions using ArCA cards has decreased by 6 percent (AMD 4.2 billion) and the number, by 10 percent (174 thousand less transactions), relative to the same period of the previous year.

In the second quarter of 2013, relative to the second quarter of 2012, the value of cards transactions (including cards issued by foreign banks) in the Republic of Armenia has grown by 14 percent and reached AMD 265.3 billion; and the number has increased by 8 percent to make up 5.0 million transactions. The value of transactions executed abroad with cards issued by local banks in the Republic of Armenia has grown by 4 percent to AMD 14.2 billion and the number has risen by 1 percent (4 thousand more transactions) to 261 thousand transactions.

The value of transactions with VISA cards (including VISA cards issued by foreign banks) in the Republic of Armenia has grown by 28 percent (AMD 30.0 billion); the number of such transactions has increased by 28 percent (472 thousand more transactions). The value of transactions with MasterCard cards (including MasterCard cards issued by foreign banks) in the Republic of Armenia has increased by 12 percent (AMD 4.3 billion); the number of such transactions has increased by 8 percent (68 thousand more transactions). The value of transactions with other cards has increased by 11 percent (AMD 1.9 billion).

The value of transactions executed abroad with VISA cards issued by local banks in the Republic of Armenia has increased by 2 percent (AMD 185 million); the number of such transactions has increased by 10 percent (16 thousand more transactions). The value of transactions executed abroad with MasterCard cards issued by local banks in the Republic of Armenia has reduced by 10 percent (AMD 494 million); the number of such transactions has reduced by 17 percent (17 thousand less transactions). The value of transactions executed abroad with other international cards has grown by 107 percent (AMD 807 million).

Transactions with payment cards executed in Q1, 2013

Payment cards	Transactions with payment cards executed in Armenia (cards issued by banks operating in Armenia and cards issued by foreign banks)		Transactions executed abroad with payment cards issued by banks operating in Armenia	
	value (million AMD)	number	value (million AMD)	number
ArCa	67631	1642099	-	-
o/w, non-cash	8047	230977	-	-
VISA	137059	2159630	7992	163733
o/w, non-cash	8691	312041	5443	133928
MasterCard	41432	893247	4634	85872
o/w, non-cash	8363	282768	3304	71629
Other international cards	19150	292445	1559	11677
o/w, non-cash	1106	13121	670	5221
Total	265273	4987421	14185	261282
o/w, non-cash	26207	838907	9418	210778

**INTERNATIONAL
TRANSFERS SYSTEMS**

In the Republic of Armenia money remittances can be executed by commercial banks and money remittance organizations, without having to open a bank account. In the second quarter of 2013 the value of inbound remittances to the Republic of Armenia through the banks participating in international transfers systems reached AMD 170.3 billion (821 thousand remittances in number), a 7.5-fold increase compared to the value of outbound transfers. Relative to the second quarter of 2012, the value of inbound remittances has increased by 15 percent. The average amount of an inbound remittance to the Republic of Armenia through these systems has been AMD 207 thousand. Net inflow of funds transferred by commercial banks through international money remitters has increased by 15 percent and amounted to AMD 147.5 billion.

The value of payments to natural persons executed through correspondent accounts of commercial banks operating in the Republic of Armenia reached AMD 59.1 billion, representing a 24 percent decrease relative to the same period of the previous year. The average value per payment was AMD 4.3 million, which is an AMD 1.1 million increment compared to the previous reference period. In the meantime, outbound remittances by natural persons through the correspondent accounts of commercial banks functioning in the Republic of Armenia amounted to AMD 57.3 billion, representing some 26 percent (AMD 19.8 billion) decrement against the same period of the previous year.

The financial system regulatory framework in Q2, 2013

Banking sector

The Central Bank Board resolution endorsed the approval of Regulation 4 *Minimum Requirements to Bank Internal Control Procedure*, whereby:

- banks should have an effective risk management mechanism in place as part of internal control; it should include a risk management strategy as well as 'risk appetite' and specific risk management policies;
- requirements to the introduction and effective implementation of internal assessment of capital adequacy of banks were stipulated as well as general approaches to risk management, not covered by the Central Bank prudential regulatory standards, were described;
- banks should have risk management and compliance functions in place, and persons in charge of such functions must be CEO-designated, as and when agreed upon with the board;
- new requirements to remuneration policy of the bank were specified in pursuit of limiting the incentive to unreasonable risk performance by the staff of risk management;
- it was defined that banks should have business continuity management processes in place.

It is expected that this regulation would raise the effectiveness in the bank's internal control and risk management mechanisms.

There has been a change introduced to the procedure on selecting an independent auditor by commercial banks operating in the territory of the Republic of Armenia.

Insurance sector

1. The Central Bank Board resolution has made amendments to Regulation 3/02 *Prudential Standards for Insurance Activity; Creation and Calculation; Reinsurer Permission Criteria*. Specifically, there was a change made to the calculation of S5 Standard that restrains concentration of credit risk, in respect of affiliated parties.
2. The Central Bank Board resolution has made some changes and supplements to Regulation 3/11 *Requirements to Firms in charge of Auditing Financial Performance of Insurance Companies*.
3. The Central Bank Board resolution has endorsed the approval of Regulation 3/10 *Minimum Requirements to Internal Control Mechanism of Insurance Companies* in a new edition, whereby:
 - new requirements were specified to insurance companies with regard to their risk management systems, including a new requirement to the developing a risk management strategy, among others;
 - based on Solvency II system requirements as well as the principles defined by International Association of Insurance Supervisors, requirements to the introduction and implementation of own risk and solvency assessment systems (ORSA) were established; a new requirement to conducting stress-tests is intended for insurance companies;
 - requirements to risk management and compliance functions were defined for insurance companies, and persons in charge of such functions must be CEO-designated, as and when agreed upon with the board of insurance company;
 - new requirements to remuneration policy of insurance company were specified in pursuit of limiting the incentive to unreasonable risk performance by the staff of risk management of that insurance company;
 - new requirements to having business continuity management processes in place as well as establishing frameworks to combat insurance fraud were specified for insurance companies;
 - a set of requirements to implementing international standards for internal audit were specified;

- new requirements to investment activities, business conduct and consumer protection were established for insurance companies, stipulating that these requirements be aligned with the principles established by International Association of Insurance Supervisors.

Securities market regulation

1. There were changes and supplements, endorsed under the Board of the Central Bank resolution, made to Regulation 10/01. The amendment involved a statutory permission henceforth considered to have been granted to all investment fund managers, according to the stipulation laid down in the Republic of Armenia Law on Investment Funds.
2. The Central Bank Board resolution has endorsed a supplement to Regulation 10/02. The supplement provides for an upper limit for mandatory participation of managers in pension funds, stipulating that from now on fund managers' participation in pension funds will be predictable, which is meant to be up to AMD 1 billion.
3. There were changes, endorsed under the Board of the Central Bank resolution, made to Regulation 4/11 *Criteria to Firms in charge of Auditing Financial Performance of Investment Companies* and Regulation 4/09 *Criteria to Firms in charge of Auditing Financial Performance of Reporting Issuers*. The amendment involved a clarified list of sources upon which an independent auditor of investment companies and reporting issuers should be chosen.

Financial Sector Indicators

Financial organizations: number and structure

Indicators	31.12.2012	31.03.2013	30.06.2013
Banks	22	22	22
Banks by organizational structure	22	22	22
JSC	4	4	4
CJSC	17	17	17
LLC	1	1	1
Cooperative	0	0	0
Foreign participation	20	20	20
o/w: more than 50 percent	15	15	15
o/w: more than 95 percent	12	12	12
Foreign participation in statutory capital of banks, %	75.7	73.4	73.2
Credit organizations	32	33	33
Foreign participation	13	13	13
o/w: more than 50 percent	8	8	8
o/w: more than 95 percent	5	5	5
Foreign participation in statutory capital of credit organizations, %	33.2	30.5	28.8
Insurance companies	7	7	7
o/w: life insurance	0	0	0
o/w: non-life insurance	7	7	7
Foreign participation	4	4	4
o/w: more than 50 percent	3	3	3
o/w: more than 95 percent	3	3	3
Insurance brokers	4	3	2
Investment service providers in securities market ¹	30	30	30
o/w: investment service provider / bank	21	21	21
o/w: investment service provider company	9	9	9
Reporting issuer companies	14	14	15
Pawnshops	145	141	147
Licensed in the period under review	3	1	0
De-licensed in the period under review	2	2	2
Exchange offices ²	238	244	239
Licensed in the period under review	1	3	0
De-licensed in the period under review	1	16	0
Currency dealers	0	0	0
Money transfer organizations	7	7	8

¹ Professional financial market participants have been relicensed, effective June 30, 2008, as investment service providers, according to the Republic of Armenia Law on Securities Market.

² Exchange offices that are active.

Banking Sector Indicators

(million AMD)

Indicators	Q1, 2012	Q2, 2012	Q3, 2012	Q4, 2012	Q1, 2013	Q2, 2013
Average quarterly assets ¹	2020903	2174354	2255015	2402395	2530541	2577843
Average quarterly loans	1266248	1390647	1438628	1502184	1567966	1603713
Average quarterly liabilities	1661825	1808638	1881318	2015263	2136970	2174152
Average quarterly deposits	905104	960928	1032604	1115606	1203159	1279005
Average quarterly capital	359078	365715	373696	387132	393571	403691
Average quarterly total capital adequacy ratio	18.0%	17.1%	17.0%	17.1%	16.5%	16.3%
Average quarterly total liquidity ratio	26.7%	24.4%	25.1%	25.6%	26.0%	26.0%
Average quarterly current liquidity ratio	128.8%	118.3%	123.6%	127.3%	135.6%	128.9%

¹ Average quarterly indicators are calculated based on the median value of each three months in a quarter.

Main Indicators of Commercial Banks and Changes Thereto¹

(million AMD)

Indicators	31.03.2013 ¹	30.06.2013 ¹	Change 30.06.13 – 31.03.13
Book value	405434	413189	7755
Statutory capital	251627	251627	0
Profit / loss², o/w:	112504	118048	5544
Profit (loss) in reporting period	3993	12145	8152
Interest income	59940	123720	63780
Interest expense	32721	65459	32737
Non-interest income	14538	30033	15495
Non-interest expense	24380	51166	26785
Other expense ³	13383	24984	11600
Total liabilities, o/w:	2164580	2227542	62962
Correspondent accounts of banks	6188	7581	1393
Other liabilities to banks (including CBA)	404919	407244	2325
Liabilities to other financial institutions	300336	299581	-756
Demand liabilities to legal persons and natural persons	408750	482256	73506
Term deposits of legal persons and natural persons	855629	856208	579
Total assets⁴, o/w:	2570014	2640731	70717
Cash	97158	94309	-2848
Correspondent accounts with banks (including CBA)	370646	401681	31035
Other claims on banks (including CBA)	102981	111115	8134
Claims on other financial institutions	37362	42252	4890
Government securities, including:	176194	186919	10725
Securities issued by CBA	6449	6618	169
Other securities	1578467	1610012	31544
Loan investment, o/w:	1666878	1719523	52645
1. Standard	1575023	1618383	43360
2. Watch	61371	63287	1916
3. Substandard	14407	22681	8273
4. Doubtful	16078	15173	-905

¹ Calculations are pertinent to the banks functioning under a general supervision framework..

² Includes profit (loss) of the previous and current period.

³ Data do not include liabilities on securities under repo agreements and liabilities on currency purchased under currency swap.

⁴ Data present total balance sheet assets of banks, including tangible assets and other claims. Deducted to the extent of liabilities on securities under repo agreements and liabilities on currency purchased under currency swap.

⁵ Data include net provisioning on assets and profit tax.

Main Indicators of Credit Organizations and Changes Thereto

(million AMD)

Indicators	31.03.2013	30.06.2013	Change 30.06.13 – 31.03.13
Book value	69118	72455	3336
Statutory capital	54816	57978	3162
Profit / loss¹, o/w:	12339	12317	-22
Profit (loss) in reporting period	1639	3196	1557
Interest income	5765	12092	6326
Interest expense	2200	4550	2350
Non-interest income	1775	3451	1676
Non-interest expense	2884	6173	3289
Net provisioning	579	1064	485
Other expense ²	239	560	322
Total liabilities³, o/w:	110725	117135	6410
Funds attracted from banks	35375	41918	6543
Funds attracted from other financial institutions	28222	30082	1860
Demand liabilities to legal persons and natural persons	732	781	49
Term liabilities to legal persons and natural persons	26703	25312	-1392
Total assets⁴, o/w:	179843	189590	9747
Cash	496	631	135
Bank accounts	4454	6649	2194
Other claims on banks	40787	43510	2723
Claims on other financial institutions	4110	4600	490
Loans	112982	117780	4798
Financial lease	9316	9238	-77
Government securities	2881	3396	515
Other securities	446	136	-310
Loan investment, o/w:	159191	167165	7975
1. Standard	153647	159901	6254
2. Watch	2785	4336	1551
3. Substandard	1605	1384	-221
4. Doubtful	1154	1544	390

¹ Includes profit (loss) of the previous and current period.

² Data include net provisioning on assets and profit tax.

³ Data present total balance sheet liabilities of credit organizations, which include liabilities other than those provided here, liabilities to the Government and interest payable.

⁴ Data present total balance sheet assets of credit organizations, which also include tangible assets and other claims, interest receivable yet which are deducted to the extent of liabilities on securities under repo agreements and liabilities on currency purchased under currency swap.

Main Indicators of Insurance Companies and Changes Thereto

(million AMD)

Indicators	31.03.2013	30.06.2013	Change (30.06.2013) - (31.03.2013)
Cash	48	56	8
Bank accounts	1148	889	-260
Sums receivable on insurance	7300	11728	4428
Sums receivable from co-insurers	0	0	0
Sums receivable from re-insurers	150	128	-23
Claims on indemnity	495	549	54
Claims generated from subrogation	365	440	76
Deposits with banks	15363	14887	-476
Loans	621	1196	576
Securities sold under repo agreements	4266	4942	675
Securities	2313	1337	-976
Reserves for possible irrecoverable loss	-605	-723	-119
Re-insurer's share in insurance reserves	2040	2326	286
Interest receivable	558	613	55
Future expense and prepayment on insurance	3153	3579	426
Fixed assets	3065	3094	29
Other assets	2955	5208	2253
Assets total	43238	50250	7012
Dram	37537	44727	7190
Foreign currency	5701	5524	-177
Indemnity payable, o/w:	272	273	1
Sums payable to brokers	707	937	229
Insurance amounts recoverable	74	87	13
Insurance amounts transferable to co-insurers and re-insurers	1177	1126	-51
Current loans	2093	3634	1541
Technical reserves, including"	18603	22287	3685
Unearned insurance reserves	13655	16726	3070
Claims reserve	3772	4383	611
Mathematical reserve	0	0	0
Other reserves	1176	1179	3
Repo agreements	4197	4976	779
Other liabilities	2055	2596	542
Liabilities total	29176	35916	6739
Dram	26596	33399	6803
Foreign currency	2581	2517	-64
Statutory capital	11430	13232	1802
Undistributed profit / loss in current period	330	-278	-609
Undistributed profit / loss in previous period	1594	683	-912
Other	707	698	-9
Equity total	14062	14335	273
Insurance amounts	8026868	8275608	248740
Gross value of premiums	11408	22708	11300
Premiums transferred to re-insurer	751	1318	567
Gross value of insurance indemnity	4916	9656	4740
Re-insurer's share in insurance indemnity	169	372	203

Main Indicators of Investment Service Providers

(million AMD)

Indicators	31.03.2013	30.06.2013	Change (30.06.2013) - (31.03.2013)
Net book value	4085	4167	82
Undistributed profit / loss, o/w:	712	644	-68
Profit in current period	140	309	170
Commission and proceeds from provision of IS	737	749	12
Net proceeds from sale of securities	127	392	265
Statutory capital	2792	2942	150
Total liabilities	21710	23324	1614
Loans from resident banks	1557	1860	303
Liabilities on repo agreements	19490	20938	1448
Total balance sheet assets	25794	27491	1696
Cash	3	2	1
Bank accounts	730	477	-254
Securities sold through repo agreements	19775	21235	1460
Securities purchased through repo agreements	-	-	-
Government securities	2807	3000	193
Other securities	310	816	506

Operations by Investment Service Providers

(million AMD)

Indicators	2013	
	Q1.	Q2
Operations by investment bank	1123353	1344317
equity shares	2498	5765
o/w: traded on stock exchange	834	193
corporate bonds	77045	99994
o/w: traded on stock exchange	1111	1523
government bonds	89386	105080
o/w: traded on stock exchange	639	3320
repo/reverse repo agreements ¹	954424	1133478
o/w: traded on stock exchange	9	727
Operations by investment company	89798	82376
equity shares	761	1056
o/w: traded on stock exchange	755	1055
corporate bonds	136	300
o/w: traded on stock exchange	135	217
government bonds	5047	3057
o/w: traded on stock exchange	-	206
repo/reverse repo agreements ¹	83853	77963
o/w: traded on stock exchange	9	-

¹ Repo and reverse repo agreements do not include rollovers.

Central Bank Statement on Financial Standing

(as of June 30, 2013)

(thousand AMD)

	30.06.2013	31.03.2013	2012
Assets			
Assets in foreign currency			
Cash	5,608,306	5,728,494	5,937,942
Funds allocated with banks and other financial institutions	159,791,984	228,025,932	248,667,357
Financial instruments at fair value measured through a profit or loss method	345,140,768	285,810,540	273,543,277
Assets available for sale	1,646	1,646	1,646
Assets held up to maturity	133,861,671	162,455,784	185,240,208
Holdings with the IMF	70,636,825	58,424,059	69,868,364
Other assets	4,567,619	157,651	20,615
	719,608,819	740,604,106	783,279,409
Assets in local currency			
Loans and reverse repurchase agreements	183,060,828	167,650,398	171,603,820
Assets available for sale	132,637,027	132,376,508	131,118,876
Assets held up to maturity	69,836,829	67,309,878	64,338,694
Fixed assets	909,642	907,342	941,898
Intangible assets	3,252,715	2,541,511	3,152,144
	389,697,041	370,785,637	371,155,432
Assets, total	1,109,305,860	1,111,389,743	1,154,434,841
Liabilities and Equity			
Liabilities in foreign currency			
Deposits and account balances of financial institutions and other institutions	106,766,861	86,247,046	87,905,163
Liabilities to the Government	1,998,118	2,571,830	2,718,775
Financial instruments at fair value measured through a profit or loss method	687,745	3,819,868	2,015,617
Liabilities to the IMF	278,390,937	286,814,862	299,023,415
Other loans	55,306,716	55,292,576	53,206,929
Other liabilities	148,000	172,888	244,322
	443,298,377	434,919,070	445,114,221
Liabilities in local currency			
Notes and coins in circulation	404,169,122	395,632,669	440,117,123
Deposits and account balances of financial institutions and other Institutions	172,700,821	185,591,701	181,964,508
Liabilities to the Government	112,382,402	114,892,983	106,563,930
Other liabilities	2,215,083	1,976,105	2,836,566
	691,467,428	698,093,458	731,482,127
Liabilities, total	1,134,765,805	1,133,012,528	1,176,596,348
Equity			
Capital issued	100,000	100,000	100,000
General reserve	17,389,049	17,389,049	17,389,049
Additional capital	107,531,884	107,531,884	107,531,884
Revaluation reserve for assets available for sale	(1,044,714)	(1,317,705)	(1,182,440)
Accrued profit/loss	(149,436,164)	(145,326,013)	(146,000,000)
Equity, total	(25,459,945)	(21,622,785)	(22,161,507)
Liabilities and Equity, total	1,109,305,860	1,111,389,743	1,154,434,841

This Central Bank Statement on Financial Standing was approved by the Board of Central Bank on July 20, 2013 and signed thereafter.

ARTHUR JAVADYAN

Chairman

HAYKANUSH HAKOBYAN

Chief Accountant

International Reserves of the Republic of Armenia

By virtue of Article 52 of the Republic of Armenia Law on Central Bank, the Central Bank hereby presents

SURVEY INFORMATION

on condition and composition of international reserves of the Republic of Armenia

Q2, 2013 (closing entries included)

Beginning of quarter	SDR	USD
I. Foreign assets gross		1,631,218,357.35
including:		
International reserves (gross foreign assets in free convertible currency)		1,631,217,920.70
o/w:		
SDR with the IMF	1,101,079.00	1,650,733.71
Reserve position with the IMF	0.00	0.00
II. Foreign assets net		951,660,378.87
o/w: in free convertible currency		951,659,942.22
End of quarter		
I. Foreign assets gross		1,606,263,455.01
including:		
International reserves (gross foreign assets in free convertible currency)		1,606,263,064.38
o/w:		
SDR with the IMF	22,582,270.00	33,962,795.08
Reserve position with the IMF	0.00	0.00
II. Foreign assets net		930,036,756.37
o/w: in free convertible currency		930,036,365.74

ARTHUR JAVADYAN
Chairman