
Financial System of the Republic of Armenia in Q3, 2013

BANKS FUNCTIONING IN ARMENIA

As of 30.09.2013, there were 21 commercial banks with a total of 481 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 third quarter of 2013, total capital of the banking sector grew by 3.8 percent and amounted to AMD 428.7 billion, at the end of the quarter, owing to generated net profit of AMD 12.2 billion and a total of AMD 6.6 billion of paid-in capital carried out by two banks.

During the quarter, the total capital growth rate outpaced the assets growth rate by 0.8 pp, and the total capital to total assets ratio has risen by 0.2 pp to 15.8 percent.

The total capital adequacy standard of commercial banks has grown by 0.2 pp to 16.5 percent, due to surpassing growth of total regulatory capital over the growth of risk weighted assets.

TOTAL LIABILITIES OF BANKING SECTOR

In the period under review, total liabilities of commercial banks have increased by 2.8 percent and amounted to AMD 2 trillion 289.4 billion at the end of the quarter. During the quarter 14 banks reported increases and 8 banks reported decreases in total liabilities.

The growth of total liabilities was largely attributable to the liabilities (including correspondent 'loro' accounts) to banks (Central Bank included) and total deposit portfolio, having reported increases of 5.8 percent (AMD 24.0 billion) and 1.9 percent (AMD 25.2 billion), respectively.

During the quarter the amount of demand and term deposits of companies reduced by 1.6 percent to AMD 510.1 billion. On the contrary, demand and term deposits of individuals have increased by 4.1 percent to AMD 853.6 billion.

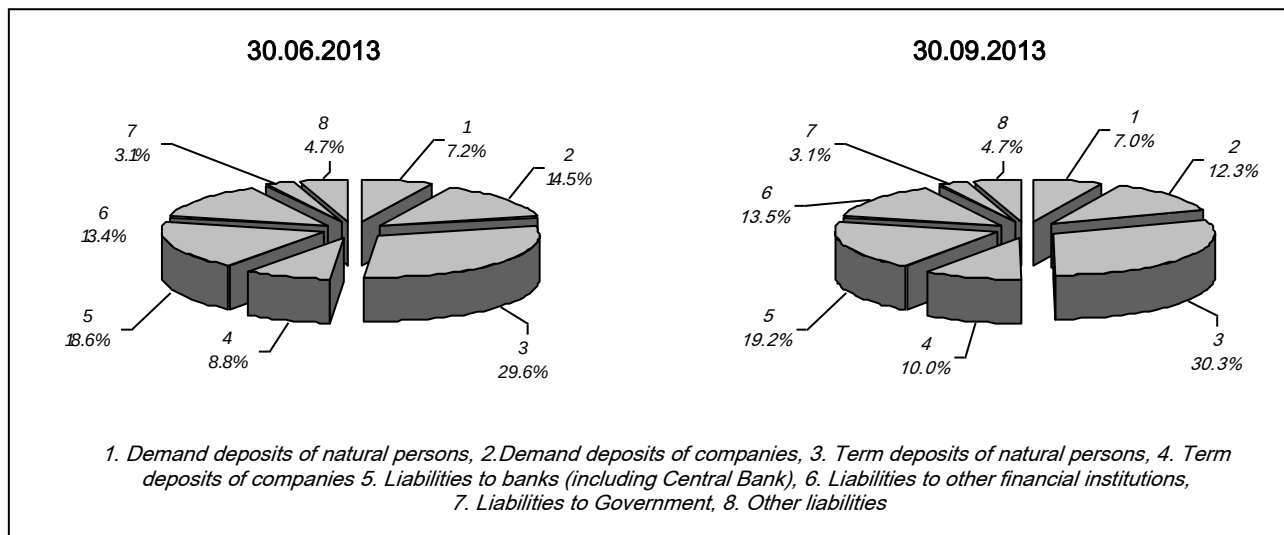
By maturity structure, the share of demand and term deposits of companies and individuals in total deposit portfolio has accounted for 32.4 percent and 67.6 percent (36.0 percent and 64.0 percent, as of 30.06.2013), respectively.

By currency structure, the dram and foreign currency deposits have grown by 6.8 percent and 0.1 percent, respectively. As a result, the share of foreign currency deposits in total deposit portfolio has contracted by 1.3 pp to 71.6 percent at the end of the quarter.

¹ Involves 21 commercial banks and the All-Armenian Bank.

The quarter saw some changes in the structure of total liabilities: the share of term deposits of companies and individuals in total liabilities portfolio has grown, the amount of liabilities to banks (Central Bank included) has increased, and the share of demand deposits of companies has reduced.

Structure of total liabilities of the banking sector

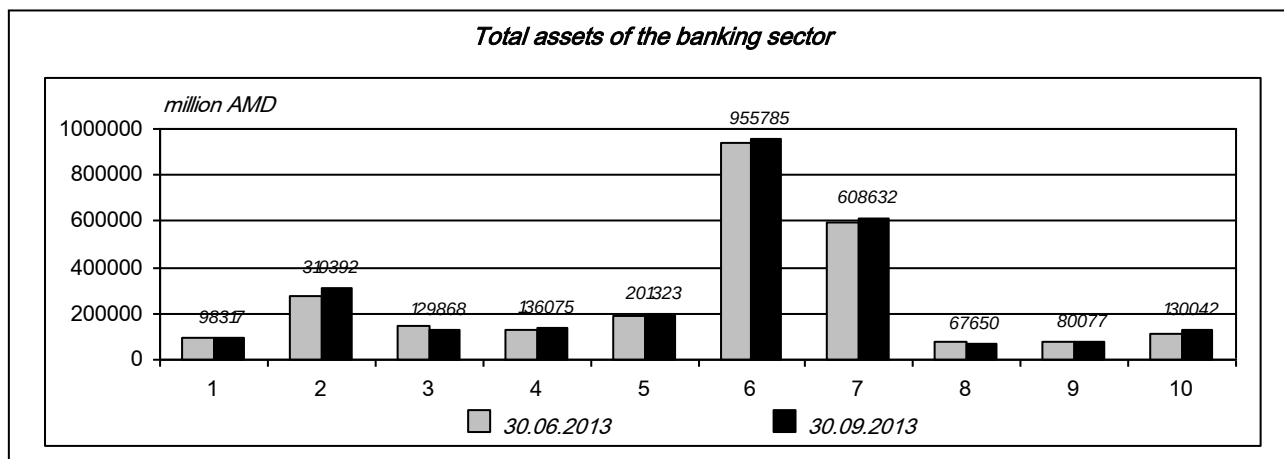


TOTAL ASSETS OF BANKING SECTOR

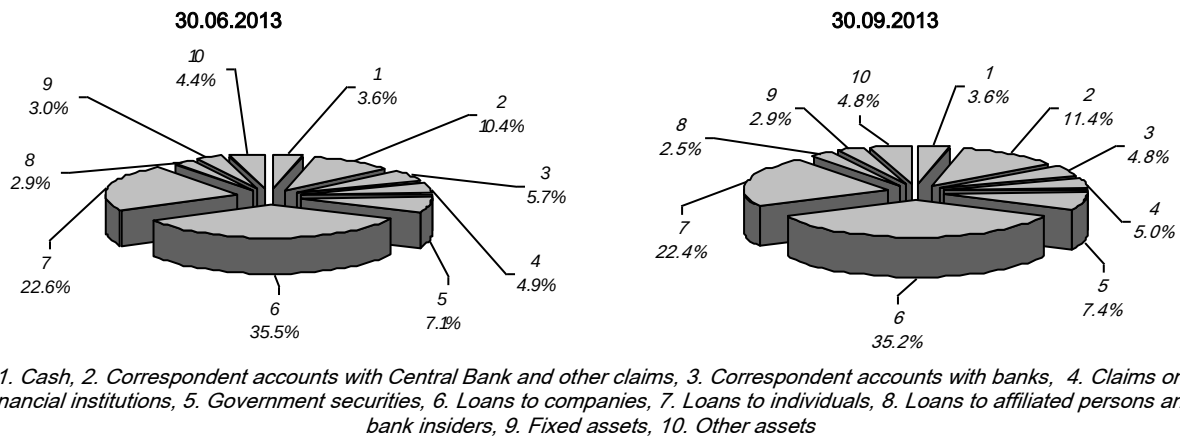
In the period under review, total assets of the banking sector have grown by 2.9 percent and amounted to AMD 2 trillion 718.2 billion at the end of the quarter. During the quarter 16 banks reported increases and 6 banks reported decreases in assets.

As of 30.09.2013, the volume of credit to the economy (factor and lease operations included) has been AMD 1 trillion 646.9 billion. The value of loans provided to companies and individuals has increased by 1.9 percent and 2.0 percent to AMD 955.8 billion and AMD 608.6 billion, respectively. In contrast, the value of credit to bank insiders has reduced by 10.6 percent to AMD 67.6 billion. The total value of the factor and lease operations (interbank leasing and factoring excluded) has increased by 3.3 percent to AMD 14.8 billion at the end of the quarter.

Total assets of the banking sector



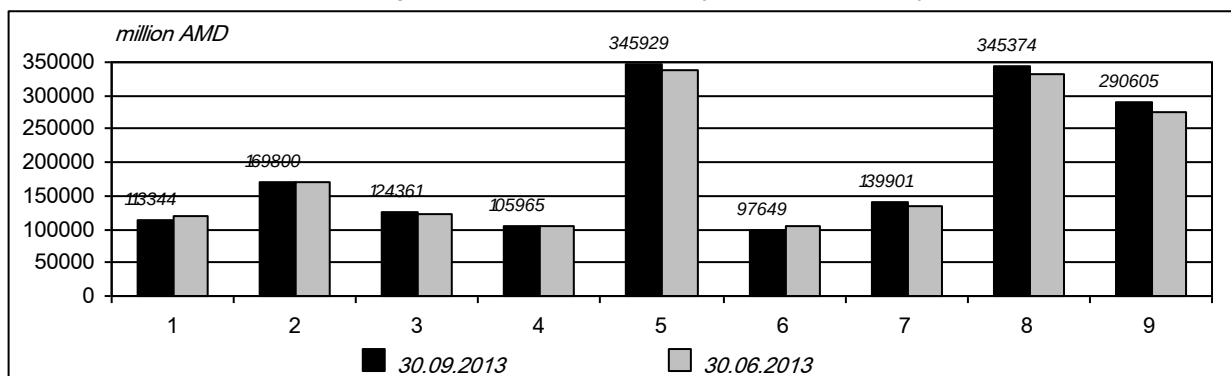
Structure of total assets of the banking sector



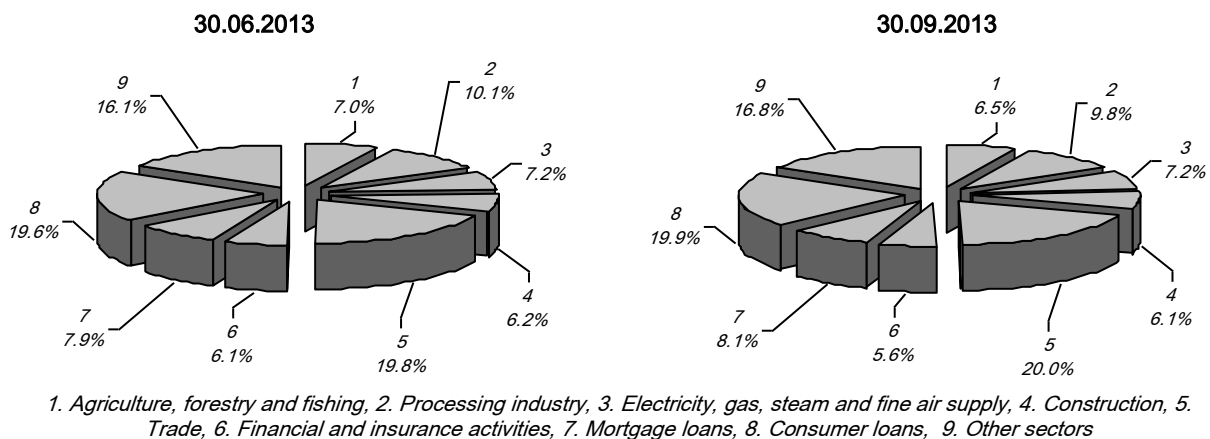
During the quarter, no considerable changes were observed in the assets structure.

By currency structure, the dram and foreign currency loans (factor and lease operations included) have grown by 2.7 percent and 0.7 percent and reached AMD 587.0 billion and 1 trillion 59.8 billion, respectively. As a result, the share of foreign currency loans to total loans has contracted by 0.4 pp to 64.4 percent at the end of the quarter.

Banking sector loans to residents, by sectors of economy



Resident loan investment by the banking sector



Somewhat a brisker activity has been reported in respect of mortgage lending, consumer loans and trade credit, having reported increases of 4.5 percent, 3.6 percent and 2.5 percent, respectively.

In the structure of resident loan investment during the quarter, the shares of credit to 1) agriculture, forestry and fishing and 2) financial and insurance services have reduced by 0.5 pp each.

Loan investments in trade, consumer activities and manufacturing industries posted growths by 20.0 percent, 19.9 percent and 9.8 percent, respectively.

The share of non-performing loans and receivables in total loans and receivables has decreased by 0.4 pp to 5.2 percent at the end of the quarter.

As of 30.09.2013, the shares of “watch” category loans and receivables of the banking system constituted 2.5 percent of the total; “substandard” category loans, 1.9 percent, and “doubtful” category loans, 0.7 percent (the shares were 3.6 percent, 1.3 percent, and 0.8 percent, respectively, as of 30.06.2013).

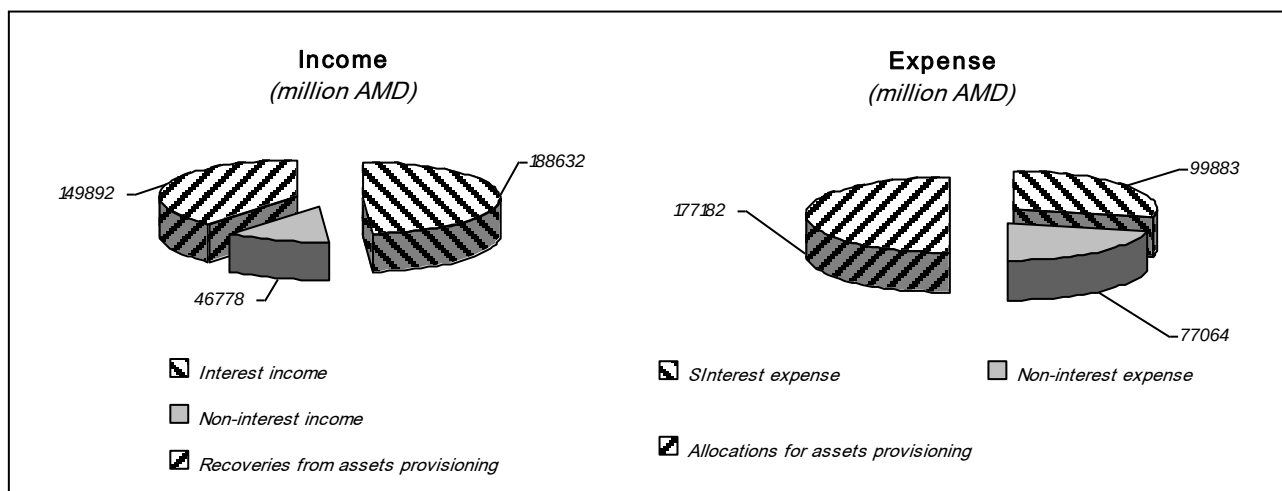
In the period under review, the total liquidity ratio of commercial banks has risen by 0.2 pp and the current liquidity ratio by 9.8 pp to have reached 26.3 percent and 136.9 percent.

INCOME AND EXPENSE ACCOUNT OF COMMERCIAL BANKS

Based on the results of the first three quarters of 2013, net profit of the banking system (profit after tax), calculated according to the supervision reports, was AMD 24.4 billion², return on assets³ (annualized) (RoA), 1.2 percent, and return on capital (annualized) (RoE), 8.0 percent. Bank performance for the same reference period was as follows: 18 banks operated with profit and 4 operated at a loss.

In the first nine months of 2013, net profit of the banking system, calculated according to IFRS, was AMD 35.3 billion. Return on assets (annualized) (RoA) and return on equity (annualized) (RoE) indicators were 1.8 percent and 11.6 percent, respectively.

Banking sector income and expense structure



According to supervision reports submitted to the Central Bank, gross profit and gross expense of the banking system for the first nine months of 2013 amounted to AMD 385.3 billion and AMD 354.1 billion, respectively.

Proceeds from credit to the economy accounted for the largest share, 83.9 percent, of interest income; commission fees accounted for 46.4 percent and FX trades accounted for 22.7 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.

Interest expense on term deposits and interest expense on funds attracted from commercial banks and financial organizations remained the largest expense items, having amounted to 53.2 percent and 19.1 percent, respectively.

Bank employee salary and salary equivalents accounted for 47.9 percent of non-interest expense.

In the third quarter the share of net provisioning⁴ of commercial banks amounted to AMD 6.4 billion or 0.2 percent of average annual amount of total assets.

CREDIT ORGANIZATIONS

As of 30.09.2013, there were 33 credit organizations, with a total of 123 branch offices, functioning in the territory of the Republic of Armenia.

In the period under review, total assets of credit organizations have grown by 3.6 percent (AMD 6.8 billion) and amounted to AMD 196.4 billion at the end of the quarter. In the reporting period, 25 credit organizations reported increases and 8 reported decreases in assets.

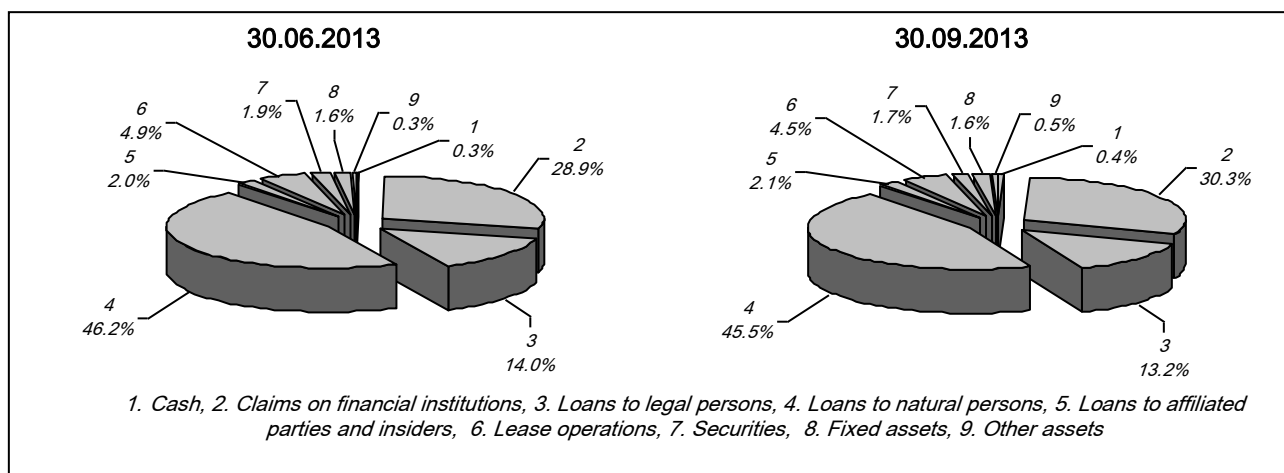
In the period under review, total lending to the economy (factor and lease operations included) by credit organizations has grown by 1.2 percent (AMD 1.5 billion) and reached AMD 128.5 billion at the end of the quarter. The share of loans to natural persons accounted for 69.6 percent in total growth, loans to companies, 20.2 percent, loans to credit organization affiliated parties and employees, 3.2 percent, and to lease operations, 6.9 percent.

The value of loans to natural persons has increased by 2.2 percent (AMD 1.9 billion) and reached AMD 89.4 billion, whereas the value of loans to companies has decreased by 2.0 percent (AMD 524.4 million) to AMD 26.0 billion. The volume of lease operations has reduced by 3.6 percent (AMD 333.8 million) to AMD 8.9 billion. The amount of lending to credit organization affiliated parties and employees has increased by 10.7 percent (AMD 400.5 million) to AMD 4.1 billion.

By currency structure, the value of dram loans to the economy (factor and lease operations included) has grown by 1.9 percent (AMD 1.4 billion) and the value of foreign currency loans (factor and lease operations included), by 0.2 percent (AMD 81 million). As a result, the share of foreign currency loans (factor and lease operations included) has contracted by 0.4 pp to 38.9 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 reduced by 0.3 pp to 4.2 percent at the end of the quarter; as of 30.09.2013 the share of 'watch' category loans and receivables of credit organizations was 2.2 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 30.06.2013, the figures were 2.5 percent, 1.1 percent and 0.9 percent, respectively).

In the period under review total capital of credit organizations has grown by 1.9 percent (AMD 1.4 billion) and reached AMD 73.8 billion; statutory capital of credit organization has increased by AMD 671.4 million.

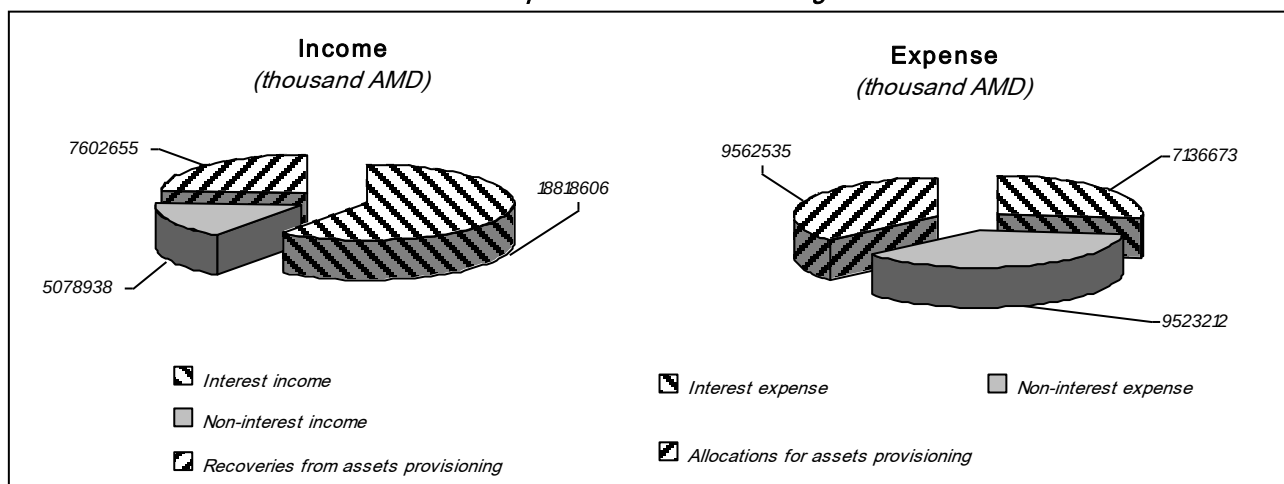
In the period under review total liabilities of credit organizations have increased by 4.7 percent (AMD 5.5 billion) and reached AMD 122.6 billion at the end-period. The increment was due to 6.9 percent growth (AMD 1.1 billion) of liabilities to companies, 4.7 percent growth (AMD 1.4 billion) of liabilities to other financial institutions and 4.1 percent increase (AMD 564.2 million) of liabilities to the Government.

As of 30.09.2013, the total amount of demand and term liabilities to individuals and companies has been AMD 27.3 billion, with the value of liabilities to individuals remained unchanged, AMD 9.1 billion, but with the value of liabilities to companies having increased by 6.9 percent (AMD 1.2 billion) to AMD 18.1 billion at the end of the quarter.

In the liabilities structure of credit organizations, the share of liabilities to banks has reduced by 1.2 pp.

In the course of 3 quarters of 2013, the net profit (profit after tax) of credit organizations, calculated according to the supervision reports, was AMD 4.4 billion. Since the beginning of the year, 26 credit organizations posted profit and 7 posted loss. Credit organizations' return on profit (annualized) has been 3.2 percent and return on equity (annualized), 8.4 percent.

Income and expense structure of credit organizations



Since the beginning of the year the net profit of credit organizations, calculated according to IFRS, was AMD 4.9 billion. Return on assets (annualized) (RoA) remained the same, 3.5 percent but return on equity (annualized) (RoE) has increased by 0.4 pp to 9.2 percent.

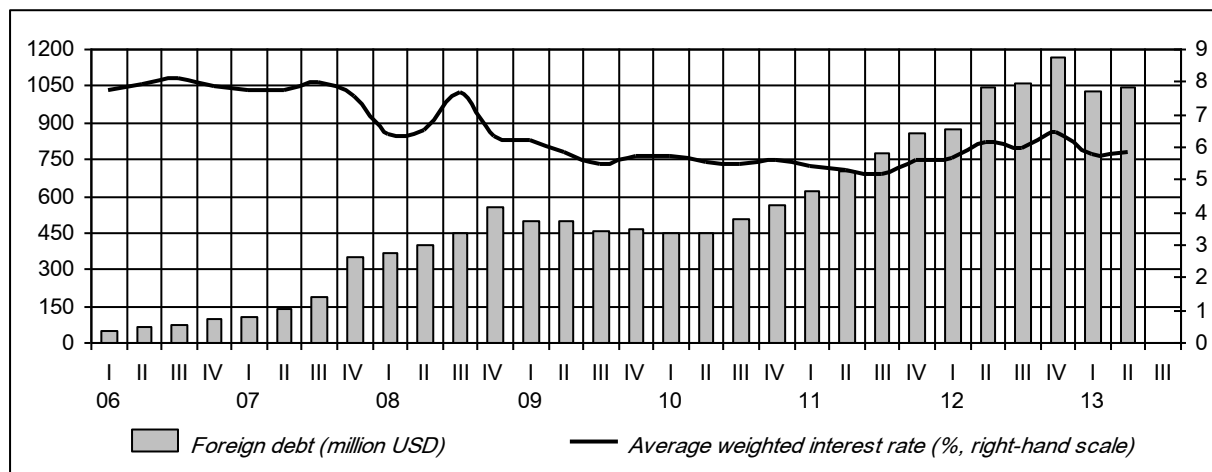
External debt of Armenian commercial banks and credit organizations as of end Q3, 2013

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 1096.3 million against USD 1042.2 million recorded at the end of the previous quarter. Over the quarter commercial banks and credit organizations attracted loan resources of USD 359.8 million from the rest of the world and made installments in the amount of USD 309.2 million on the principal**. Long-term loans accounted for 23.8 percent of total credit resources attracted, with 19.5 percent of them disbursed from Russia, 16.4 percent from Great Britain, 16.0 percent from the Netherlands, and 24.8 percent from international financial organizations.

At the end of the third quarter of 2013, the main lenders to commercial banks and credit organizations were Russia (with its share of 19.2 percent in total compared to 17.5 percent in previous quarter), Luxemburg (10.2 percent compared to 10.4 percent), and the Netherlands (7.0 percent compared to 7.4 percent).

At the end of the third quarter of 2013, the average-weighted interest rate of attracted loans remained unchanged, 5.8 percent. About 45.1 percent of external loans are with floating interest rates (LIBOR, EURIBOR, and etc.). The average maturity of the loans is 3.8 years. The share of short-term loans has grown to 9.6 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 30.09.2013, 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 reduced by 6.8 percent to AMD 46.9 at the end of the quarter; liabilities have reduced by 7.9 percent to AMD 33.1 billion; total capital has decreased by 3.8 percent to 13.8 billion.

In the assets portfolio of insurance companies, deposits with banks reported the largest share (29.3 percent), followed by accounts receivable in respect of direct insurance (20.5 percent) and investment in government securities (14.4 percent).

In the liabilities portfolio of insurance companies, the share of reserve for unearned insurance premiums accounted for the largest share (41.5 percent) and reserves for claims (13.3 percent).

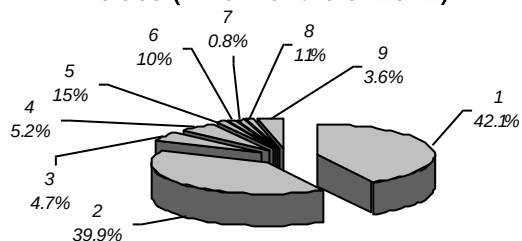
The first three quarters' results show that net loss of insurance companies, calculated according to supervision reports, amounted to AMD 532.8 million.

The first three quarters' results show that net loss of insurance companies, calculated according to IFRS, amounted to AMD 338.1 million.

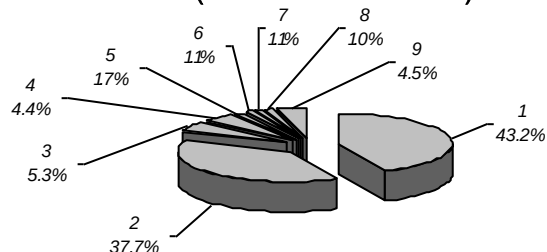
The amount of insurance premium totaled AMD 28.4 billion and the amount of premiums transferable to the reinsurers reached AMD 2.0 billion or 7.1 percent of total insurance premium.

⁵ This includes indicators of 7 insurance companies active and reporting as of 30.09.2013.

Accrued insurance premium, by insurance class (nine months of 2012)



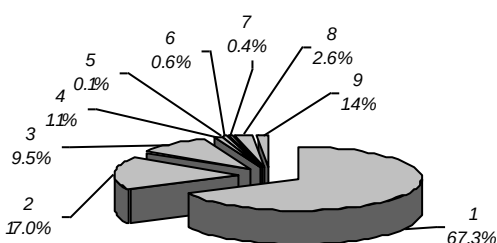
Accrued insurance premium, by insurance class (nine months of 2013)



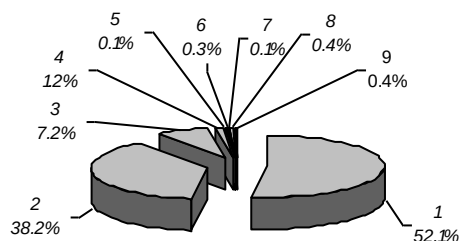
1. Mandatory motor insurance against third party liability, 2. Health insurance, 3. Land vehicle insurance, 4. Fire and natural disaster insurance, 5. Property in transit insurance, 6. Accident insurance, 7. General liability insurance, 8. Assistance insurance, 9. Other insurance

In the period under review, insurance indemnities reached AMD 14.6 billion, while sums on insurance indemnities from reinsurers amounted to AMD 372.3 million or 4.4 percent of all insurance indemnities.

Accrued insurance indemnity, by insurance class (nine months of 2012)



Accrued insurance indemnity, by insurance class (nine months of 2013)

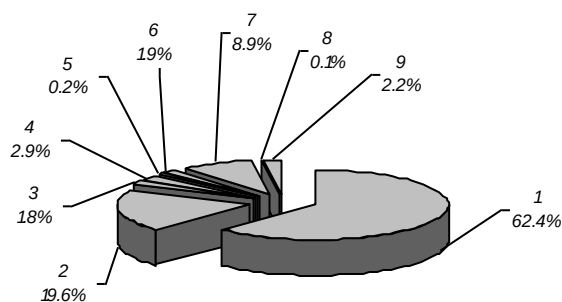


1. Mandatory motor insurance against third party liability, 2. Health insurance, 3. Land vehicle insurance, 4. Fire and natural disaster insurance, 5. Property in transit insurance, 6. Accident insurance, 7. General liability insurance, 8. Assistance insurance, 9. Other insurance

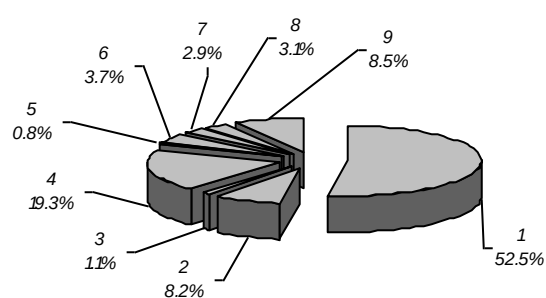
As of 30.09.2013, there were 595.4 thousand contracts in use, with a total reported amount of AMD 8.7 trillion. The amount of reinsured risks transferred to reinsurers reached AMD 2.2 trillion or 25.1 percent of insurance sums.

Insurance contracts and insurance sums, by insurance class

Insurance contracts, by insurance class (as of 30.09.2013)



Insurance sums, by insurance class (as of 30.09.2013)



1. Mandatory motor insurance against third party liability, 2. Health insurance, 3. Land vehicle insurance, 4. Fire and natural disaster insurance, 5. Property in transit insurance, 6. Accident insurance, 7. General liability insurance, 8. Assistance insurance, 9. Other insurance

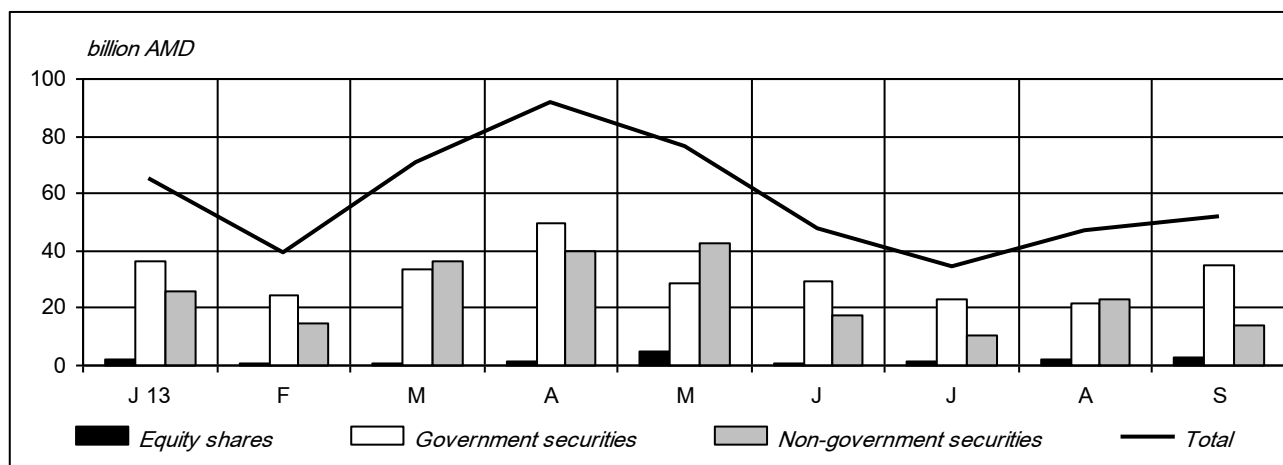
SECURITIES MARKET PARTICIPANTS

As of 30.09.2013, 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.

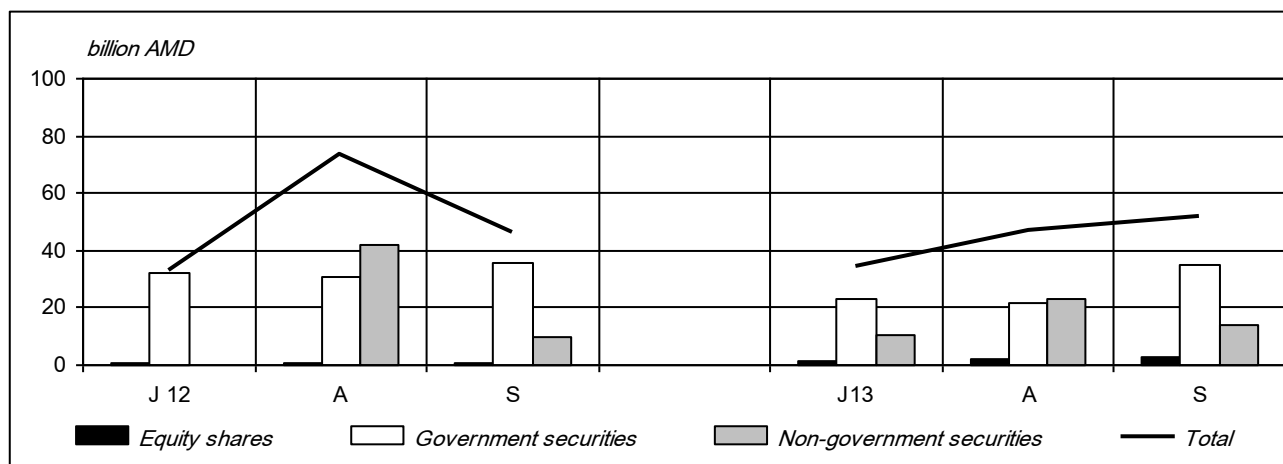
As of 30.09.2013, total assets of investment companies have reached AMD 27.4 billion, representing 0.3 percent reduction in relation to the previous quarter. Total capital of investment companies has increased by 3.8 percent against the previous quarter to AMD 4.3 billion.

In the third quarter the volume of securities trading in the Armenian securities market for investment operations has reduced by 12.6 percent to AMD 133.2 billion. Relative to the same quarter of the previous year, the volume of trading in corporate securities has decreased by 9.3 percent to AMD 47.2 billion. The volume of trading in shares has roughly tripled to AMD 6.0 billion. The volume of trading in treasury bills has reduced by 18.7 percent and amounted to AMD 79.9 billion. Based on the results of the third quarter, the operations with treasury bills remained prevailing, making up 60.0 percent of total securities market turnover. The share of operations with corporate bonds and shares constituted 35.4 percent and 4.5 percent, respectively, in total.

Securities trades by investment companies executed in Q3, 2013



Securities trades by investment companies executed in third quarters of 2013 and 2012



In the trades of government securities, the medium-term treasury bills had the largest share, making up 56.7 percent of total operations. The share of long-term and short-term treasury bills in the total traded volume of government securities constituted 33.9 percent and 9.4 percent, respectively.

The volume of securities trades executed in the regulated market by investment service providers constituted 2.4 percent of total investment operations carried out.

Relative to the third quarter of the previous year, the volume of operations carried out in the regulated market has more than doubled to AMD 3.8 billion, with trades on treasury bills constituting the biggest share, 56.4 percent, in total operations.

In the structure of investment operations, operations carried out by commercial banks as investment service providers accounted for 93.9 percent and operations carried out by investment companies constituted 6.1 percent, in total.

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 54.7 percent to AMD 453.5 billion, in which rollovers amounted to AMD 228.8 billion.

As of 30.09.2013, the volume of transactions executed as trust management amounted to AMD 2.1 billion, representing a 16.8 percent decrease in relation to the previous quarter.

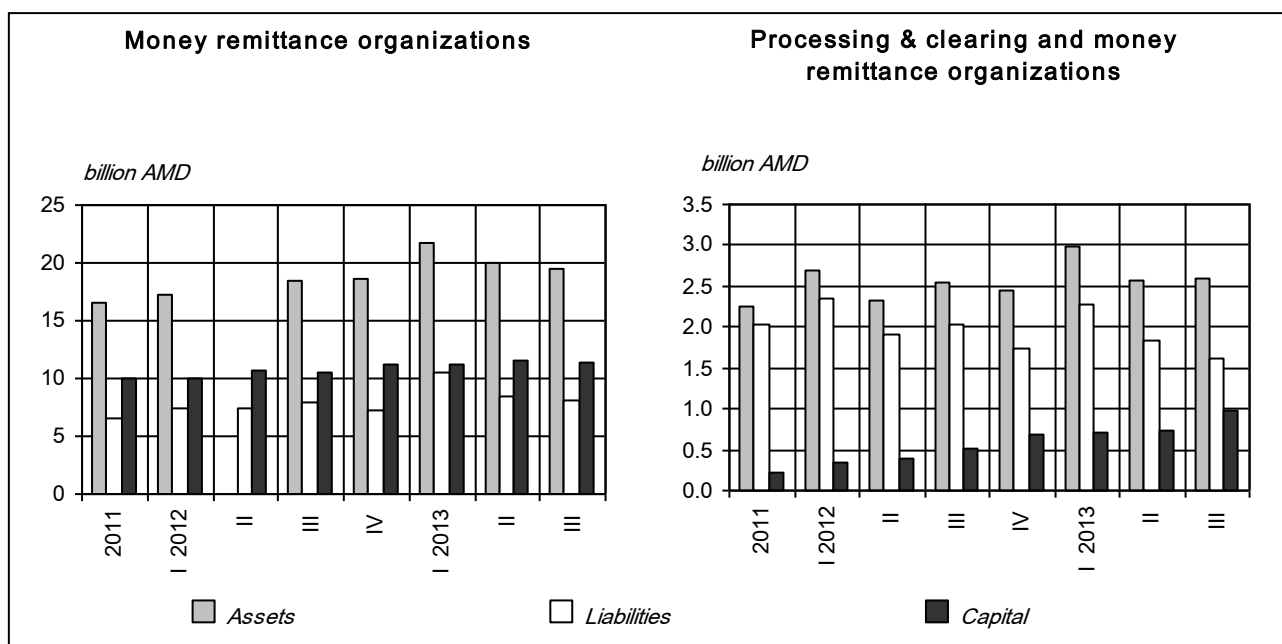
As of 30.09.2013, there were 1985 registries of holders of nominal securities (the number of holders: 108689) run at the Central Depository of Armenia.

As of 30.09.2013, a total of **20** classes of securities of **14** reporting issuers were admitted to trading in the regulated market. These classes included **12** shares of **11** issuers and **8** 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 3.8 billion. **Two** of the issuers are reportable on both shares and bonds. Commercial banks accounted for 25 percent of equity shares issued.

PAYMENT AND SETTLEMENT ORGANIZATIONS

As of end of the third 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 issue e-money and **one** organization licensed to carry out processing and clearing of payment instruments ("Armenian Card" CJSC).

Financial performance by payment and settlement organizations, 2011 – 2013



In the period under review, money remittance organizations alone reported loss of AMD 5 million, while the organizations engaged in processing/clearing of payment instruments and money remittance posted profit of AMD 252 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 third quarter the payment and settlement organizations executed inbound and outbound payments totaling, respectively, AMD 464 million and AMD 32 million. The average value per inbound transfer to the customer through these organizations has been AMD 126.000.

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 25.1 billion of which AMD 21.8 billion as public utility fees. In the third quarter of 2013, **two** payment and settlement organizations had 1025 self-service terminals, through which a total of AMD 15.1 billion-worth of funds (6.2 million transactions in number) were collected, of which AMD 6.5 billion were public utility fees.

Funds of AMD 249 million were collected on a non-cash basis, of which AMD 236 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 467,000 transactions reaching AMD 1.2 billion were executed.

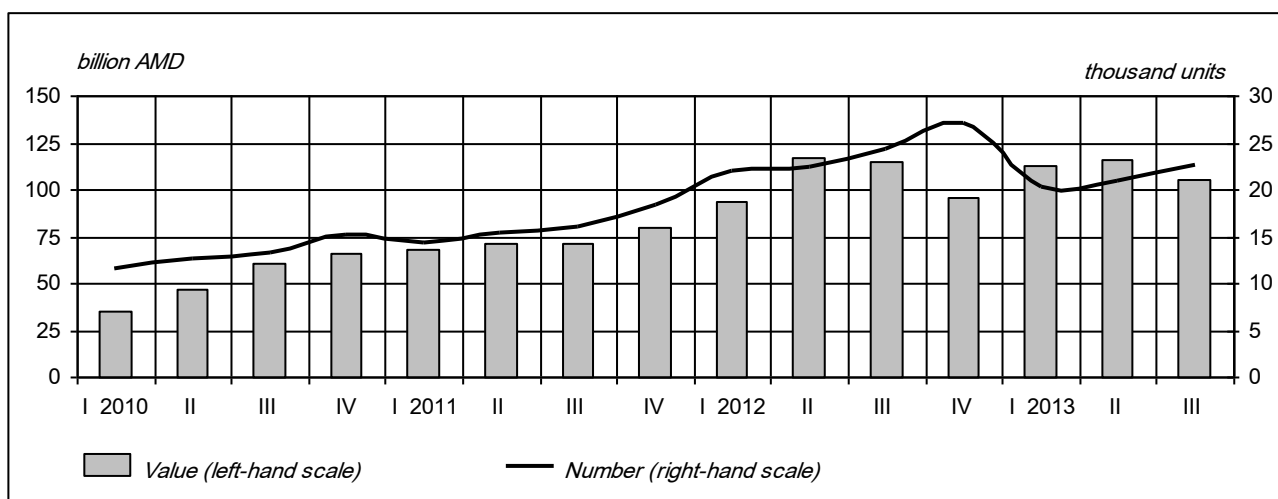
Payment and settlement developments

In the third quarter of 2013 the payment and settlement system of the Republic of Armenia further 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 128.5 billion, with 65 thousand transactions in number. The average daily value of non-cash payments executed through the Central Bank reached AMD 104.8 billion, with 23 thousand transactions in number. Relative to the same reference period of the previous year, the average daily value of non-cash payments via the Central Bank has reduced by 9 percent and the number, 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 8 percent against the third quarter of 2012 and reached AMD 31.6 billion but the number has reduced by 6 percent to 22,000 transactions.

The average daily transfers in connection with the use of monetary instruments of the Central Bank have reduced by 15 percent against the same period of the previous year to AMD 71.2 billion, with 536 transactions in number, representing some 18 percent reduction.

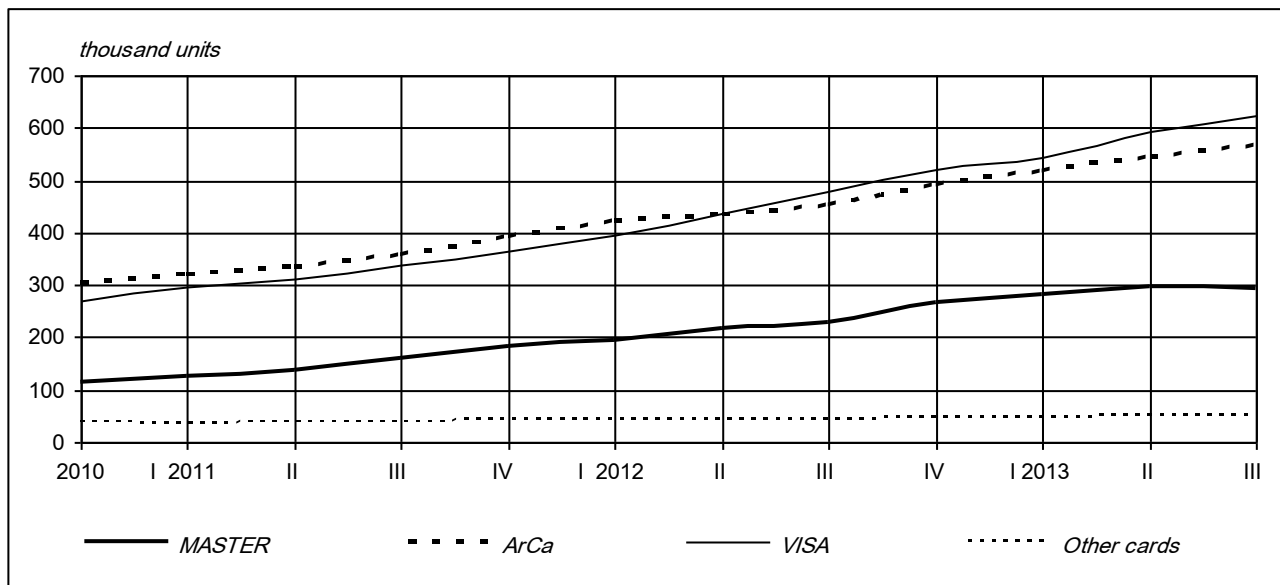
PAYMENT CARDS

As of end of the third 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, 10 more ATMs were installed to serve payment cards, and as of end of the third quarter the total number of ATMs was 1213. During the quarter the number of POS terminals installed by commercial banks reduced by 38 units to 6822.

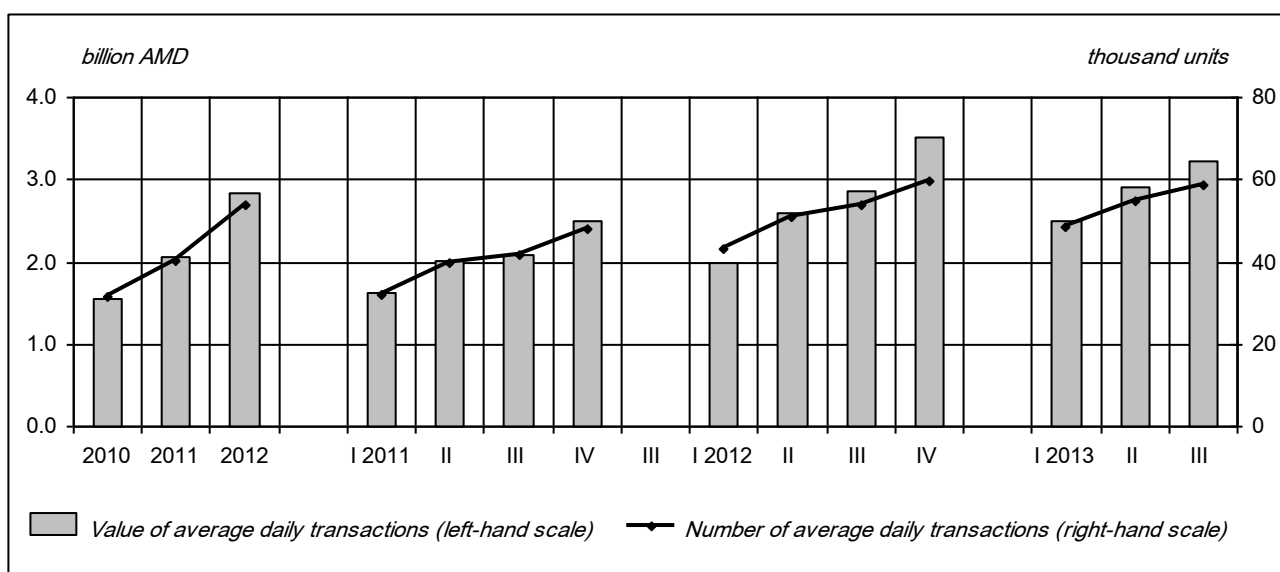
As of end of the third quarter, the total number of cards in use has been 1.5 million, which represents some 3 percent increase. In particular, the number of ArCa cards in use has increased by 4 percent and reached 567 thousand cards in total. The number of international system cards has increased by 3 percent to 968 thousand cards, with VISA having increased by 5 percent to 625 thousand cards and MasterCard having reduced by 1 percent to 294 thousand cards.

Payment cards issued by commercial banks in Armenia



In the third quarter of 2013, a total of 5.4 million of transactions amounting to AMD 296.3 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 28.2 billion. Of the non-cash turnover, e-payments via Internet amounted to AMD 6.7 billion (including e-commerce totaling AMD 0.6 billion and card-to-card payments, AMD 6.1 billion). The value of card-based non-cash transactions has increased by 22 percent relative to the same period of the previous year and constituted 10 percent of total transactions with cards.

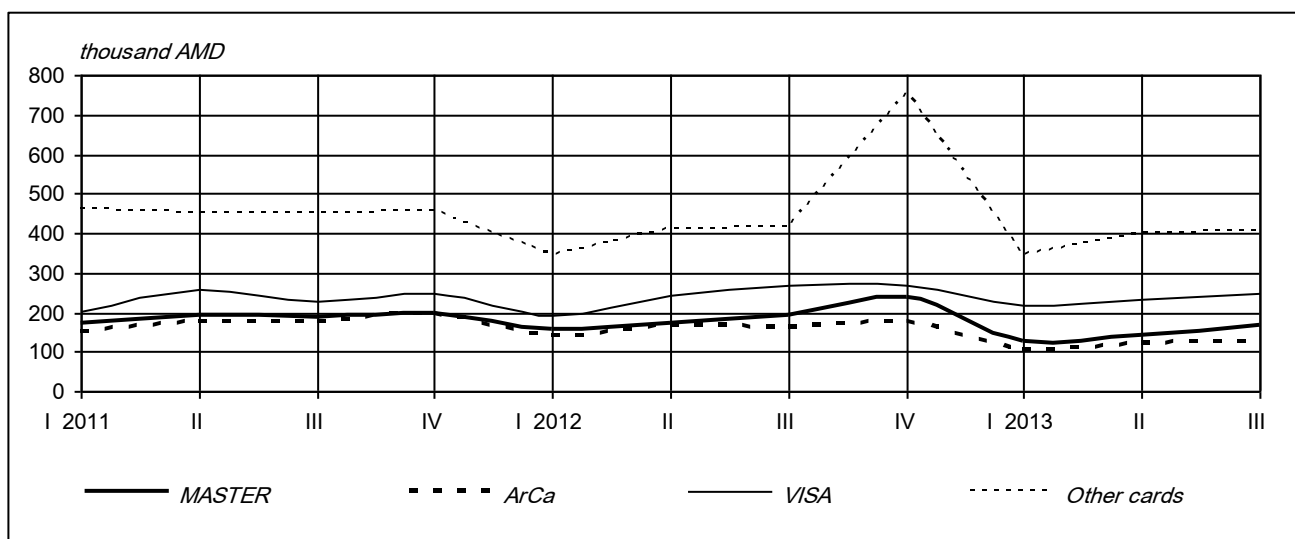
Average daily operations by payment cards executed in Armenia, 2010–2012 and by quarters of 2011–2013



**Transactions executed by means of card servicing machines
(Q3, 2013)**

Machines	Transactions			
	value (million AMD)	number	including by ArCa cards	
			value (million AMD)	number
Automated teller machines	234143	4455471	57599	1432711
o/w: non-cash	549	104181	48	42294
POS terminals / imprinters	55472	609971	14461	158624
o/w: non-cash	21017	504593	6734	112694
Internet environment	6655	323896	981	92115
Total	296270	5389388	73041	1683450
o/w: non-cash	28221	932670	7764	247103

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



Relative to the same period of the previous year, the value of transactions using ArCA cards remained unchanged but the number has reduced by 4 percent (62 thousand less transactions).

In the third quarter of 2013, relative to the third quarter of 2012, the value of cards transactions (including cards issued by foreign banks) in the Republic of Armenia has grown by 13 percent and amounted to AMD 296.3 billion; and the number has increased by 9 percent and reached 5.4 million transactions. The value of transactions executed abroad with cards issued by local banks in the Republic of Armenia has decreased by 7 percent to AMD 19.4 billion but the number has risen by 0.4 percent (1 thousand more transactions) to 333 thousand transactions.

In the third quarter of 2013, relative to the third quarter of 2012, the value of transactions with VISA cards (including VISA cards issued by foreign banks) in the Republic of Armenia has grown by 21 percent (AMD 26.5 billion); the number of such transactions has increased by 17 percent (346 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 11 percent (AMD 4.9 billion); the number of such transactions has increased by 8 percent (161 thousand more transactions). The value of transactions with other cards has increased by 8 percent (AMD 1.4 billion).

The value of transactions executed abroad with VISA cards issued by local banks in the Republic of Armenia remained unchanged compared to the previous reference period and the number of such transactions has increased by 11 percent (20 thousand more transactions). The value of transactions executed abroad with MasterCard cards issued by local banks in the Republic of Armenia has reduced by 16 percent (AMD 1.3 billion); the number of such transactions has reduced by 11 percent (15 thousand less transactions). The value of transactions executed abroad with other international cards has reduced by 14 percent (AMD 201 million).

Transactions by payment cards in Q3, 2013

Cards	Transactions in Armenia (cards issued by local and foreign banks)		Transactions abroad (cards issued by local banks)	
	<i>value (million AMD)</i>	<i>number</i>	<i>value (million AMD)</i>	<i>number</i>
ArCa	73041	1683450	-	-
o/w: non-cash	7764	247103	-	-
VISA	155031	2387847	11495	204028
o/w: non-cash	9897	354267	7907	163239
Mastercard	48575	1035713	6656	119875
o/w: non-cash	9415	318213	5175	103105
Other international cards	19624	282378	1246	8768
o/w: non-cash	1145	13087	519	3615
Total	296270	5389388	19397	332671
o/w: non-cash	28221	932670	13602	269959

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 third quarter of 2013 the value of inbound remittances to the Republic of Armenia through the banks participating in international transfers systems reached AMD 228.5 billion (997 thousand remittances in number), almost an 11-fold increase compared to the value of outbound transfers. Relative to the third quarter of 2012, the value of inbound remittances has increased by 13 percent. The average amount of an inbound remittance to the Republic of Armenia through these systems has been AMD 229 thousand. Net inflow of funds transferred by commercial banks through international money remitters has increased by 13 percent and amounted to AMD 207.1 billion.

The value of payments to natural persons executed through correspondent accounts of commercial banks operating in the Republic of Armenia reached AMD 49.4 billion, representing a 16 percent decrease relative to the same period of the previous year. The average value per payment was AMD 3.5 million, which is an AMD 0.9 million-worth 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 63.3 billion, representing some 5 percent (AMD 3.4 billion) decrement against the same period of the previous year.

The financial system regulatory framework in Q3, 2013

In the third quarter of 2013, amendment and/or supplements were introduced to the following regulations and acts:

Banking Sector

1. The Central Bank Board resolution endorsed supplements and amendment to Regulation 4 *Regulation of Banking and Prudential Standards for Banking*, whereby:
 - for calculation of S3 and S4 standards, persons who will not be considered affiliated if the government, the International Finance Corporation, the European Bank for Reconstruction and Development and/or the Asian Development Bank holds more than 20 percent of voting shares (equity, dividends) of such persons or has the right to foreordain their decisions in the manner not prohibited by law;
 - for calculation of foreign currency position, the foreign currency assets shall be included at book value, except for foreign currency assets categorized as standard and watched assets, which are included in the calculation at book value plus the amount of the provisioning for possible losses;
 - the shares owned by the bank as a result of disposition of collateral may remain non-deducted from regulatory capital within six months after having been treated as property of the bank in accordance with the law;
 - non-government bonds issued by a number of international organizations have been included in the structure of highly liquid assets;
 - Back to back derivative instruments may be included in the calculation of foreign currency position with derivative instruments;

The supplements and amendment are aimed to quality improvement of the regulatory framework and compliance with the level of risk taken by banks.
2. Changes and additions have been made to Regulation 3 *Bank statements, Reporting and Disclosure* in order to comply with the requirements set forth in Regulation 2.
3. Changes have been made to Procedure on Creation of Credit Registry of Banks, Credit Organizations, Foreign Bank Branches Offices operating in the territory of the Republic of Armenia and Participation in the Credit Registry, whereby:
 - the Credit Registry data can only be used for supervisory and analytical purposes;
 - banks and credit organizations can only obtain information at certain established periods of time;
 - individuals can only receive information from the Credit Registry once a year;
 - there has been a uniform reporting form established for the Credit Registry and ACRA Credit Bureau.

The amendment implies that the Credit Registry will only be used for supervisory and analytical purposes.

Insurance Sector

1. The Central Bank Board resolution (23.07.2013) has made amendment to Regulation 3/02 *Prudential Standards for Insurance Activity; Creation and Calculation; Reinsurer Permission Criteria*. The purpose of the amendment is to clarify the components in the calculation of prudential standards for insurance activity and to expand the list of liquid assets by considering bonds issued by high-rated organizations as a liquid asset.

2. The Central Bank Board resolution (30.08.2013) has made some changes and supplements to Regulation 3/04 *Insurance Company Statements, their Presentation and Disclosure*. Further, the regulation has been aligned with the amendment to the regulatory framework of insurance activity.

Securities Market Regulation

1. There were changes and supplements, endorsed under the Board of the Central Bank resolution (23.07.2013), made to Regulation 4/15 *Acquisition, Increment and Decrement of Participation in Statutory Capital of Reporting Issuer*. The amendment involved provisions whereby reporting issuers are required to disclose information on acquisition of major participations.
2. The Central Bank Board resolution (30.08.2013) has approved Regulation 5/15 *Maintaining a Register of Funded Pension Contribution Scheme Participants and Procedure of Account Operator Activity*. The regulation establishes rules for participants in the funded pension contribution scheme.
3. The Central Bank Board resolution (09.07.2013) has approved the Form of *Reference Information on the Amount of Funded Pension Contribution as Provided by Runner of Register of Participants*.
4. There were changes and supplements, endorsed under the Board of the Central Bank resolution (09.07.2013), made to Regulation 10/07 *Selecting Mandatory Pension Fund and Form of Application for Exchange of Pension Funds*. The amendment, inter alia, provided for a procedure on how to obtain information on a pension fund, how to select a pension fund.

Payment and Settlement System Regulation

1. The Central Bank Board resolution (09.07.2013) has approved a procedure on *Establishing Minimum Requirements to Information Security* with a view of bringing information security management system in line with international standards applicable in the field of information security.
2. The Central Bank Board resolution (23.07.2013) has approved a procedure on Establishing a Coding System of PSS Participants; moreover, the resolution has rescinded a previous Board decision No. 394-N, dated December 5, 2002. The new procedure is aimed to clarify the ranges within which codes are granted to new financial institutions licensed by the Central Bank.
3. There were changes, endorsed under the Board of the Central Bank resolution (24.09.2013), made to Guideline *Potential Threats to Financial Stability and/or Liquidity and/or Solvency of the Republic of Armenia as a result of Participation in Foreign Payment and Settlement System*. Changes aim to reduce the risks jeopardizing the stability of the financial system of the Republic of Armenia. Specifically, there has been a limit set for a rapid money transfer system as well as other risk mitigation mechanisms have been established.
4. The Board of the Central Bank has endorsed procedures for primary placement, buyback and redemption of short-term, medium-term and long-term coupon bonds of the Government of the Republic of Armenia, securities custody activities in the Republic of Armenia, execution of securities pledging transactions, coding of accounts used in the GSASS, secondary market turnover of government bonds, and the minimum requisites of documents used in transactions with government bonds. The resolution of the Board of the Central Bank has rescinded a previous Board decision No 75-N, dated March 30, 2004. The resolution is aimed to align the Central Bank procedures with all supplements and amendment introduced to the above-mentioned procedures, as were endorsed under the Central Bank Resolution No. 1580-N, dated December 27, 2007.

Financial Sector Indicators

Financial organizations: number and structure

Indicators	31.12.2012	31.03.2013	30.06.2013	30.09.2013
Banks	22	22	22	22
Banks by organizational structure	22	22	22	22
JSC	4	4	4	4
CJSC	17	17	17	17
LLC	1	1	1	1
Cooperative	0	0	0	0
Foreign participation	20	20	20	20
o/w: more than 50 percent	15	15	15	15
o/w: more than 95 percent	12	12	12	12
Foreign participation in statutory capital of banks, %	75.7	73.4	73.2	74.3
Credit organizations	32	33	33	33
Foreign participation	13	13	13	13
o/w: more than 50 percent	8	8	8	8
o/w: more than 95 percent	5	5	5	5
Foreign participation in statutory capital of credit organizations, %	33.2	30.5	28.8	27.9
Insurance companies	7	7	7	7
o/w: life insurance	0	0	0	0
o/w: non-life insurance	7	7	7	7
Foreign participation	4	4	4	4
o/w: more than 50 percent	3	3	3	3
o/w: more than 95 percent	3	3	3	3
Insurance brokers	4	3	2	2
Investment service providers in securities market ¹	30	30	30	29
o/w: investment service provider / bank	21	21	21	21
o/w: investment service provider company	9	9	9	8
Reporting issuer companies	14	14	15	15
Pawnshops	145	141	147	148
Licensed in the period under review	3	1	0	0
De-licensed in the period under review	2	2	2	0
Exchange offices ²	238	244	239	238
Licensed in the period under review	1	3	0	0
De-licensed in the period under review	1	16	0	0
Currency dealers	0	0	0	0
Money transfer organizations	7	7	8	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	Q2, 2012	Q3, 2012	Q4, 2012	Q1, 2013	Q2, 2013	Q3, 2013
Average quarterly assets ¹	2174354	2255015	2402395	2530541	2577843	2658387
Average quarterly loans	1390647	1438628	1502184	1567966	1603713	1625900
Average quarterly liabilities	1808638	1881318	2015263	2136970	2174152	2234384
Average quarterly deposits	960928	1032604	1115606	1203159	1279005	1333229
Average quarterly capital	365715	373696	387132	393571	403691	424003
Average quarterly total capital adequacy ratio	17.1%	17.0%	17.1%	16.5%	16.3%	16.4%
Average quarterly total liquidity ratio	24.4%	25.1%	25.6%	26.0%	26.0%	26.7%
Average quarterly current liquidity ratio	118.3%	123.6%	127.3%	135.6%	128.9%	129.5%

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	30.06.2013 ¹	30.09.2013 ¹	Change 30.09.13 – 30.06.13
Book value	393589	413189	428733	15544
Statutory capital	244127	251627	258232	6605
Profit / loss², o/w:	109013	118048	127324	9276
Profit (loss) in reporting period	42518	12145	24356	12211
Interest income	225728	123720	188632	64912
Interest expense	111165	65459	99883	34424
Non-interest income	56481	30033	46778	16745
Non-interest expense	96649	51166	77064	25898
Other expense ³	31876	24984	34107	9123
Total liabilities, o/w:	2077042	2227542	2289427	61885
Correspondent accounts of banks	7292	7581	10878	3297
Other liabilities to banks (including CBA)	453044	407244	427974	20730
Liabilities to other financial institutions	289329	299581	308852	9271
Demand liabilities to legal persons and natural persons	355599	482256	442451	-39805
Term deposits of legal persons and natural persons	776848	856208	921242	65034
Total assets, o/w:	2470631	2640731	2718160	77429
Cash	99041	94309	98317	4008
Correspondent accounts with banks (including CBA)	322718	401681	440260	38579
Other claims on banks (including CBA)	105213	111115	96436	-14679
Claims on other financial institutions	34468	42252	39639	-2613
Government securities, including:	178384	186919	201323	14404
Other securities	5681	6618	14864	8246
Loans to companies and individuals	1535190	1610012	1632067	22055
Loan investment, o/w:	1627588	1719523	1742254	22730
1. Standard	1569216	1618383	1647564	29181
2. Watch	26525	63287	46357	-16930
3. Substandard	18998	22681	34956	12275
4. Doubtful	12849	15173	13378	-1795

¹ Calculations include the data of 22 banks.

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

³ 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	30.09.2013	Change 30.09.13 – 30.06.13
Book value	62877	69118	73809	4691
Statutory capital	50300	54816	58649	3833
Profit / loss ¹, o/w:	10982	12339	12976	637
Profit (loss) in reporting period	4810	1639	4398	2759
Interest income	20349	5765	18819	13053
Interest expense	7504	2200	7137	4937
Non-interest income	6307	1775	5079	3304
Non-interest expense	10866	2884	9523	6640
Net provisioning	2058	579	1960	1381
Other expense ²	1418	239	880	641
Total liabilities, o/w:	105654	110725	122596	11871
Funds attracted from banks	35979	35375	42416	7041
Funds attracted from other financial institutions	26511	28222	31487	3265
Demand liabilities to legal persons and natural persons	681	732	827	95
Term liabilities to legal persons and natural persons	24212	26703	26438	-265
Total assets, o/w:	168531	179843	196405	16562
Cash	312	496	855	359
Bank accounts	3771	4454	7676	3222
Other claims on banks	40565	40787	46827	6040
Claims on other financial institutions	4120	4110	5083	973
Loans	104912	112982	119552	6570
Financial lease	8332	9316	8905	-411
Government securities	2502	2881	3126	246
Other securities	30	446	127	-319
Loan investment, o/w:	149867	159191	172850	13659
1. Standard	144560	153647	165613	11965
2. Watch	3013	2785	3806	1021
3. Substandard	1301	1605	2011	406
4. Doubtful	993	1154	1420	267

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

² Data include net provisioning on assets and profit tax.

Main Indicators of Insurance Companies and Changes Thereto

(million AMD)

Indicators	31.03.2013	30.06.2013	30.09.2013	Change (30.09.2013) - (30.06.2013)
Cash	212	56	57	0
Bank accounts	1317	889	771	-118
Sums receivable on insurance	5160	11728	9583	-2145
Sums receivable from co-insurers	0	0	0	0
Sums receivable from re-insurers	87	128	90	-38
Claims on indemnity	591	549	679	130
Claims generated from subrogation	296	440	474	34
Deposits with banks	13814	14887	13711	-1176
Loans	696	1196	1391	195
Securities sold under repo agreements	2227	4942	5386	444
Securities	3895	1337	1646	309
Reserves for possible irrecoverable loss	-493	-723	-690	33
Re-insurer's share in insurance reserves	1933	2326	2364	37
Interest receivable	514	613	568	-45
Future expense and prepayment on insurance	2794	3579	2854	-726
Fixed assets	2843	3094	2912	-181
Other assets	2465	5208	5056	-152
Assets total	38351	50250	46851	-3399
Dram	34814	44727	41300	-3426
Foreign currency	3538	5524	5551	27
Indemnity payable, o/w:	223	273	354	81
Sums payable to brokers	562	937	768	-168
Insurance amounts recoverable	168	87	90	4
Insurance amounts transferable to co-insurers and re-insurers	1418	1126	1184	59
Current loans	197	3634	3371	-263
Technical reserves, including"	15612	22287	19151	-3136
Unearned insurance reserves	10833	16726	13716	-3010
Claims reserve	3956	4383	4406	23
Mathematical reserve	0	0	0	0
Other reserves	822	1179	1030	-149
Repo agreements	2160	4976	5587	611
Other liabilities	3957	0	2560	2560
Liabilities total	24296	35916	33066	-2849
Dram	23856	33399	30467	-2932
Foreign currency	440	2517	2599	82
Statutory capital	11430	13232	13232	0
Undistributed profit / loss in current period	699	-278	-648	-370
Undistributed profit / loss in previous period	1261	683	683	0
Other	665	698	518	-180
Equity total	14055	14335	13785	-550
Insurance amounts	6295988	8275608	8677460	401852
Gross value of premiums	35525	22708	28374	5666
Premiums transferred to re-insurer	3172	1318	2001	683
Gross value of insurance indemnity	14487	9656	14599	4943
Re-insurer's share in insurance indemnity	784	372	637	265

Main Indicators of Investment Service Providers

(million AMD)

Indicators	30.06.2013	30.09.2013	Change (30.09.2013) - (30.06.2013)
Net book value	4167	4324	157
Undistributed profit / loss, o/w:	644	709	66
Profit in current period	309	529	220
Commission and proceeds from provision of IS	749	824	74
Net proceeds from sale of securities	392	1074	683
Statutory capital	2942	2170	-772
Total liabilities	23324	23095	-229
Loans from resident banks	1860	527	-1334
Liabilities on repo agreements	20938	22054	1117
Total balance sheet assets	27491	27419	-72
Cash	2	2	0
Bank accounts	477	548	72
Securities sold through repo agreements	21235	22079	844
Securities purchased through repo agreements	-	-	-
Government securities	3000	1723	-1277
Other securities	816	727	-89

Operations by Investment Service Providers

(million AMD)

Indicators	2013		
	Q1	Q2	Q3
Operations by investment bank	1123353	1344317	1368551
equity shares	2498	5765	6030
o/w: traded on stock exchange	834	193	116
corporate bonds	77045	99994	46722
o/w: traded on stock exchange	1111	1523	847
government bonds	89386	105080	72232
o/w: traded on stock exchange	639	3320	3691
repo/reverse repo agreements ¹	954424	1133478	1243567
o/w: traded on stock exchange	9	727	200
Operations by investment company	89798	82376	95874
equity shares	761	1056	3
o/w: traded on stock exchange	755	1055	0
corporate bonds	136	300	454
o/w: traded on stock exchange	135	217	378
government bonds	5047	3057	7713
o/w: traded on stock exchange	-	206	597
repo/reverse repo agreements ¹	83853	77963	87703
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 September 30, 2013)

(thousand AMD)

	30.09.2013	30.06.2013	2012
<u>Assets</u>			
Assets in foreign currency			
Cash	5,545,990	5,608,306	5,937,942
Funds allocated with banks and other financial institutions	437,529,247	159,791,984	248,667,357
Financial instruments at fair value measured through a profit or loss method	418,633,044	345,140,768	273,543,277
Assets available for sale	1,646	1,646	1,646
Assets held up to maturity	120,695,495	133,861,671	185,240,208
Holdings with the IMF	59,799,911	70,636,825	69,868,364
Other assets	4,553,406	4,567,619	20,615
	1,046,758,739	719,608,819	783,279,409
Assets in local currency			
Loans and reverse repurchase agreements	202,986,698	183,060,828	171,603,820
Assets available for sale	132,270,059	132,637,027	131,118,876
Fixed assets	72,443,258	69,836,829	64,338,694
Intangible assets	880,754	909,642	941,898
Other assets	3,072,098	3,252,715	3,152,144
	411,652,867	389,697,041	371,155,432
Assets, total	1,458,411,606	1,109,305,860	1,154,434,841
<u>Liabilities and Equity</u>			
Liabilities in foreign currency			
Deposits and account balances of financial institutions and other institutions	130,386,299	106,766,861	87,905,163
Liabilities to the Government	284,778,827	1,998,118	2,718,775
Financial instruments at fair value measured through a profit or loss method	642,489	687,745	2,015,617
Liabilities to the IMF	279,953,867	278,390,937	299,023,415
Other loans	57,365,507	55,306,716	53,206,929
Other liabilities	171,793	148,000	244,322
	753,298,782	443,298,377	445,114,221
Liabilities in local currency			
Notes and coins in circulation	408,091,343	404,169,122	440,117,123
Deposits and account balances of financial institutions and other Institutions	185,214,453	172,700,821	181,964,508
Liabilities to the Government	134,182,678	112,382,402	106,563,930
Other liabilities	2,186,181	2,215,083	2,836,566
	729,674,655	691,467,428	731,482,127
Liabilities, total	1,482,973,437	1,134,765,805	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	(953,790)	(1,044,714)	(1,182,440)
Accrued profit/loss	(148,628,974)	(149,436,164)	(146,000,000)
Equity, total	(24,561,831)	(25,459,945)	(22,161,507)
Liabilities and Equity, total	1,458,411,606	1,109,305,860	1,154,434,841

This Central Bank Statement on Financial Standing was approved by the Board of Central Bank on November 12, 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

Q3, 2013 (closing entries included)

Beginning of quarter	SDR	USD
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
II. Foreign assets net		930,036,756.37
o/w: in free convertible currency		930,036,365.74
End of quarter		
I. Foreign assets gross		2,430,550,426.91
including:		
International reserves (gross foreign assets in free convertible currency)		2,430,550,067.65
o/w:		
SDR with the IMF	4,180,194.00	6,412,766.64
II. Foreign assets net ¹		1,739,080,985.61
o/w: in free convertible currency		1,739,080,626.35

¹ Foreign assets net have grown as a result of placement of USD 689.6 million-worth Eurobonds by the Government of Armenia.

ARTHUR JAVADYAN
Chairman