PROSPECTUS

"UNIBANK"

OPEN JOINT-STOCK COMPANY

12 Charents St., #53, 1-5, Yerevan, RA
Tel:. (+374 10) 59 22 59, e-mail: unibank@unibank.am

Class of shares:	common (ordinary) shares
Form of shares:	non-documentary
Quantity of shares:	14,500,000
Par value (currency) of shares:	100 AMD
Share placement price (currency):	230 AMD
Total par value of shares:	1,450,000,000 AMD
Total share placement price:	3,335,000,000 AMD

THE REGISTRATION OF THE PROSPECTUS BY THE RA CENTRAL BANK DOES NOT ASSURE SAFETY OF THE INVESTMENT, ACCURACY NOR AUTHENTICITY OF THE INFORMATION PRESENTED HEREIN

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RESPONSIBLE PERSONS

We, the signatories to this Prospectus, hereby certify that we have made all reasonable efforts to ascertain the accuracy and completeness of information contained in the Prospectus. Thus we confirm that to the best of our knowledge the information contained in the Prospectus is accurate, complete, and there are no omissions of any facts that may distort the content of the Prospectus.

Signatories:

Gagik Zakaryan	Chairman of the Board	____________ (signature)	________ (date)
George Piskov	Board member	____________ (signature)	________ (date)
Hrahat Arzumanyan	Board member	____________ (signature)	________ (date)
Eduard Zhamanyan	Board member	____________ (signature)	________ (date)
Ararat Ghukasyan	Board member	____________ (signature)	________ (date)
Vardan Atayan	Chairman of the Executive Board - Executive Director	____________ (signature)	________ (date)
Zakar Boyajyan	First Vice-Chairman of the Executive Board - Director of Risk Management	____________ (signature)	________ (date)
Gohar Grigoryan	Member of the Executive Board, Chief Accountant	____________ (signature)	________ (date)
Ovsanna Arakelyan	Vice-Chairman of the Executive Board, Director of Legal Service and Overdue Liabilities Collection	____________ (signature)	________ (date)

Mesrop Hakobyan	Vice Chairman of the Executive Board, Director of Operational and information Systems	(signature)	(date)
Davit Petrosyan	Vice-Chairman of the Executive Board, Director of Corporate Business Promotion and Sales	(signature)	(date)
Gurgen Ghukasyan	Vice-Chairman of the Executive Board, Director of Retail Business Promotion and Sales Director	(signature)	(date)

SECTION 1. SUMMARY

The Summary represents a brief introduction to the Prospectus. To make a decision on investing in the shares of Unibank OJSC, potential investors should read the Prospectus in its entirety.

The persons in charge of the Summary (members of the Board, members of the Executive Board) shall bear civil responsibility for any incomplete or misleading information included in this Summary, but only in the case that such information is inaccurate or inconsistent when viewed together with other parts of the Prospectus.

Potential investors may obtain a Prospectus and supporting documents in paper form at the Bank's Head office or its branches, or may visit the Bank's web site at www.unibank.am for an electronic copy.

1. ***Information on the Bank and Banking Activities***

Full name of the Bank is:

in Armenian – «ՅՈՒՆԻԲԱՆԿ» ԲԱՑ ԲԱԺՆԵՏԻՐԱԿԱՆ ԸՆԿԵՐՈՒԹՅՈՒՆ

in Russian – ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО "ЮНИБАНК"

in English – "UNIBANK" OPEN JOINT STOCK COMPANY

Abbreviated name of the Bank is:

in Armenian - «ՅՈՒՆԻԲԱՆԿ» ԲԲԸ

in Russian - ОАО "ЮНИБАНК"

in English - "UNIBANK" OJSC

The Bank is located at: 12 Charents St., #53, 1-5, Yerevan, Kentron Admin. District, RA

Mailing address of the Bank: 12 Charents St., #53, 1-5, Yerevan, Kentron Admin. District, RA.

Communications:

Telephone: + 37410 59 22 59

Fax: + 37410 55 51 40

E-mail: unibank@unibank.am

Website: www.unibank.am, www.unibank-armenia.com

For inquiries related to the investment in shares, investors may contact M. Hambardzumyan, Head of International Relations on +374 10 59 22 36 (extension 301) or Ruzanna Abrahamyan, Head of Department of Operations at Financial Market on +374 10 59 22 59 (extension 257).

Brief Description and History of the Bank

"UNIBANK" OJSC (hereinafter the "Bank" or "Unibank") was founded in October 2001, as a closed joint-stock company. Unibank was registered in the Republic of Armenia ("Armenia" or "RA") as a bank on 9 October 2001 (Registration Certificate No. 0373 and Registration number 81 approved by the RA Central Bank ("CBA") decision No. 260 dated 9 October 2001; Banking license No. 81 issued on 10 October 2001.).

In 2002, Unibank launched Unistream money transfer system, which is one of the leading money transfer systems in Armenia.

In 2003 Unibank became a member of the local ArCa payment system.

In 2004 Unibank became a member of Visa International.

In 2005 Unibank launched extensive lending of mortgage and auto loans, occupying, respectively, second and first place in the RA banking sector[1].

In 2006 Unibank became a participant of the International Fund for Agricultural Development ("IFAD") programme for promoting investments in rural areas, as well as of the Small and Medium Entrepreneurship Development National Center Foundation's ("SMEDNC") small and medium business development programme.

In 2007 ABN AMRO's bank risk management programme was introduced.

In 2008 Unibank became a member of the RA stock exchange.

In 2009 Unibank's branch network was connected to a central database and currently all the Bank branches operate online.

On 3 January 2010 Moody's international rating agency awarded Unibank its first rating; a Financial Stability Rating of E+, Ba3 long-term and NP short-term ratings for foreign currency and national currency deposits. All the ratings had a "Stable" forecast.

Since 2011 Unibank has been jointly operating a trade finance programme with the Asian Development Bank, under which letters of credit and bank guarantees are issued to entrepreneurs.

In 2012 Unibank was granted Armenia's "Best Dealing Bank 2012" award by Thomson Reuters International Corporation and Unibank was included in the list of Armenia's Top 100 Taxpayers.

In 2013 the World Bank's International Finance Corporation ("IFC"), Black Sea Trade and Development Bank ("BSTDB") and Unibank signed a cooperation agreement to develop a Small and

[1] Rating of RA Banks by Arminfo rating marketing agrency, 2006.

Medium Enterprise (“SME”) finance programme. Unibank began collaboration with the American Chamber of Commerce (“AmCham”) in Armenia by becoming an associate member of the organization.

In 2014 Unibank began cooperation with Intel Express, the international money transfer system. It also introduced ISO 27001:2013 information security standards and set up Unibank Privé, its private bank. It also introduced its “one window” customer service principle in its regular Bank branches, and in Unibank Privé private bank. Unibank received a “Quality Excellence” award (RBI STP Quality Awards) from Raiffeisen Bank International of Austria for providing high quality SWIFT transfer services.

The “Quality Excellence “award was in part for the high quality of the work done conforming with international Straight Through Processing (“STP”) standards. Unibank has significantly expanded its international cooperation and has established correspondent banking relationships with a range of leading European and American banks. The Bank provides same day SWIFT transfers at affordable tariffs to its customers.

On 12 March 2015, according to a decision taken at the Bank's Extraordinary General Shareholders Meeting, the Bank was reorganized into an open joint-stock company.

On 17 June 2015, Moody's applied a rating on Unibank's long-term local and foreign-currency deposit ratings of B2 and the baseline credit assessment (BCA) of b3.
It also assigned a Counterparty Risk Assessments (CR Assessments) of B1(cr)/Not-Prime(cr) to Unibank.

On 1 July 2015 the Bank became an Account Operator at the Central Depositary of Armenia and a member of the Unified System of Security Registry Maintenance and Settlement.

Today Unibank is a universal bank offering a wide range of modern banking services to its customers. The Bank has a reputation of being a financial institution with a conservative management style, open to innovation, and which implements a constructive enterpreunership culture within the Bank and operates on the principles of proactivity and transparency. In 2014 Unibank had over 250,000 active customers.

The Bank’s mission is to contribute to the sustainable and dynamic development of the RA banking industry and to maximise demand for banking services in RA through the provision of high-quality services.

Pursuant to the strategy approved by the Bank’s Board, the main focus of Unibank is on the development of its SME and retail business.

The Bank’s statutory capital is AMD 13,100,700,000 (thirteen billion one hundred million seven hundred thousand), comprising 98,997,000 (ninety eight million nine hundred ninety seven thousand) issued common shares, each with a par value of AMD 100 (one hundred) and 32,010,000 (thirty two million ten thousand) preference shares, each with a par value of AMD 100 (one hundred). The Bank’s statutory capital is in AMD.

The sole shareholder of the Bank is Glovery Holding Limited (address: Corner Hutson & Eyre street, Blake Building Suite 302 Belize city, Belize, Central America).

Brief Description of the Business

The Bank carries out functions prescribed by RA legislation, namely:

Attracting funds:

- The Bank accepts term and demand deposits in AMD and foreign currency from individuals and legal entities. In 2013, the Bank was ranked second among banks in the RA by volume of deposits attracted from physical persons.

Allocation of loans and other funds:

- The Bank carries out lending to businesses and provides its customers with guarantees, documentary letters of credit, credit lines, overdrafts, bank guarantees, and factoring services. Unibank considers the development of lending to SME's as one of its core strategies. Unibank offers loan products specifically designed for its customers taking into account company and industry specific data.
- Unibank's retail business is also a core focus of the Bank. Unibank provides consumer loans for a specific purpose or when the amount can be obtained for any purpose the consumer chooses: construction, medical, travel or other expenses or purchases. The Bank also provides residential mortgages, loans for purchasing commercial property, for construction or renovation loans, auto loans and gold secured loans.

Bank transfers:

- The Bank has been a member of the SWIFT international payment system since 2003. The Bank has correspondent accounts with 20 local and international banks that allow the Bank to provide payment and settlement services for Bank customers in any currency.
- The Bank offers money transfer services to individuals through the Unistream and Intel Express international money transfer systems.

Issuance and service of plastic cards:

- Unibank issues both local ArCa cards, as well as Visa cards to its customers. Unibank is now issuing Visa chip cards through its own processing centre.
- Unibank has launched its "Magnis" privileges programme specifically designated for its cardholders, under which cardholders are granted discounts of up to 40% when making certain purchases.

Foreign exchange and securities dealing and brokerage services:

- The Bank conducts trading in foreign exchange and RA government bonds.

Acceptance of utility payments:

- Unibank's has a system to accept utility payments. Customers are provided with UNIPAY utility payment cards free of charge that contain the necessary information for customers to make utility payments quickly and conveniently.

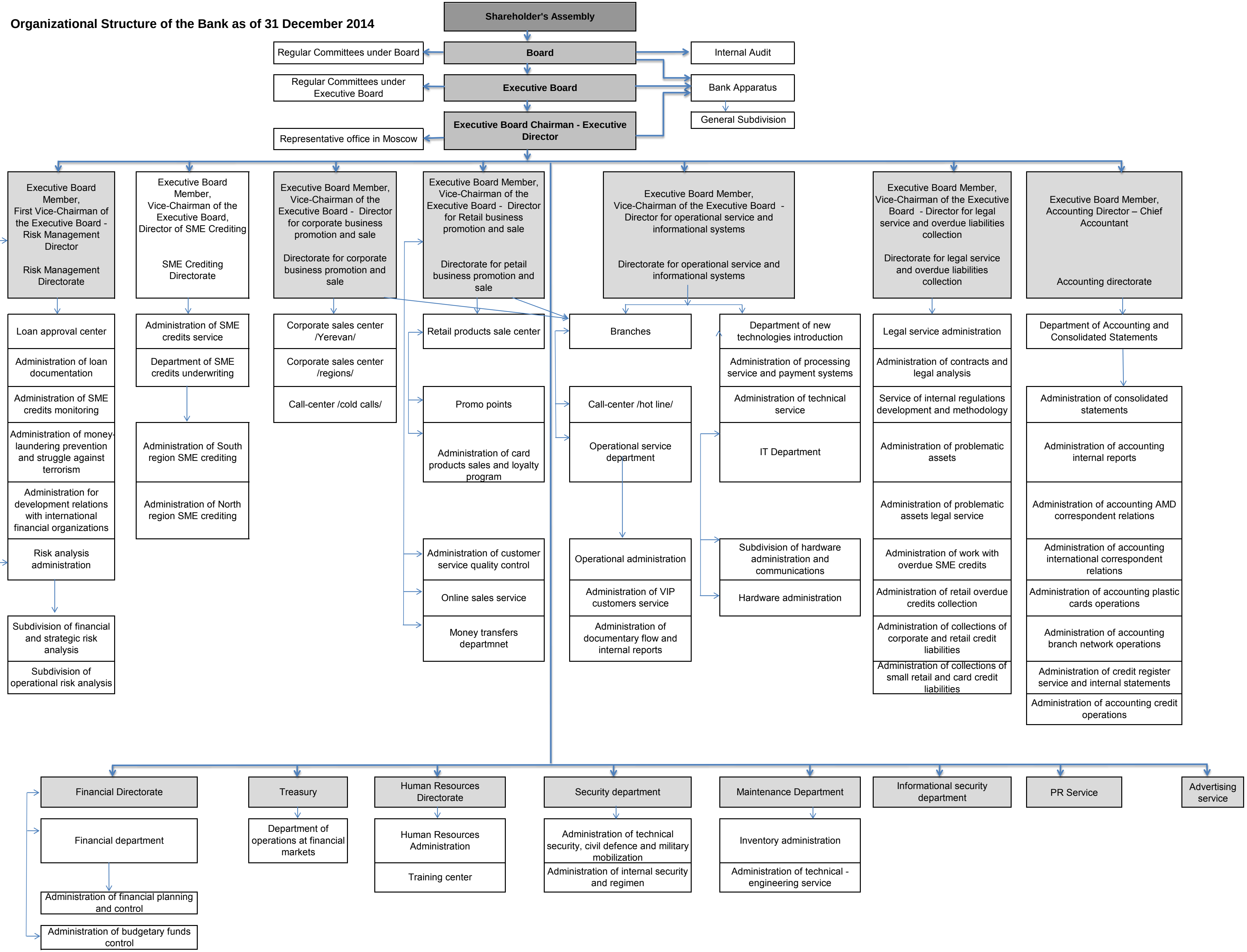
Acceptance of payments for public services:

- In order to provide customers with comprehensive payment services, the Bank promotes receiving payments from individuals and legal entities on taxes, electricity, telephone and other public services.

Other services:

- Unibank conducts settlement and cash servicing for its clients, including account opening and servicing, cash transactions, issuing guarantees, cash collection and transactions in securities. The Bank also provides services to those citizens of the RA who are supported through government social programmes.
- Unibank's "Internet Bank-Client" system is designed so that customers can manage their bank accounts online, receiving account statements and making payments online without visiting the Bank.
- Unibank offers its customers fireproof safe deposit boxes located in a specially constructed secure areas where customers can place items of value and documents for safekeeping.

Organizational Structure of the Bank as of 31 December 2014



Unibank has built a strong retail banking network and now operates 48 branches in the RA and Nagorno-Karabakh Republic, as well as having a representative office in Moscow, Russia.

The Bank's assets are summarised below.

thousands AMD	31.03.2015[1]	31.12.2014	31.12.2013
Assets, including:	166,143,336	170,258,546	153,489,734
Earning assets	118,722,920	123,976,764	122,213,603
%of earning assets	71%	73%	80%

2. *Banking and Share Related Risks*

Certain risk factors exist that pertain to the investments into shares proposed by this Prospectus. The investors should make the decision by totally understanding the nature of the investment and the main risks that can arise from it, according to their experience, goals, financial resources, risk appetites and other factors. Before making a decision every investor should acquaint himself/herself with the risks connected with investing in the Bank's shares.

- Changes in socio-economical or political conditions of the RA that may have an adverse effect on the bank activities and the value of its shares.
- Inflation may undermine the future performance of an investment in the Bank due to the reduction in the real value of the Bank's shares.
- The market price of shares, as a rule, has a direct relationship to the size of the dividends received by investors or expected from the shares, which has a negative correlation to the changes in market interest rates. As a result, an increase in market interest rate may result in a devaluation of the shares.
- The risk from losses connected with adverse changes of the market price of the shares, which includes both the changes in the share price and the changes in the size of dividends.
- The risk of low liquidity of the shares can result from the underdevelopment of the capital market, from which the investor may suffer financial losses on the sale of the shares.

It should be noted that the Bank undertakes, where possible, to take necessary measures to decrease the negative impact of the abovementioned risk factors. Nevertheless, as in many cases these risk factors, and others not mentioned in the list, are outside of the Bank's control and the Bank does not guarantee the effectiveness of the measures taken to minimise their negative impact.

[1] Unaudited

Banking risks

- The non-compliance of the Bank’s lenders with their contractual obligations can significantly affect the Bank activities, and incur additional expenses for the Bank, which may have a negative impact on the Bank’s income.
- Risk of changes in laws and regulations. Banking activity lies under the supervision of state control and regulation, and changes in laws and regulations could have a significant effect on the Bank’s operations and have a negative impact on the financial strength of the Bank.
- Competition and instability of the market. The banking market in the RA is competitive and can be affected by variations in the market, therefore achieving planned income figures or meeting of the strategic performance target may be adversely affected.

However, taking into account the present developments within the banking system, the low risk and cautious lending policy of the Bank, the level of risk management in the Bank, as well as the strict control from regulatory bodies, the abovementioned risks are estimated to be low.

The Bank may face other risks, which the Bank is not aware of at this time, or the Bank has not considered and are therefore not included in this Prospectus.

3. *Changes Related to the Bank’s Business Development and Financial Changes*

The Bank conducts its activities in compliance with a development programme approved by the Bank’s Board.

The Bank’s activities are overseen by the Board of the Bank and Executive Board which effectively respond to changes in the market environment and constantly adjust the Bank services and tariffs to take into consideration market forces.

The most essential aspect in the Bank’s development programme is the growth of its retail and SME business, its drive to constantly improve its quality of service, the expansion of its scope of client services and the attraction of funds (in particular through cooperation with legal entities, including non-residents, and international organizations), as well as ensuring the Bank’s liquidity and readiness to face possible developments and shocks in the financial market.

At the date of filing this Prospectus for registration, all licenses and permits necessary to conduct operations are valid and up-to-date, there are no court proceedings underway and no organizational changes are pending or in progress.

Along with the foregoing, the Bank’s management constantly focuses on adjusting the Bank’s activities and organizational structure to respond to the changes in the market with a view to improving its operations and profitability.

4. *The Bank's Auditors*

The 2011, 2012, 2013 and 2014 year end independent audits were conducted by “Grant Thornton” CJSC.

Address: 8/1 Vagharshyan St, Yerevan 0012, RA

Tel.: +374 (10) 260 964, 260 976

Fax: - +374 (10) 260 961

E-mail: www.gta.am

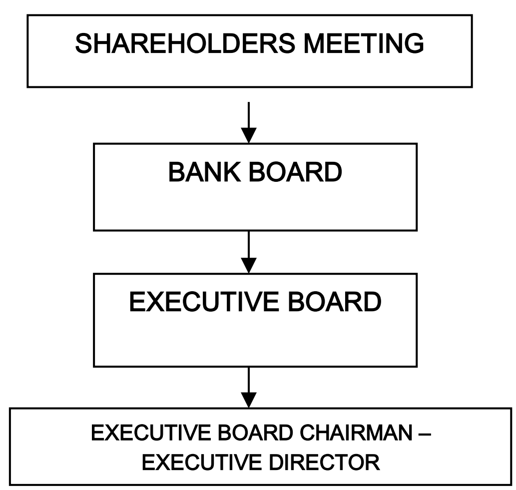
Director-Shareholder: Gagik Gyulbudaghyan

5. *Information on the Bank‘s Governing Bodies*

The Bank’s governing bodies are:

- Shareholders General Meeting (hereinafter “the Meeting”);
- the Board;
- Executive Body, which includes the Executive Board (hereinafter the “Executive Board”) and the Head of the Executive Board (hereinafter referred to as “the Executive Board Chairman”).

The Bank’s governing bodies operate in the following manner:



The Bank Board consists of 5 members:

- Gagik Zakaryan – Chairman of the Board, over 21 years experience

- Georgi Piskov – Board member, over 21 years experience
- Hrahat Arzumanyan – Board member, 16 years experience
- Eduard Zamanyan – Board member, 22 years experience
- Ararat Ghukasyan – Board member, over 20 years experience

The Bank Executive Board consists of 7 members:

- Vardan Atayan – Chairman of the Executive Board, over 19 years experience
- Zakar Boyajyan – First Vice-Chairman of the Executive Board, Risk Management Director, Member of the Executive Board, over 23 years experience
- Mesrop Hakobyan – Vice-Chairman of the Executive Board, Operational and information Systems Director, Member of the Executive Board, over 13 years of experience
- Gohar Grigoryan – Chief Accountant, Member of the Executive Board, over 21 years experience
- Ovsanna Arakelyan – Vice-Chairman of the Executive Board, Director of Legal Services and Overdue Liabilities Collection, Member of the Executive Board, over 15 years experience
- David Petrosyan – Vice-Chairman of the Executive Board, Director of Corporate Business Promotion and Sales, Member of the Executive Board, over 12 years experience
- Gurgen Ghukasyan, Vice-Chairman of the Executive Board, Director of Retail Business Promotion and Sales, Member of the Executive Board, over 10 years experience

The Bank had 891 employees on 31 March 2015.

The Bank's sole shareholder is Glovery Holding Limited.

6. *Key data on the Bank Shares Being Issued in the IPO*

Type of Shares	Non-documentary ordinary shares
Quantity of Shares	14,500,000
Par value of a Share	AMD 100
Marker price of a Share	AMD 230
Total market price of the Shares	AMD 3,335,000,000
Currency of the Shares	AMD

Purpose of Issue	Increase the capital of the Bank
Use of Issue proceeds	To increase the capital of the Bank and thereby enable the Bank to increase its assets by lending to SME's and retail customers.

7. Brief Description of the IPO and the Bank's Permission to Trade its Shares

The share offering (the "Offering") will be within the volume of authorized shares stipulated by the Bank's Charter. The Offering shall be carried out on the NASDAQ OMX ARMENIA Stock Exchange (hereinafter "Stock Exchange"). An admission to trading on the Stock Exchange will be applied for by the Bank. The application for admission to trading may be rejected.

Any person who has made a decision to take up the Offering and make an investment in the shares shall participate in the Offering as a buyer, acting through a person who renders investment services and is a member the Stock Exchange. Any resident or non-resident physical or legal person may act as a buyer.

The offering of all common registered shares subsequently issued by the Bank shall be carried out through public standard auctions held on the Stock Exchange, in compliance with Securities Offering Rules of the Stock Exchange.

8. Summary financial data of the Bank

Summary financial data of the Bank

	31.12.2014	31.12.2013	31.12.2012
Net profit, after deducting the cost of profit tax	532,475	483,590	1,603,069
Average equity	20,593,576	19,572,866	17,532,017
Return on equity (ROE), %	2.6%	2.5%	9.1%
Net profit, after deducting the cost of profit tax	532,475	483,590	1,603,069
Average total assets	161,874,140	145,928,013	126,454,476
Return on assets (ROA), %	0.3%	0.3%	1.3%
Net profit, after deducting the cost of profit tax	532,475	483,590	1,603,069
Operating income	10,850,174	9,029,498	8,196,018
Net profit margin (NPM), %	4.9%	5.4%	19.6%
Operating income	10,850,174	9,029,498	8,196,018

Average total assets	161,874,140	145,928,013	126,454,476
Assets utilization (AU), %	6.7%	6.2%	6.5%
Average total assets	161,874,140	145,928,013	126,454,476
Average equity	20,593,576	19,572,866	17,532,017
Equity multiplier (EM)	7.86	7.46	7.21
Net interest income	7,290,922	5,608,186	4,903,840
Average profitable assets	123,095,184	112,610,662	96,151,404
Net profit margin (NIM)	5.9%	5.0%	5.1%
Interest income	19,316,864	16,828,969	14,091,613
Average profitable assets	123,095,184	112,610,662	96,151,404
Yield on profitable assets	15.7%	14.9%	14.7%
Interest expenses	12,025,942	11,220,783	9,187,773
Liabilities for which interest expenses are made	144,597,516	129,449,794	116,468,988
Expendability of those liabilities, in connection of which rate	8.3%	8.7%	7.9%
Net profit, after deducting the cost of profit tax	532,475	483,590	1,603,069
The weighted average number of shares	10,010	10,010	10,010
Earnings per share (EPS)	53	48	160
Spread	7.4%	6.3%	6.8%

9. Statement of working capital

The Bank believes that its working capital is sufficient to meet the Bank's current needs.

10. Capital of Unibank OJSC as of 31 March 2015

Capital	thousands AMD
Statutory capital	13,100,700
Accumulated profit	8,041,794
Own capital (equity)	21,096,074

11. Liabilities of Unibank OJSC as of 31 March 2015

	thousands AMD
Long-term liabilities	**11,670,994**
Secured liabilities	-

Non secured liabilities	11,670,994
Short-term liabilities	**127,587,490**
Secured liabilities	4,787,000
Non secured liabilities	122,800,490
Off-balance sheet contingent liabilities	**5,401,478**
Guaranteed liabilities	34,670,484
Non guaranteed liabilities	104,588,000
Total	**139,258,484**

SECTION 2. INFORMATION ON THE SHARES

1. ***Purpose of the Offering and the Use of Funds***

The aim of the Offering is to increase the Bank's capital so that it can continue to grow its primary banking business of lending to small and medium enterprises and individuals.

2. ***Information on the Shares Offered***

a. The shares offered in this Prospectus are non-documentary common shares. The Bank currently has 98,997,000 (ninety-eight million nine hundred and ninety-seven thousand) non-documentary common shares, each with a par value of AMD 100 (one hundred), and 32,010,000 (thirty-two million and ten thousand) convertible preference shares, each with a par value of AMD 100 (one hundred).

- Class (type) of offered security - common share (equity security)
- Security Identification Code - (ISIN) AMUNIBS10ER5

b. The Bank's common registered shares have been issued in compliance with RA legislation.

c. The share register of the Bank's shares will be maintained by Central Depository of Armenia OJSC, located at 5b Mher Mkrtchyan St., Yerevan 0010, RA.

d. The Bank is placing 14,500,000 (fourteen million five hundred thousand) common registered shares in the market. The nominal value of one share is AMD 100 (one hundred). The Offering will be carried out at a market value of AMD 230 (two hundred and thirty) per common registered share.

e. The currency of the Offering is AMD.

f. The shares entitle the owner to the following rights:

Right to dividends:

Each share entitles its owner to a dividend in proportion to the number of shares held. Matters relating to the payment of dividends on shares are regulated by RA legislation, the Bank's Charter and the Bank's “Dividend Payment Procedure”.

Pursuant to the latter, the amount and terms of payment of annual dividends is determined by the Shareholders' General Meeting. The amount and terms of payment of interim dividends however is determined by a Board decision. The payment of dividends can be no sooner than 30 days from the date of such decision.

The Bank has a right to pay its dividends on any day during the dividend payout period, including the last day. The following principles underlie the Bank's “Dividend Payment Procedure”:

- legitimacy, i.e. implementation of the process with adherence to RA legislation, the Bank's Charter and internal legal acts;
- segregation of authorities of the Bank's governing bodies (Shareholders General Meeting and the Board) in making decisions on paying dividends;
- dividends will be paid from the Bank's net profit.

The Bank may not declare and pay dividends if the Bank's net asset value is less than its statutory capital or will become less as a result of the payment of dividends.

The Bank may not pay dividends if the Bank’s statutory capital has not been fully paid up.

Annual dividends may not be less than any interim dividends already paid.

The Bank may pay dividends on common shares of up to 40 per cent of the net profit for the respective period.

The size of an interim dividend may not exceed 50 per cent of dividends accumulated or distributed in the previous financial year, or be greater than 40 per cent of the net profit realised up to the date of payment.

There are no special provisions regarding the payment of dividends to non-resident shareholders.

The Bank's "Dividend Payment Procedure" is available at the Bank's Head Office and branches, as well as at the Bank’s web site at www.unibank.am.

Right to vote:

The Bank's common shareholders are entitled to participate in the Shareholders General Meeting personally or through an authorized representative, with the right to vote on all matters falling within the competence of the meeting in proportion to the number of shares held by each shareholder, subject to the restrictions prescribed by legislation and the Bank’s Charter.

Preemptive rights on common shares:

The Bank common shareholders have pre-emptive rights (priority to purchase any common shares placed by the Bank in any closed issuance of additional common shares conducted by the Bank). The procedure for exercising pre-emptive rights is stipulated in the Bank’s Charter and RA legislation.

Right to receive a share of the Bank's assets in the case of the Bank’s liquidation:

Upon the Bank’s liquidation common shareholders have a right to receive a share in proportion to their shareholding of the Bank's assets as defined by the RA Law "Banks and Banking" after repayment of other liabilities of the Bank.

Right to claim a buyback of shares:

Common shareholders may request the Bank to purchase their shares at a market price determined by the Board of the Bank on all or a part of shares held by them if:

- a decision was passed on the Bank's reorganization, suspension of shareholder pre-emptive rights or the conclusion of a large transaction, and the shareholders voted against such decisions or did not participate in voting on such decisions, or
- the Charter was amended or supplemented, or a new edition of the Charter was approved, which limited the rights of the common shareholders who voted against such decisions or did not participate in voting on such decisions.

The Bank shall carry out the buyback of shares at the market price, which will be determined without taking into account the changes resulting from the Bank's actions.

Procedure for the buyback of the Bank's shares is defined by the Bank Charter and the RA Law "On Banks and Banking".

Right of conversion of shares:

No right of conversion of common shares issued by the Bank is envisaged.

Other rights of the shareholders:

The Bank's common shareholders are also entitled to:

- personally, or through an authorized representative, participate in shareholder decisions on the Bank's management;
- have access to the Bank's balance sheet, financial and tax reports;
- in the manner stipulated by the Bank's Charter and the law to alienate or otherwise transfer the shares owned to third parties;
- exercise other powers vested in him by legislation.

Bank Board's decision on the share issue

The common shares issued in the Offering shall be issued in compliance with the Bank's Board decision dated 24 June 2015. According to this decision 14,500,000 (fourteen million five hundred thousand) additional common registered shares shall be issued for sale by the Bank. The nominal value of one share is AMD 100 (one hundred) and the sale price is AMD 230 (two hundred and thirty) per common registered share.

Description of restrictions imposed on free trading of securities:

The Bank will apply to the Stock Exchange for the listing of its shares. The application to list the shares may be denied by the Stock Exchange. In the case that the Bank's shares are listed and admitted for trading, they may not be traded outside the regulated market, except in the following cases permitted by the CBA:

- Private transactions, i.e. transactions with parties known beforehand;
- Transactions executed by underwriters within the framework of the distribution of securities;
- Admission to trade on other regulated markets.

By law, a person or affiliated persons may acquire direct or indirect significant stake in the Bank (over 10% of the Bank's common voting shares) only upon prior consent of the CBA.

To receive the CBA's consent for the acquisition of a significant stake in the Bank a person at the request of the Bank shall submit to the CBA the documents specified by the CBA about his/her wish to acquire the significant participation. CBA shall review the documents within one month from the date of receiving them and provide approval if they are satisfied with the information provided.

CBA shall reject the request and inform the requesting person within a ten day period if:

- the person has a conviction for an intentionally committed crime;
- by virtue of a court decision, the person is deprived of the right to hold positions in financial, tax, customs, commercial, economic or legal professions;
- the person is declared bankrupt and has outstanding (unpaid) liabilities;
- the person has previously committed such actions which have led to the bankruptcy of a bank or other company or person;
- in the past the person or affiliated persons have undertaken such an act which, by the reasonable opinion of the CBA, based on the guidelines approved by the CBA Board, may serve as reasonable grounds to believe that the actions of the given person, as a member of the Bank's Board or other position of influence, with a right to vote during on certain matters, might lead to the bankruptcy of the Bank or the deterioration of its financial position, or might impair its image and business reputation;
- the acquisition of the shares leads or may lead to a restriction of free economic competition;
- as a result of the given purchase, the person may gain a dominant position in the RA banking market that allows them to predetermine market rates or the terms of transactions (or at least one of them) permitted by the Bank;
- the documents are submitted violating the procedure established by the CBA, or documents contain false or unreliable information;
- based on the reasonable judgment of the CBA, the person acquiring the significant stake or his/her affiliated person is in a poor financial position, or the deterioration of his/her or the affiliated person's financial position may lead to deterioration of the Bank's financial position, or the activities of the person and/or the affiliated persons or the nature of their relationships with the Bank, in reasonable opinion of CBA, may hinder the implementation of the efficient

supervision by the CBA or may prevent it from effectively detecting and controlling the Bank's risks;

- the person fails to submit sufficient and full accountability (documents, information, etc.) confirming the legitimacy of the sources of funds to be invested in the Bank.

- An acquisition of a significant participation in the Bank's statutory capital, without preliminary consent of CBA, shall be null and void.

Pursuant to Article 152 of the RA Law "On Securities Market", any person who as a result of one or more transactions with an issuer's equity securities becomes the owner of more than 75% of the same class of equity securities, he shall be required to make a tender offer for all securities of that class. The requirement for making a mandatory offer shall also apply in the case of a waiver of permission for the trade of shares on the regulated market, according to the procedures and terms set out by the CBA.

The requirement to make mandatory tender offer shall not apply to the cases below:

- The person became the owner of more than 75% of the shares as a result of reducing the statutory capital of the Bank;

- The person became the owner of more than 75% of the shares as a result of non-mandatory tender offer for all the shares made by him in accordance with the provisions of the Chapter 15 of the RA Law "On Securities Market";

- The shares were purchased by an investment service provider for underwriting purposes;

- The person has alienated the shares exceeding 75% within 10 business days from the date of acquisition, to a third person, who under Article 151 of the RA Law "On Securities Market" is not considered to have agreed to act jointly, provided that the Bank's General Meeting is not convened during that period.

An investor in shares may derive income in the following cases:

- from dividends received from the shares,

- from the positive difference between the selling and buying prices of shares (capital gain).

In Armenia, the taxation on proceeds received from shares is determined as follows:

Profit tax payers in Armenia are organizations created in Armenia and non-resident organizations (organizations created in foreign states, as well as international organizations and organizations created by them outside of Armenia). Taxation is based on taxable profit derived from Armenian sources. Taxable profit is the positive difference between the gross income of a taxpayer and deductions stipulated by the RA Law "On Profit Tax".

Profit tax is calculated at the rate of 20% of taxable profit.

Pursuant to Article 26 of the RA Law "On Profit Tax", when determining taxable profit, gross income shall be reduced by the amount of dividends received by the taxpayer, with the exception of non-resident's taxable profit (Law "On Profit Tax", Article 56, paragraph 2). Dividends received by non-resident organizations are taxed at a rate of 10%.

For resident legal entities, capital gains on shares is included in the amount of gross income and after making deductions stipulated by the Law the amount of net income is taxed at 20%. For non-resident organizations capital gains on shares are taxed at 10%.

In case of non-resident organizations the Bank acts as a tax agent who, according to the RA laws, is responsible for the calculation, deduction (charging) and payment to the RA budget of the profit tax from income received by non-resident organizations.

Income tax payers in Armenia are resident and non-resident physical persons. Taxable income is the positive difference between the taxpayer's gross income and the deductions made in compliance with the RA Law "On Income Tax".

Pursuant to Article 7 of the RA Law "On Income Tax", when assessing the tax base of the taxpayer, the gross income shall be deducted by the amount of dividends received, as well as by the income received from the disposal of shares or their exchange with other securities, or from other similar transactions. Thus, for physical persons, dividends received from shares and the capital gains are not taxable.

3. *Terms and Conditions of the Offering*

Conditions, amounts, the expected timing of the Offering, and the actions necessary to have access to purchase shares in the Offering

a. Total volume of the Offering is 14,500,000 shares with a nominal value of AMD 100 at an issue price of AMD 230 per share. The nominal value of the shares issued will be AMD 1,450,000,000 (one billion four hundred fifty million) with a market value of AMD 3,335,000,000 (three billion three hundred thirty-five million) at the Offering price.

b. The Offering shall be carried out on the Stock Exchange.

The Offering shall commence on the 4th day following the publication of this Prospectus and will last for 90 business days. The Prospectus shall be published on the Bank's web site at www.unibank.am.

c. During the Offering period investors may obtain the Prospectus at the Bank's head office (located at 12 Charents St., #53, 1-5, Yerevan, Kentron Administrative District, RA), at the Bank's branches or from the Bank's web site at www.unibank.am.

Any person who decides to purchase shares in the Offering will purchase shares as a buyer through a person who provides investment services and is a member of the Stock Exchange.

The acquisition of shares shall be made through the participation in public standard auctions, in compliance with the "Securities Offering Rules" of the Stock Exchange.

Any resident or non-resident physical or legal person may act as a buyer.

Prior to participating in the Offering, a potential buyer shall open a share account with the Central Depository of Armenia or shall activate an existing share account.

d. In the case specified in part 3, Article 21 of the RA Law "On the Securities Market" the Bank may at its own initiative suspend the Offering for maximum for 10 business days only upon the consent of the CBA. If after completion of the suspension period the Offering is not resumed within one business day, the Bank shall be obliged to terminate the Offering and within 10 business days from the expiration of the suspension period return the funds received during the Offering to those persons having acquired securities. The Offering may be deemed invalid by the Bank Board within at least two business days following the end date of the Offering, if the number of competitive buy orders received during the Offering is less than 20 percent of the total number of shares under offer, in which case the sums already paid for the acquisition of shares shall be returned to the investors in the manner prescribed by the Internal Rules of the Stock Exchange. If within the mentioned term the Bank Board does not declare the Offering as invalid, it shall be deemed held in a proper manner. Except for the case mentioned in this point the Bank does not provide for any cases or circumstances of cancellation or postponement of the Offering.

In the case the Offering is deemed invalid, the funds received from the buyers shall be paid back within 10 banking days by depositing the respective amounts in the account of Stock Exchange which shall distribute such amounts to the buyers in accordance with the procedures stipulated by the Stock Exchange Rules. No interest shall be accrued on the amounts paid back.

e. No reduction of size of the Offering is envisaged.

f. No restrictions related to the maximum size of buy orders (subscription applications) are envisaged. However, the minimum purchase size for a buyer is AMD 1,000,000 (one million).

g. During public standard auctions each offering participant has a right to withdraw his order, which was previously entered into but not yet satisfied, as well as to modify the conditions specified therein.

h. The procedure for the payment for shares, as well as the receipt of the shares and the form of title to shares are described in the Description of the Offering Process (Section 2, part 3, paragraph 1(k)).

i. Offering results will be published on the Bank website at www.unibank.am within 30 days following the completion of the Offering.

j. Within the framework of an open subscription, the Bank shareholders will not exercise their pre-emptive right to acquire shares.

k. Description of the Open Subscription Process

The Offering of all common registered shares issued by the Bank shall be carried out through public standard auctions held on the Stock Exchange, in compliance with the "Securities Offering Rules" of the Stock Exchange.

The sale of the shares on Stock Market will be conducted over 5 (five) consecutive business days, once the Bank has received indications from enough buyers to close the Offering or from the 86th to 90th business day from the date of the Publication of this Prospectus including both days. The commencement date of sale of the shares on the Stock Market will be published at least 5 days in advance. If within the 90 day term the shares are placed in full, the Bank shall close the Offering. Offering sessions will be held on the Offering dates, from 11:00 to 15:00.

The Bank acts on his own behalf and account for the Offering of the common shares issued by it.

A participant in the Offering acting as a buyer at a public auction may not sell the security acquired as a result of the Offering until after the Offering is closed.

Offering participants acting as buyers, who are willing to buy securities under the Offering on their own account or on the account of their customers, may only enter competitive buy orders into the Offering system.

The Offering is carried out in the form of an ordinary public standard auction, in which case information about the person who enters the buy order (commercial code) is disclosed in the order.

No restrictions are imposed on the total maximum number of securities included in competitive orders filed by any Offering participant acting as a buyer.

A buyer is recognized as the owner of securities purchased by on the Stock Exchange on completion of the full Offering process and compilation of the Offering results by the Bank’s General Meeting, as well as upon registration at the CBA of the amendment introduced to the Charter (new edition of the Charter) that reflects the increase of the Bank's statutory capital as a result of issuance of additional shares.

Offering Plan

a. The Offering is targeted at the public, and within the framework of open subscription no investor group related restrictions are envisaged. The public offering of shares shall be carried out in the Republic of Armenia, without restricting foreign participation.

b. Shareholders or members of the Bank’s management bodies may subscribe for shares in the Offering. The Bank does not have information on the volumes that the shareholders or members of the Bank’s management intend to subscribe for. No person intends to subscribe for more than 5 percent of the shares offered in the Offering.

c. Investors shall be notified of the completion of their orders by the persons who provide them investment services in the manner defined in Description of Offering Process (Section 2, part 3, paragraph 1(k)).

d. No tranche of shares is specifically allocated for minority investors, institutional investors or the Bank employees.

e. If the quantity of shares applied for in the Offering exceeds the quantity of shares available in the Offering, priority shall be given to the orders entered earlier. The last order that makes up the quantity of shares offered in the Offering may be partially satisfied.

An order may be rejected in the following cases:

- in the event that according to legislation the CBA's prior consent is required for an acquisition of shares and such consent has not been obtained by the buyer, or the CBA has refused to give such prior consent;
- the quantity of shares offered in the Offering have already been acquired.

Offering Price

a. The Offering price of the shares agreed on by the Board of the Bank is AMD 230 per share.

Besides the payment of the share price, the buyer of shares shall not be required to pay any other expenses or taxes, with the exception of relevant commissions as stipulated by the Stock Exchange Tariff Rules, as well as commission for services in the case when shares are acquired through persons providing investment services (service fees).

b. In determining of the price of the shares in the Offering the Bank Board based its value on the capital of the Bank at 1.5 multiple taking into consideration a report provided by an independent appraiser.

Underwriting

a. The Bank shall also act as underwriter of common shares issued by it.

b. The payment for shares shall be made to the Bank via a transfer of a buyer's cash funds deposited in the Stock Exchange.

c. A securities account may be opened with the Central Depository of Armenia or any other specialized depository institution licensed by CBA, through an account operator.

4. Admission to Trading

a. According to the decision of the Bank's Board dated 24 June 2015, the Bank intends to conduct the Offering of its shares on the Stock Exchange. An admission to trading will be applied for which may be rejected.

b. The Bank believes that the shares being issued in the Offering meet all the requirements for the listing of the shares in the Secondary (B) List of the Stock Exchange.

c. Market Maker

The Bank intends to conclude a market making contract with Armenbrok OJSC (address – Tigrtan Mets 32/1, 0018, Yerevan, Armenia). The main terms of Market Making duties will be detailed in a services agreement.

5. Selling Shareholders

a. This Prospectus does not make any provision for any offer for shares to be purchased from the existing shareholder of the Bank or any legal entities belonging to the shareholder. The Offering refers only to newly issued common registered shares to be additionally placed by the Bank.

b. The Bank's current shareholder will not sell any shares in the Offering retaining the shares it owns in the Bank and it will continue to act as the major shareholder of the Bank.

6. Issuance and Offering Costs

The Bank anticipates the gross proceeds from the Offering to be AMD 3,335,000,000 (three billion three hundred thirty-five million). The Bank will incur the following expenses relating to the Offering:

- cost of state registration of the Prospectus of AMD 50,000 defined as the amount 50-fold of the base duty rate;
- Consulting Fees of AMD 4,800,000;
- Legal Fees of AMD 8,500,000; and
- Marketing Expenses of AMD 30,000,000.

The net proceeds from the Offering will be AMD 3,291,650,000.

7. Additional Information

Information reflected in this Prospectus has been prepared with the involvement of the following consultants:

- L&F Group LLC (address: 19 Bagratunyats St., Apt. 19, Yerevan 0010, Armenia).
- K&P Law Firm LLC (address: 18/1 Vardanants str., 3rd floor, Yerevan 0010, Armenia).

The Bank's independent auditor has audited the information included in this Prospectus relating to the Bank's audited annual financial statements for 2012, 2013 and 2014 attached to this prospectus as appendix A.

SECTION 3. INFORMATION ON THE ISSUER

1. ***Background to the Bank and its Market***

a. Introduction

Unibank was incorporated on 9 October 2001 as a closed joint-stock company (Registration Certificate No. 0373 and Registration number 81 approved by CBA Board decision No. 260 dated 9 October 2001. According to a decision by the Bank's General Meeting on 12 March 2015, the Bank was reorganized into an open joint-stock company.

Full name of the Bank is:

in Armenian – «ՅՈՒՆԻԲԱՆԿ» ԲԱՑ ԲԱԺՆԵՏԻՐԱԿԱՆ ԸՆԿԵՐՈՒԹՅՈՒՆ

in Russian – ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО "ЮНИБАНК"

in English – “UNIBANK” OPEN JOINT STOCK COMPANY

Abbreviated name of the Bank is:

in Armenian - «ՅՈՒՆԻԲԱՆԿ» ԲԲԸ

in Russian - ОАО"ЮНИБАНК"

in English - “UNIBANK” OJSC

The Bank is regulated in Armenia according to its laws and conducts its business under General License No. 81, granted on 10 October 2001, by the CBA. According to a decision taken at the Bank's Extraordinary General Shareholders Meeting on 12 March 2015, the Bank was reorganized into an open joint-stock company. The only shareholder of the Bank is Glovery Holding Limited (100%), a company registered in Belize with its office at the Corner of Hutson & Eyre Street, Blake Building, Suite 302 Belize City, Belize, Central America.

Unibank’s head office is in Yerevan. The Bank has 46 branches making it the fourth largest bank in Armenia by number of branches[1]. It has 24 branches in Yerevan, 20 in the other regions of Armenia and two in the Republic of Nagorno Karabakh. The Bank also operates a representative office in Moscow, Russia. The registered office of the Bank is 12/53 Charents Street, #1-5, Yerevan. As of 31 March 2015 the bank had 896 employees.

Contact information:

Tel: +374 (10) 52-22-59; 59-55-55

Fax: + 374 (10) 55-51-40

[1] According to the information provided by “Arka” news agency dated as of 31.12.2014

Email: unibank@unibank.am

Website: www.unibank.am

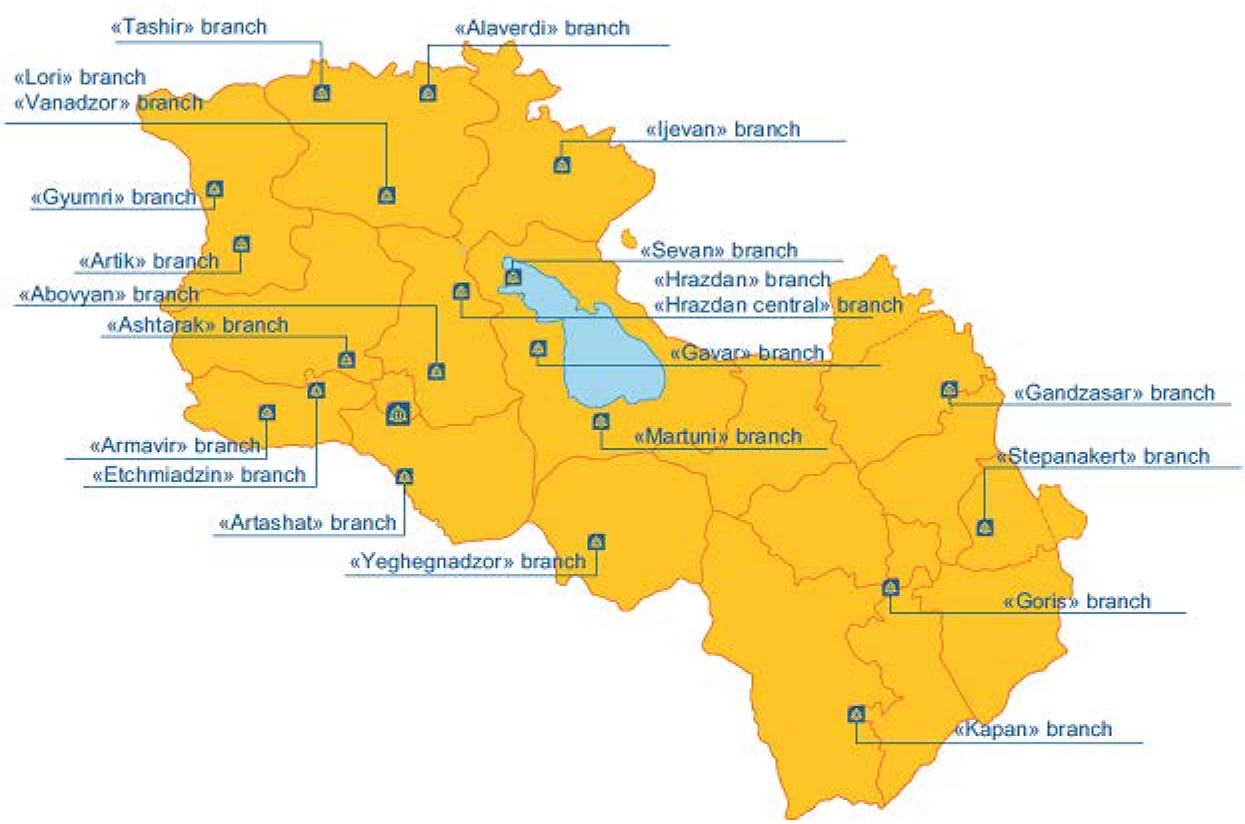
Unibank is the registered owner of the following trademark:

Registration date: 7 August 2002

Registration is valid until 30 November 2021

Registration number: 6906

Fig 1. Unibank's Branch Network



Unibank is an integral part of the Armenian banking network with a solid reputation and a strong market presence.

Unibank’s Market Position as of 31 December 2014 according to the following indicators.

	Position	Share of the market
Assets	7	5.02%
Loan portfolio	7	5.50%
Liabilities	7	5.13%
Funds attracted from customers	4	8.40%
Equity	11	4.30%
Profit/Loss	10	3.54%
Card customers	4	10.00%

As of 31 December 2014 Unibank had 269,090 customers in Armenia.

Unibank is a universal bank providing banking services via its wide branch network to its retail and corporate customer base. The Bank takes retail and corporate deposits and lends to its customers through its banking products; secured loans, car loans, mortgages, unsecured retail loans, small consumer loans and credit cards. The Bank prides itself in providing its customers with innovative and comprehensive high-quality financial solutions. The primary strategy of Unibank is to increase its market share by continuing to build on its current retail and corporate banking business, specifically in the SME market. As part of its retail development programme, the Bank has approximately 50 promotion/sales points in shopping malls and household appliance stores in Yerevan and throughout the regions. The Bank has a strategy to move towards a “one window” service principle, part of which is to install self-service electronic cashiers and payment terminals that will enable front office employees to decrease the amount of time customers have to spend with bank employees thus improving the customer experience and the quality of service.

The Bank has developed underwriting processes and technology to make lending decisions quickly, leading to high levels of customer satisfaction. The introduction of its electronic systems has allowed the Bank to, not only automate the distribution of its loan products, but also to assess credit risks quickly and efficiently, significantly reducing the time taken to lend to its customers. Unibank plans, by the end of 2015, to install automated processes to distribute mortgages, car loans, cash loans, credit cards and business loans. As a result, the Bank will be able to visit its clients and provide on-the-spot approvals by performing credit checks and credit scoring on-line.

Over the last five years Unibank has maintained its position as one of the market leaders in taking term deposits from individuals, largely by striking the right balance between the Bank’s good reputation and attractive deposit rates.

Unibank is well known for its money transfer business as a member of the Unistream money transfer network. Until 2012, Unibank was the only agent of Unistream in Armenia, accounting for more than 50% of remittances received in Armenia. Since 2012 in order to build on its market position, Unistream started offering its services through other Armenian banks. However, still today Unibank accounts for 38% of inbound transfers from Unistream, which now accounts for 9.8% of total inbound remittances to Armenia. To compensate for the falling volumes with Unistream, Unibank began cooperation with Intel Express in 2014, another international money transfer system.

Unibank provides payment processing for Armenia's public utilities and it accepts utility payments in all of its branches. The Bank's customers can also make payments at 118 ATMs throughout Yerevan and in regional towns in Armenia. The Bank has the third largest ATM network in Armenia with a 10% market share[1]. Unibank's utility payment customers are provided with a UNIPAY utilities common card free of charge which holds the information necessary to process utility payments quickly and efficiently.

Unibank uses a number of channels to market and promote its brand and services. It advertises on TV, radio, the internet, on public transport, on billboards and in elevators in Yerevan. It also distributes booklets, leaflets and stickers to potential clients. According to research published by the Armenian Marketing Association, Unibank is one of the top two banks in Armenia in terms of brand awareness. In a survey on the use banking products and services, Unibank was rated among the leading five banks in Armenia[2].

b. The Republic of Armenia

Main macro economical indicators of RA as of 31 December 2014[3]

Capital	Yerevan
Population	3,022,000
GDP (million AMD)	3,979,651
GDP per capita (AMD)	1,326,550
Currency	Dram (AMD)
Current exchange rate (31.12.14)	474.97 AMD/USD

The Republic of Armenia is a small country located at the crossroads of Europe and Asia in the northeast of Asia Minor (Armenian Plateau), bordering Azerbaijan, Iran, Turkey and Georgia. With an area of 29,800 square kilometres, the country is approximately the size of Belgium.

[1]According to the information provided by "Arka" news agency dated as of 31.12.2014
[2]Armenian Marketing Association, "Bankoroshich Survey", conducted in September 2014 by telephone (CATI), number of surveyed respondents - 800
[3]According to information provided by www.armstat.am

Population

Based on current official estimates, Armenia's population is approximately 3 million people. Ethnically, Armenia is a homogenous country with 95% Armenians. After the collapse of Soviet Union, many Armenians left the country. Though the migration was declining until 2008, the trend has reversed since the global economic crisis.

Labour Force

The total labour force was 1.36 million in 2013. Many Armenians emigrated during 1990-2006, mostly to Russia as migrant workers. At the end of 2013 the official unemployment rate was 16.9%.

Armenian Diaspora

Armenian diaspora, estimated at around 10 million people, is spread over 85 countries with major concentrations in Russia (2.5 million), United States (1.5 million), France (0.45 million) and Georgia (0.25 million). In the beginning of the 1990s, Armenian diaspora played a crucial role in the process of rebuilding the country following the collapse of the Soviet Union. Beyond humanitarian help, development work and political support, diaspora played an active role in attracting foreign investment through leveraging its potential to attract global investment and companies such as HSBC, Coca Cola, Marriot, and KPMG. The leading investors in Armenia come from Russia, USA, Argentina, and Iran.

Geopolitical situation

The Armenian geopolitical situation is influenced by the interplay between the different interests of Armenia's neighbours and large global geopolitical players. Russia, USA and the European Union are very active in the region maintaining and increasing their influence. Georgia is strongly pro-Western and Azerbaijan is trying to maintain good relations with both the West and Russia. Armenia in recent years has been increasing its ties with Russia, especially in the areas of the military and the energy sector, while also maintaining good relations both with the US and EU. In 2013 Armenia officially announced its intentions to join the Customs Union of the Eurasian Economic Community ("EEC") formed by Russia, Kazakhstan and Belarus. In early 2015 Armenia joined the EEC and now benefits from free flows of commodities, services, labour and capital between its members. This is a major development in Armenia's political arena. Though many aspects of the EEU are still unclear, membership to it is expected to bring significant changes to Armenia's economic structure, trade and overall geopolitical position.

In 2005, the United States built the biggest US embassy in the region in Armenia. Armenia has good relations with Iran and Georgia, and the relations and economic cooperation with these countries are developing. With its other two neighbours, Turkey and Azerbaijan, relations are difficult.

Turkey denies the genocide of some 1.5 million Armenians committed by the Ottoman Empire between 1915-1923. Currently, Armenia still has no diplomatic relations with Turkey. However, at the same time, there are substantial volumes of trade.

There are no trade relations with Azerbaijan. The so-called Minsk Group of the Organisation of Security and Cooperation in Europe (OSCE), represented by US, Russia and French diplomats is mediating negotiations between the two countries towards resolving the conflict.

Political system

Politics in Armenia take place under the framework of a semi-presidential republic. According to the Constitution of Armenia, the President is the Head of State and the Government. Legislative power is vested in the parliament. The Republican Party of Armenia headed by President Serge Sargsyan controls a majority. Prosperous Armenia (that withdrew from coalition after the last elections and positioned as more oppositional force) currently holds the second largest number of seats in parliament. The Zharangutyun (Heritage) Party, the Armenian Revolutionary Federation, and Orinats Yerkir (which withdrew from a Government coalition in April 2014) are the other opposition parties represented in parliament. Next presidential elections in Armenian are scheduled in 2018.

c. Armenian Business Environment

Trade

Armenia joined the EEU on 2 January 2015. The EEU is an economic union of states located primarily in northern Eurasia. A treaty to establish the EEU was signed on 29 May 2014 by the leaders of Belarus, Kazakhstan and Russia. The EEU introduces the free movement of goods, capital, services and people and provides for common transport, agriculture and energy policies, with provisions for a single currency and greater integration in the future.

Outside of the EEU, Armenia has a liberal foreign trade regime with a simple two-band import tariff (at 0 and 10%), no taxes on exports and no substantial quantitative trade restrictions. Import, export and domestic production licenses are required only for health, security and environmental reasons. There are no limits on hard currency imports. Excise taxes are charged at various rates on the import or production of some luxury goods (including alcohol, tobacco, caviar, petrol, precious stones and furs).

Since the end of 2003 Armenia has been a member of WTO. A free trade regime is in force with CIS countries and Georgia. Armenia is included in the European Neighbourhood Policy (“ENP”) a foreign relations instrument of the European Union (“EU”), which seeks to tie those countries to the east and south of the European territory of the EU to the Union. Being included in the ENP, Armenia receives a favourable trade regime for Armenian exporters to the EU. Armenia qualifies for the enhanced Generalised Scheme of Preferences (“GSP+”). This means the entire removal of tariffs on the same product categories as those covered by the general arrangement. These are granted to countries which ratify and implement international conventions relating to human and labour rights, the environment and good governance.

On 18 October 2011 Armenia, along with Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan and Ukraine, signed an agreement on the establishment of a “Free trade zone between CIS countries”. The implementation of the agreement assures simplification of economic activity and a decline of custom fees up to 95% between the member countries.

Fiscal / tax regime

Businesses operate under a general tax scheme (paying VAT and profit tax) and a sales tax regime (for SMEs with an annual turnover under USD 140,000). Permission fees and fixed (presumptive) taxes are applied to specific types of business activities (for example, small retail outlets, restaurant and hotel, car service centres, transportation, gambling, taxi and other services) regardless under which tax regime the business operates. These taxes substitute VAT and profit or income tax.

Due to recent improvements in tax reporting, including an electronic reporting system, Armenia has recorded significant improvements in collecting taxes according to the World Bank’s “Doing Business” reports in 2014.

Taxes

Type	Rate
Profit Tax (corporate income tax)	20%
Income Tax (personal income tax)	24.4-36%
Value Added Tax	20%

Other taxes:

Property tax; excise tax (oil, spirits, wine, beer, tobacco products etc.); land tax.

Although businesses are taxed on dividends and capital gains on the disposal of shares, individuals are not taxed on either.

Investment regime

The Government of Armenia promotes foreign investment and operates an "open door" policy, including:

- Equal treatment for both foreign and domestic investors;
- 100% foreign ownership is permitted;
- No limitations on size and type of foreign ownership (except for the rights to own land by foreign citizens);
- Special investment incentives for foreign investors (customs duty exemptions for capital goods imported as a contribution to share capital);
- Alternative dispute resolution mechanisms for foreign investors (ICSID);
- Guarantees for legislative changes (a five-year "grandfather-clause");
- No restrictions for capital and revenue transfer and repatriation;
- Liberal regime on employment of foreign workers.

The Armenian Government has signed investment protection and promotion treaties with 39 countries, including USA, Germany, Russia, and France, which provide additional guarantees for foreign investment. Additionally, to avoid the double taxation of incomes and property, Armenia has signed bilateral treaties with 32 countries. According to World Bank's "Doing Business" report 2013, Armenia recorded the largest improvement in investor protection (+73) resulting from the introduction of a requirement for shareholder approval of related-party transactions, a requirement for greater disclosure of such transactions in annual reports and making it easier to sue directors when such transactions are prejudicial. Armenia's rank for investor protection is 22 among 189 economies in "Doing Business" 2014.

Monetary regime

The CBA is responsible for the monetary policy in Armenia and is relatively independent in policy decisions.

Monopolies and market regulation

The competitive environment varies across industries. Beyond the natural monopolies regulated by the Public Services Regulatory Commission (PSRC), there are some sectors where a few large players control the market, including the import of petrol, sugar and wheat and the production of salt, tobacco and cement. However, the majority of economic activity, especially services (including banking and financial services) and export sectors enjoy a free market environment. A legislative (Law on Protection of Economic Competition adopted in 2000) and institutional framework (State Commission on Protection of Economic Competition) are in place. Since 2011 considerable legislative reforms have been implemented, substantially increasing the power of the Commission of the Protection of Economic Competition of Armenia. As a result, the number of decisions where sanctions were imposed doubled and the number of penalties went up by 5 times. These fundamental changes have been introduced to improve the effectiveness of anti-monopoly policy in Armenia.

Armenian Financial Market

Armenia has a developing financial sector, but most retail transactions are still in cash. The large role of remittances and a reliance on foreign partners has increased the significance of bank transfers. The use of debit and credit cards is increasing as the network of ATMs and POS terminals expands. Armenian banks provide a range of standard banking services, including bank transfers, lending programmes, corporate deposit accounts, card operations, trade finance (including letters of credit, collections and guarantees) as well as trust operations, broker/dealer transactions and others.

Commercial banks provide short and long term loans both in AMD and in foreign currency at interest rates of between 10%-24%. There are additional fees charged by the banks, such as one off upfront fees and annual service fees. Bank deposits in Armenia are guaranteed by the Deposit Guarantee Fund, in accordance with Armenia legislation. Armenia has one licensed credit bureau, the Armenian Loan Reporting Agency (“ACRA”) that reports information on 56% of relevant individuals and firms (1,165,741 individuals and 29,781 firms).

The banking sector is the largest part of the financial market in Armenia. As of 31 December 2014, there were 21 commercial banks operating in the Armenia with 511 branches in Armenia and Nagorno Karabakh; 224 of these were located in Yerevan. Armenian commercial banks employ approximately 12,000 people.

The range of banking services has expanded significantly in recent years. The number of bank branches continues to increase and electronic banking is becoming increasingly popular.

In 2002 the CBA introduced legislation covering non-bank financial institutions such as credit organizations and credit unions. Currently there are 32 credit organizations (including leasing companies) operating in Armenia.

Several legislative initiatives are expected to lead to significant changes in other areas of the financial markets such as insurance, pension funds and capital markets. In January 2011 obligatory car insurance was introduced resulting in the market for insurance services growing 171% compared to 2010. In the near future, a series of legal initiatives are planned to introduce mandatory medical and other types of insurance.

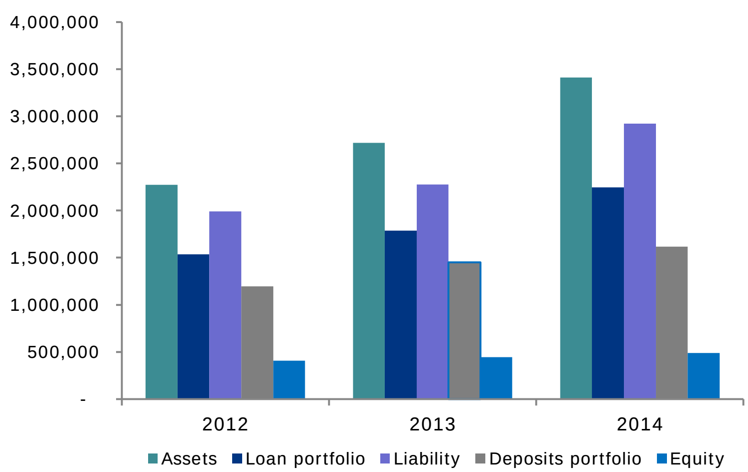
Reforms of pension funds and the capital markets are underway in Armenia. In 2013 IFC and in 2014, the EBRD issued corporate bonds denominated in AMD to trigger the development of the capital markets. However, the capital markets still remain at an early stage of development.

The CBA is focused on attracting international financial institutions into Armenia, as well in reshaping and upgrading the financial markets. In 2008 the Swedish exchange operator OMX (acquired by NASDAQ in 2008) acquired the Armenian Stock Exchange and the Central Depository. The CBA believes that by introducing legislation close to European standards it will attract international pension funds. The state-owned Pan Armenian Bank has been established with a mandate to finance long-term investment and infrastructure by leveraging Diaspora resources; however, it has not been active in the market yet. The National Mortgage Company has been implementing a few programmes to boost long term lending markets.

Armenia has a national payment system, ArCa, established in 2000. The owners of the system are the CBA and local commercial banks. The payment system processes both Visa and MasterCard transactions.

d. The Armenian Banking Market

Fig 2. The Main indicators of the Armenian Banking Sector 2012-2014[1]*. (million AMD)*



[1]According to the information provided by “Arka” news agency dated as of 31.12.2014

Financial Indicators for the Banking Sector (millions AMD)	31.12.14	31.12.13	Change 2014/2013
Assets	3,410,584	2,938,589	16%
Interest earning assets	2,603,941	2,182,168	19%
Loan portfolio (including L/Cs, lease and factoring)	2,162,966	1,784,663	21%
Liabilities	2,921,841	2,469,388	18%
Deposits (including current accounts)	1,701,080	1,623,247	5%
Equity	488,743	469,201	4%
Charter capital	272,640	245,562	11%
Total income	353,459	320,401	10%
Interest income	288,677	264,355	9%
Non-interest income	28,766	24,485	18%
Net interest income	140,242	131,503	7%
Net non-interest income	21,026	17,810	18%
Net operating income (before provisions and operating exp.)	197,283	180,874	9%
Operating expenses	(107,315)	(100,901)	6%
Net provision expenses	(53,216)	(20,121)	165%
Net profit before taxes	36,752	59,852	-39%
Net profit after taxes	27,155	46,292	-41%
Other comprehensive income	(11,707)	15,410	-176%
Total comprehensive income	15,448	61,701	-75%

Assets

In 2014 total Armenian banking assets grew by 16.1% and reached AMD 3,410.6 billion as of 31 December 2014.

Interest earning assets comprised 76.3% of the total assets. As of 31 December 2014 interest earning assets of banks grew by 19.3% compared with 31 December 2013.

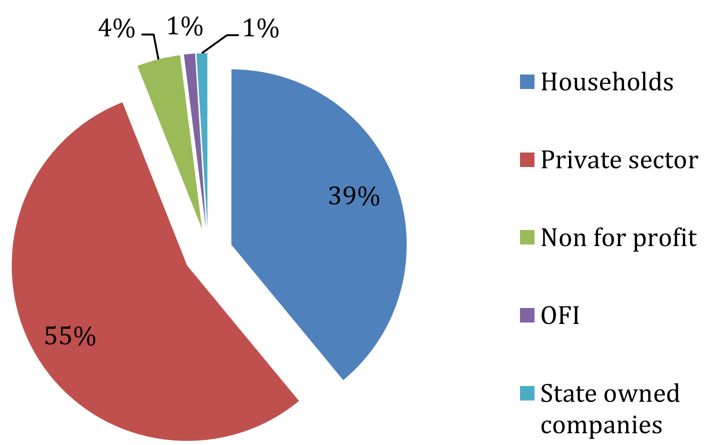
The top five banks (ranked by assets) totalled 51.1% of the assets of the banking system as of 31 December 2014. Nevertheless, the banking industry concentration is not high and is defined as "unconcentrated" according to the Herfindahl-Hirschman Index[1], which has a value of 0.073. Compared with the previous year, the HHI has increased by 0.003.

Loan portfolio

As of 31 December 2014 the total amount of outstanding loans disbursed grew by 21.2% compared with the same date of 2013 reaching AMD 2,163.0 billion.

95.6% of total outstanding bank loans in Armenia were made to Armenian persons, of which 56.5% were companies (only 1.8% of this amount was provided to state owned companies), 38.8% households, and the balance not-for-profit organizations and other financial organizations ("OFI").

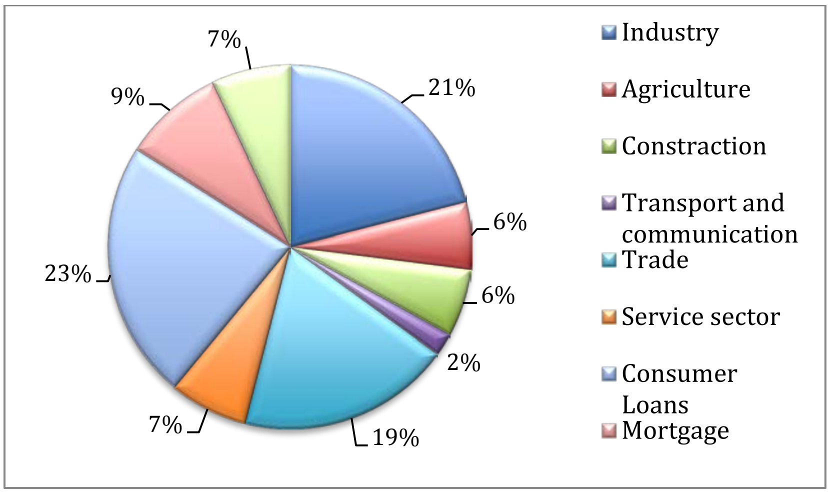
Fig 3. Structure of Loans by Creditors



[1]Measure of the size of firms in relation to the industry and an indicator of the amount of competition among them

Consumer loans, loans to industry and loans to the trade sector have traditionally comprised the majority share of total bank loans; in 2014 22.5%, 21.3% and 19.2% respectively. The biggest growth in lending in 2014 was to the service sector with volumes growing year on year by 45.7%.

Fig 4. Structure of Loans by Economic Sectors



Net Provisions

As of 31 December 2014 total net provisions of the banking system increased by 164.5% reaching AMD 53.2 billion.

Liabilities

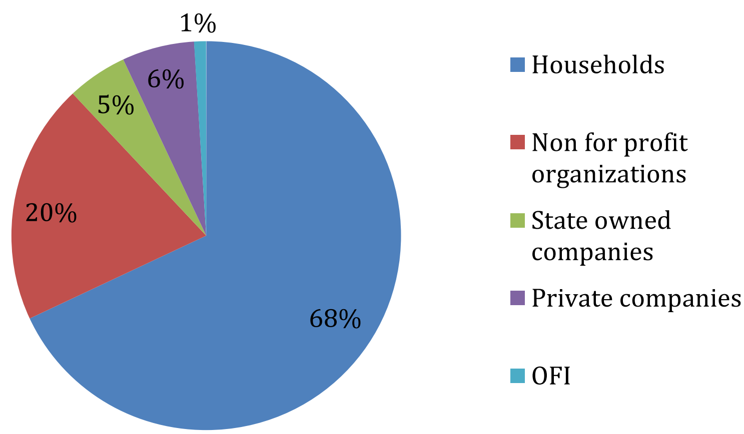
As of 31 December 2014 total bank liabilities were higher by 18.3% than liabilities outstanding as of 31 December 2013 reaching AMD 2,921.8 billion. Deposits account for 58.2% of bank liabilities.

Deposits

The total balance of deposits as of 31 December 2014 increased by 4.8% compared with the 31 December 2013, reaching AMD 1,701.1 billion.

As the graph below shows, households had the largest share of deposits with 68% followed by private companies, which held 20%.

Fig 5. Structure of Deposits



Equity

As of 31 December 2014 the total equity of banks reached AMD 488.7 billion, which exceeded the total equity at 31 December 2013 by 4.2%.

For the year ended 31 December 2014 the return on equity of the Armenian banking system was 5.7%. The ratio of equity to assets at 31 December 2014 was 14.3% and the capital adequacy ratio of Armenian banking system was 14.5%.

The 4.2% increase in equity of the banking sector as of 31 December 2014 was mainly due to the increase in reserve requirements (24.0% increase compared to the figure for the previous period). However total equity to total assets was 14.3%, which is 1.7% below the 2013 ratio of 16.0%.

Income

The income from interest was AMD 288.7 billion, which is 81.7% (2013: 82.5%) of total income of the banking system.

The total income of the banking sector in 2014 increased by 10.3% year-on-year, reaching AMD 353.5 billion. 49.1% of total income was earned by the top 5 banks (ranked by total income).

Profit/loss

During the year ended 31 December 2014, the banking system had total income of AMD 353.5billion, which exceeded the total income for the 2013 by 10.3%. Net interest margin for the period was 5.9% and the cost to income ratio 54.4%.

The net profit before taxes of the banks for the year ended 31 December 2014 was AMD 36.8 billion with net profit after taxes AMD 27.2 billion, which is lower than in 2013 by 41.3%.

The profit margin for the Armenian banking system in 2014 was 7.7%.

During the reported period 16 banks operating in Armenia were profitable (responsible for AMD 50.3 billion of profit before tax), while 5 banks incurred losses of AMD 13.6 million.

Banking regulatory environment

In Armenia, banks are regulated by the Central Bank of Armenia (“CBA”).

Banks are required to comply with the following laws:

- The law on banks and banking,
- The law on the CBA,
- The law on bank, credit organization, investment company and insurance company bankruptcy,
- The law on banking secrecy,
- The law on combating money laundering and terrorism financing,
- The law on joint stock companies,
- The law on financial system mediation,
- The law on commercial arbitration,
- The law on consumer loans,
- The law on the circulation of loan information and activities of credit bureaus,
- The law on accounting,
- The law on attracting bank deposits,
- The law on the guarantee of remuneration of bank deposits of physical entities,
- The law on currency regulation and currency control,
- The law on the distribution of loan information and activities of loan bureaus,
- The law on payment and settlement systems and payment and settlement organizations,

In addition Banks are required to comply with the rules and procedures of the CBA.

In 2008, the CBA initiated policy reforms, which resulted in the enactment of three laws related to consumer protection: Law on Consumer Loans, Law on the Attraction of Banking Deposits, and Law on Financial System Mediator. In 2009, the CBA issued several regulations addressing certain provisions of these laws.

Reporting

Banks are required to publish quarterly financials prior to 15th day of each month following the reporting month, with a minimum circulation of 1,000 copies. The year-end for banks is 31 December and annual audited financials must be published prior to 30 April with a minimum circulation of 1,000 copies. The CBA requires that printed copies of quarterly and year-end financial statements are presented to the CBA

Securities market

Armenia's securities market is still developing. On 21 November 2007, NASDAQ OMX, a leading company in the equities exchange industry acquired the Armenian Stock Exchange and the Central Depository of Armenia from the Government, becoming the sole shareholder in both entities. OMX and the Government also signed a cooperation agreement outlining their joint efforts to support the long-term development of capital markets in Armenia.

e. Unibank History

Unibank is a universal bank which offers its customers a wide range of banking services. Over the past 14 years the Bank has built a strong brand in Armenia and has become one of Armenia's leading banks.

Significant Events

In 2002, Unibank provided its customers access to the Unistream money transfer system, which is one of the leading money transfer systems in Armenia.

In 2003 Unibank became a member of local ArCa payment system.

In 2004 Unibank became a member of Visa International.

In 2005 Unibank launched a large-scale lending programme through mortgages and car loans, taking first and second place respectively among Armenian banks.

In 2006, Unibank became a member of the International Fund for Agricultural Development (IFAD) programme to promote investment in rural areas, and participated in the SMEDNC project to develop small and medium sized enterprises.

In 2007 Unibank increased its authorized capital by AMD 5,599 million and ABN AMRO Bank's risk management programme was introduced.

In 2008 Unibank become a member of Armenian NASDAQ OMX stock exchange.

In 2008 the Bank developed a new version of its automated banking system with an on-line centralized database for all its branches. The Bank's head office moved to Charents Street where it installed a new server room and implemented new IT technologies and hardware which included setting up its own processing centre and a centralized operational service system.

In 2009 Unibank' network of affiliates were joined by a common database. At present all Bank branches work online.

On 3 June 2010 Moody's international rating agency assigned Unibank financial stability E+ rating, Ba3 long-term rating for foreign currency and national currency deposits and a NP short-term rating. All of the ratings have a stability forecast.

In 2011 Unibank began a trade financing project with the Asian Development Bank to provide companies with letters of credit and bank guarantees. In 2011 Unistream, the international money transfers system launched a new loyalty card for its clients, which has increased the efficiency of money transfers, considerably shortening customer servicing times and enabling the customer to trace the status of transfers online.

In 2012 Thomson Reuters awarded Unibank "Best Dealing Bank of 2012". At the end of 2012 the Bank finalized the process to launch its own card processing centre which was certified by Visa International on January 2013.The Bank began using the Salesforce.com platform, based on cloud technologies, to manage the origination and relationship management on its consumer credit programme.

In 2013 the Bank participated in the tender to manage the Loan Guarantee Fund programme set up by USAID. It has also signed a cooperation agreement with IFC and Black Sea and Trade Development Bank, whereby IFC has provided the Bank with two loans of USD 5 million, and Black Sea and Trade Development Bank has provided the Bank with a USD 5 million loan. The loans are to be used to expand the SME and trade finance activities of the Bank. IFC, through its Bank Advisory Program in Europe and Central Asia, also supports Unibank with advisory services aimed at improving the Bank's risk management and SME credit processes. The cooperation with international financial institutions has helped the Bank build its SME lending business, which in turn has helped SME enterprises in Armenia to grow, thereby leading to the creation of new jobs.

In 2014 Unibank began cooperation with Intel Express, the international money transfer system. It also introduced ISO 27001:2013 information security standards and set up its Unibank Privé private banking system.

On 12 March 2015, according to a decision taken at the Bank's Extraordinary General Shareholders Meeting, the Bank was reorganized into an open joint-stock company.

On 17 June, Moody's Investors Service applied a rating on Unibank's long-term local and foreign-currency deposit ratings of B2 and the baseline credit assessment (BCA) of b3. It also assigned a Counterparty Risk Assessments (CR Assessments) of B1(cr)/Not-Prime(cr) to Unibank.

On 1 July 2015 the Bank became an Account Operator at the Central Depositary of Armenia and a member of the Unified System of Security Registry Maintenance and Settlement.

Summary Income statement (thousands AMD)

Year ended 31 December

	2014	2013	2012
Interest income	19,316,864	16,828,969	14,091,613
Interest expense	-12,025,942	-11,220,783	-9,187,773
Net fees and other income	3,559,252	3,421,312	3,292,178
Total operating income	**10,850,174**	**9,029,498**	**8,196,018**
Administrative expenses	-3,272,711	-3,751,192	-3,061,794
Depreciation and amortization	-450,305	-516,870	-410,642
Impairment losses on loans and advances	-4,106,633	-1,017,935	-510,696
Other expenses	-2,393,969	-2,848,982	-2,171,369
Profit/loss before taxation	626,556	894,519	2,041,517
Taxation	-94,081	-410,929	-438,448
Profit/loss after taxation	**532,475**	**483,590**	**1,603,069**

Investments

a. No significant investments have been made by the Bank during the historical financial period and afterwards till the moment of submission of this Prospectus to registration.

b. No significant investments of the Bank are in process.

c. No future significant investments of the Bank are planned, for the performance of which the governing bodies of the Bank have undertaken obligations.

2. ***Business Overview***

a. Business Lending

Lending to small and medium businesses is a strategic focus for Unibank.

The success of Unibank's strategy in the SME sector lies in its ability to structure bespoke products for individual businesses, ensuring their competitiveness and providing its SME customers with the highest quality of service and up-to-date technology. As of 31 December 2014, the share of SME loans in the Bank's total business loan portfolio was 69%.

The SME sector contributes considerably to Armenia's economy. The sector experienced robust growth in parallel with the country's rapid economic development up until the financial crisis in 2008, which deeply affected this sector's performance, being particularly vulnerable to the performance of the economy. Following a contraction of approximately 10% in the volume of output in 2009, the sector is yet to regain its pre-crisis performance levels.

Since 2000, the Armenian Government has pursued a pro-active approach to support SME growth. Key developments include the establishment of the SME Policy Implementation Agency, creation of the SME Support Council and work on a new SME strategy. Armenia has achieved the highest scores in areas of creating a business friendly environment as a result of recent extensive deregulation initiatives. The SME Development National Centre Fund (SME DNC Fund), an efficient and geographically widespread SME agency, offers help to SME's in the form of training, business support tools such as business administration services.

Over past 2 years Unibank has focused on SME lending by:

- Diversifying its the portfolio and increasing the proportion of SMEs in the portfolio,
- Focussing upon active and passive banking through cross-selling and CRM,
- The efficient use of the branch for lending and attracting customers, focusing upon SMEs working in services, production and trade,
- Introducting new customer orientated banking products.

As Unibank has made a conscious decision to focus on SME's and entrepreneurs, its lending to larger corporates has declined. However it is not the Bank's intention to cease lending to larger corporates as the Bank still considers these customers as an important part of its overall business. It continues to work with its corporate clients, offering them a wide range of banking products.

Fig 6. Dynamics of Unibank's Business Loans 2010-2014. (million AMD)

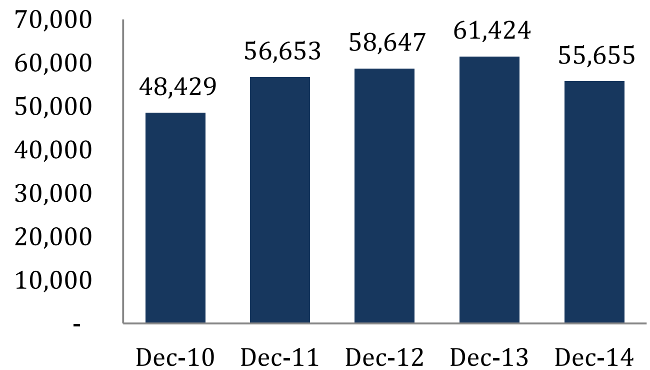


Fig 7. Dynamics of Unibank's Corporate Loans 2010-2014. (million AMD)

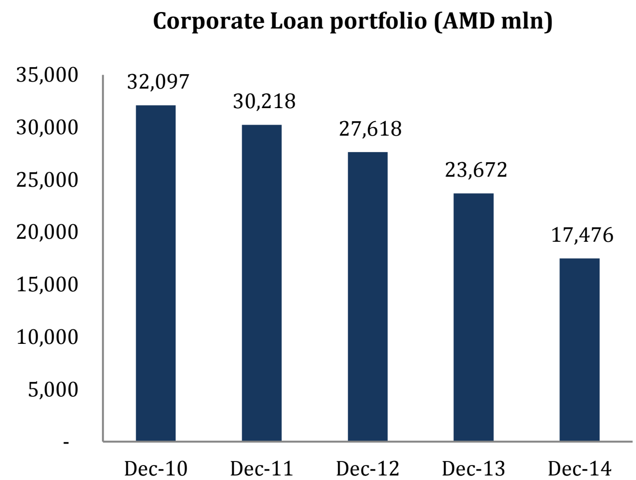


Fig 8. Dynamics of Unibank's SME Loans 2010-2014. (million AMD)

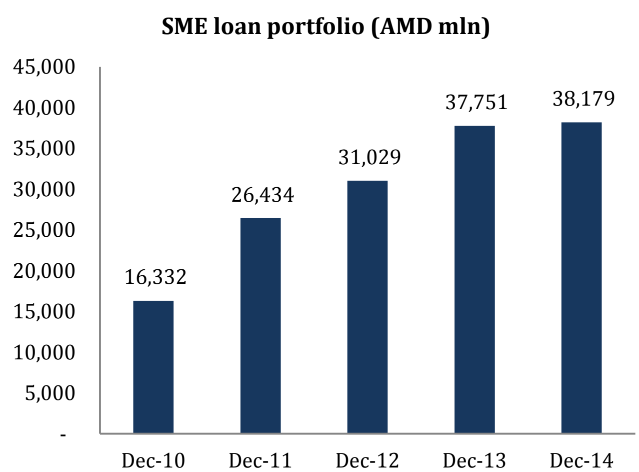


Fig 9. Share of the Sectors in the Business Portfolio 31 December 2014[1]

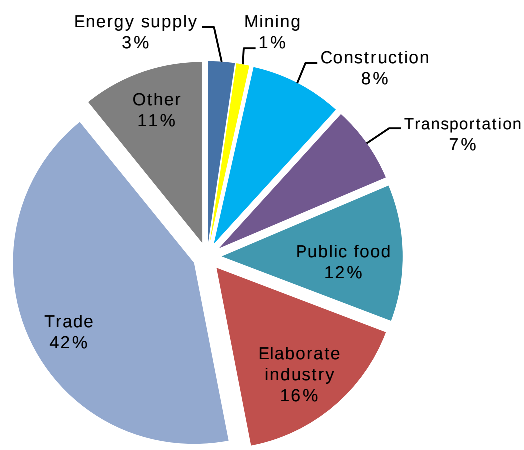
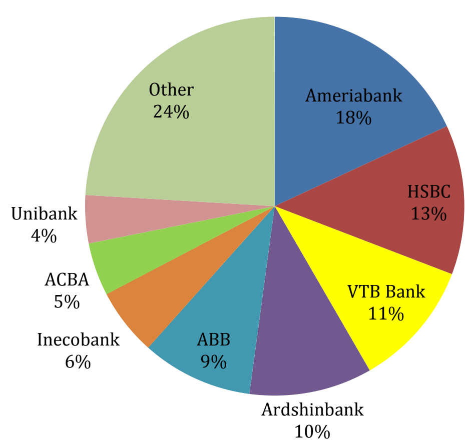


Fig 10. Share of Lending in Each Sector of the Economy in Armenia[2]



b. Retail Lending

Unibank is building its retail banking offering through its branch network and a focus on carefully selected banking products. Retail sales are made through its own branches and through partner companies. Retail lending is split between:

- Mortgages,
- Car loans,
- Consumer loans (secured)

[1] According to the information provided by "Arka" news agency dated as of 31.12.2014

[2] See above

- Consumer loans (unsecured - cash loans, POS lending),
- Credit cards.

Unibank has implemented Salesforce.com's CRM platform to manage its customer acquisition and loan approval process. Salesforce.com is the world leader in CRM-systems and cloud computing. Implementing Salesforce.com has enabled the Bank to significantly cut the credit approval time and documentation process for consumer loans. Today customers can fill in loan applications in person at a bank branch or online. Loans can be approved almost immediately without a bank visit. Unibank is developing its ability to process other products online; mortgages, car loans and SME loans.

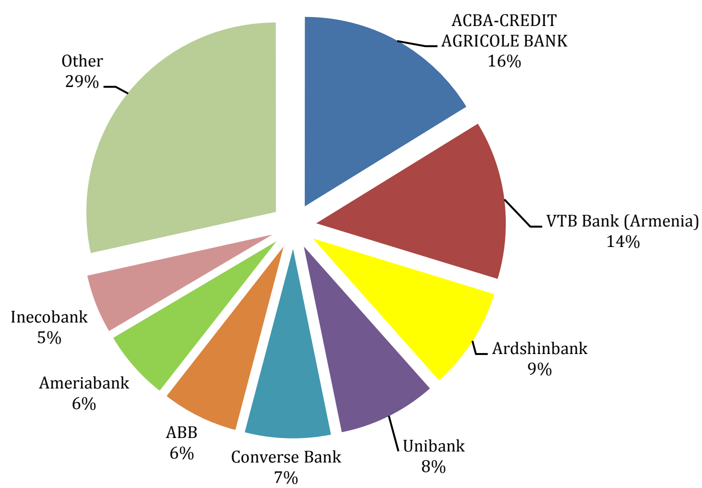
Currently the Bank sells its services in more than 600 points of sale through its own branches and through its partners.

Products sold through partners are developed with the Bank's partners as well as the advertising and marketing campaigns associated with them, which in some cases are paid for by the Bank's partners.

The Bank places promo points at the premises of its partners. In these promo points employees of the Bank present the Bank's products to potential customers. In 2014,19 new promo points were opened, bringing the total number to 50.

Unibank's current market share in retail deposits stands at 8%[1]. The Bank has a target to increase this to 20% by 2016.

Fig 11. Retail Lending Share of the Market [2]



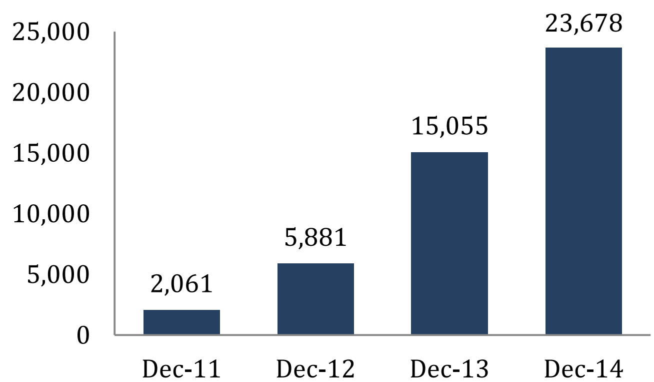
[1]According to the information provided by "Arka" news agency dated as of 31.12.2014
[2]According to the information provided by "Arka" news agency dated as of 31.12.2014

Small consumer loans (unsecured loans)

In the second half of 2011, Unibank began its small consumer loans business, lending between AMD 50,000 and AMD 1 million to retail customers. By the end of 2014 Unibank had issued 220,000 of these loans of a total value of AMD 53 billion. Currently it has approximately 138,500 small consumer loans outstanding with a total loan book of AMD 23.7 billion. Although there is no official data of the size of this market, the Bank believes that it is the market leader. The average size of a loan in the Bank's small consumer loan portfolio is AMD 175,000. Interest rates are set at an APR of between 20%-24% according to the risk profile of each client. Unibank's main competitors offering similar loan products are Inecobank, VTB-ARMENIA and ACBA Credit Agricole Bank.

Unibank's underwriting process for its small consumer loan product if fully automated. Its risk management process includes credit history checks from ACRA and a scoring model developed with Protobase Laboratories. The parameters of the scoring model are constantly reviewed and updated as agreed by the Bank's Board. The Bank's approval rate has recently averaged around 40% and the average limit approved has been AMD 200,000.

Fig 12. The Growth of Unibank's Small Consumer Loans 2011-2014 (million AMD)



The advantages of small consumer loans to the Bank's clients are as follows:

- Prompt receipt of the loan proceeds: the loans are unsecured and the client can use them at his/her discretion,
- Minimum requirements for the borrower: passport and social security card,
- Competitive terms in the retail loan market,
- No upfront fees or early repayment fees, allowing pre-term repayment.

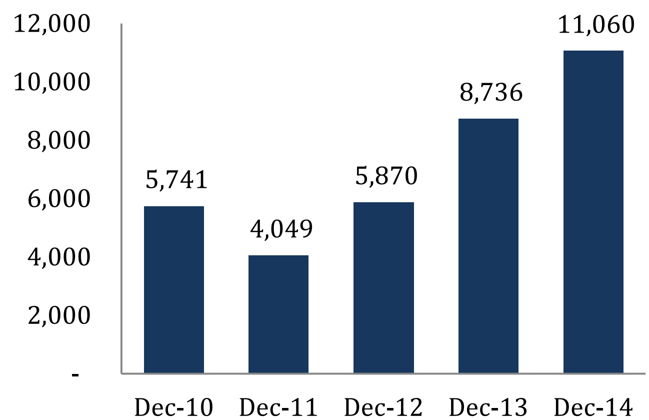
Partners

Unibank has successfully established relationships with a growing number of partners who distribute its loans. Unibank's partners include the principal mobile operators in Armenia (Vivacell MTS, Beeline, Orange, Mobile Centre,Vega, Vesta, Aray) and a number of retailers (VLV -electronics and Klayk - furniture).

Secured Consumer loans

Secured consumer lending began in 2007. Loans are made to individuals against real estate. Loan amounts are between AMD 1 million and AMD 25 million with repayment periods of up to 72 months. Interest rates are set at an APR of between 16%-24%.

Fig 13. Growth of Unibank's Secured Consumer Loans 2010-2014. (million AMD)



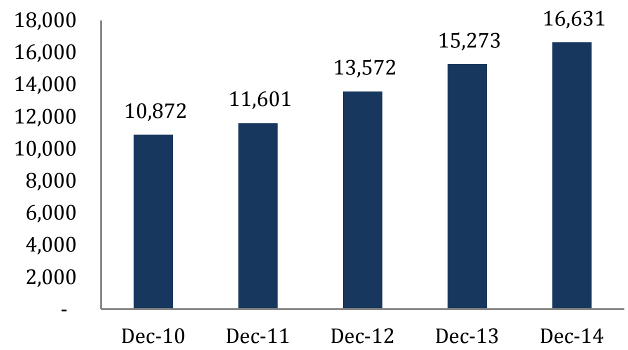
Mortgage lending

Unibank began issuing mortgages in 2005 becoming one of the leaders in the mortgage market. It is currently in the top three mortgage banks in Armenia. At 31 December 2014 Unibank had approximately 1,453 residential mortgage customers with a total of AMD 16,579 million outstanding and 6 non-residential customers with a total of AMD 51.7 million outstanding. It is estimated that Unibank has 10% of the total mortgage market[1].

Unibank offers mortgages with maturities up to 15 years at interest rates of between 9.5%-18%. Maximum mortgage loans for residential mortgages are AMD 70 million and non-residential mortgages are AMD 250 million.

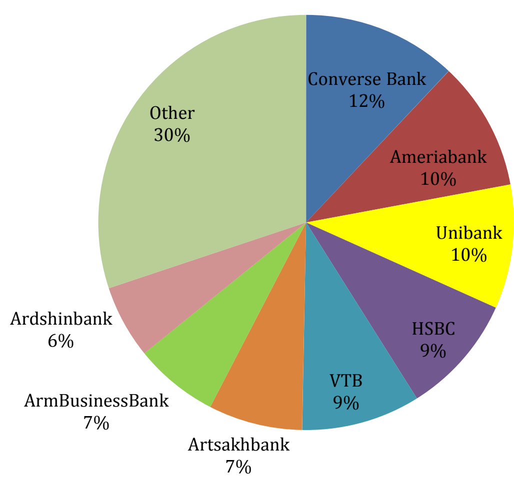
Fig. 14 Growth of Unibank's Mortgage Loans 2010-2014 (million AMD)

[1] According to the information provided by "Arka" news Agency dated as of 31.12.2014



Competitors in the market include Converse Bank, VTB-ARMENIA Bank, HSBC Bank Armenia and Armenian Business Bank.

Fig 15. The Mortgage Market[1]



Mortgage funding

Unibank works with the National Mortgage Company and the Home for Youth Organization to fund its mortgage portfolio.

The National Mortgage Company provides credit lines to the Bank to enable it to provide mortgages at competitive rates to its clients. It provides a facility of up to AMD 1,000 million at an interest rate of 9.5% per annum.

The Home for Youth Organisation has provided a credit line of AMD 500 million at an interest rate of 5.5% per annum.

In addition to these facilities, Unibank funds its mortgage book with a mixture of capital and deposits.

[1] According to the information provided by “Arka” news Agency dated as of 31.12.2014

Credit cards

Unibank attracts its credit card customers through advertising and through its partners. Prospective customers fill out a simple application form on www.unibank.am and once completed online they are informed of a preliminary decision via a text message following an automated underwriting process.

At 31 December 2014 Unibank had 26,267 credit cards with a total outstanding balance of AMD 6,573 million.

Credit cards are provided to both participants of the Magnis loyalty programme, and to company directors, entrepreneurs, senior state officials, borrowers and depositors.

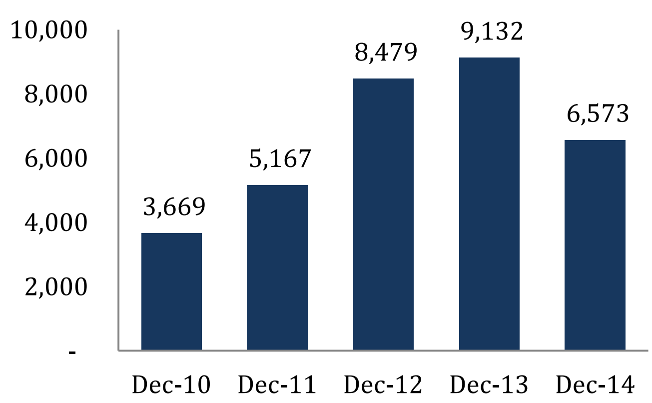
Unibank's underwriting process is fully automated. Its risk management process includes credit history checks from ARCA and its scoring model was developed with Protobase Laboratories. The Bank's approval rate averages around 40% and the average limit is approximately AMD 230.000.

Outstanding credit card balances carry APRs of up to 24% and are renewable at 12, 24 or 36 months. Clients need to be Armenian nationals aged between 21 and 63 years. Maximum credit limits amount to AMD 5,000,000.

Unibank offers its credit card customers the opportunity to hold positive balances on their cards on which they can earn attractive rates of interest of up to 8% on AMD balances, 5% on USD balances and 3% on € balances.

All cards are linked to the Magnis loyalty programme providing customers with discounts and privileges as described in the section on Magnis below.

Fig 16. Unibank's Credit Card Portfolio from 2010 to 2014. (million AMD)



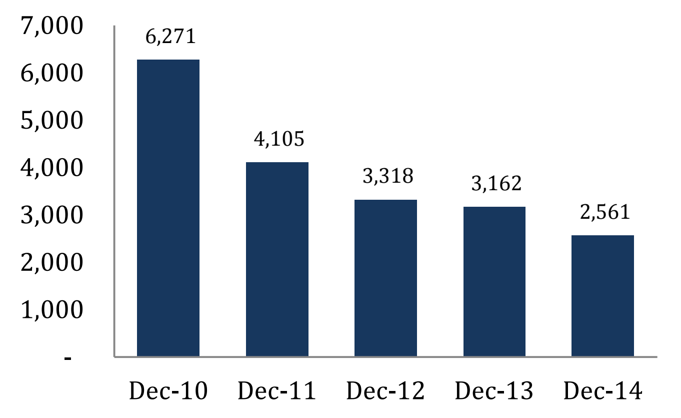
Car Lending

Unibank's car loan portfolio currently stands at AMD 2,561 million. The Bank's portfolio has been in decline over the past three years due to its restrained policy in issuing car loans both in the new and second-hand car market.

Unibank started its car loan business in 2005 and it grew quickly until the global financial crises in 2008. Since then the Bank has tightened its credit process and reduced the amount it lends for car purchases. Added to this tightening of credit, the car market itself has declined by 60 %. However Unibank remains a leader in this field, as one of the top three banks in the field.[1]

Unibank's car loans carry fixed interest rates, are for a fixed term and are secured against the vehicle. Rather than providing a hire purchase product, the title does transfer to the borrower at the time of purchasing the vehicle. Payments are received monthly in arrears. The Bank will lend on the purchase of both new and used vehicles for private use. The term of car loans are up to 72 months with LTVs of 80%. The APR on car loans during 2014 was in the range of 15%-20% with an average yield on the portfolio of 15.5%.

Fig 17. Unibank's Car Loan Portfolio from 2010 to 2014. (million AMD)



Customer deposits

Unibank attracts deposits both from individuals and legal entities through its wide branch network, by promotions and advertising on the internet and through traditional media channels. Unibank is one of the market leaders in attracting both short-term and long-term deposits; currently the Bank holds AMD 99 billion in term deposits and AMD 14.5 billion in demand deposits.

Fig 18. Unibank Deposit Portfolio 2010-2014 (million AMD)

[1] According to the information provided by "Arminfo" Agency dated as of 30.09.2014

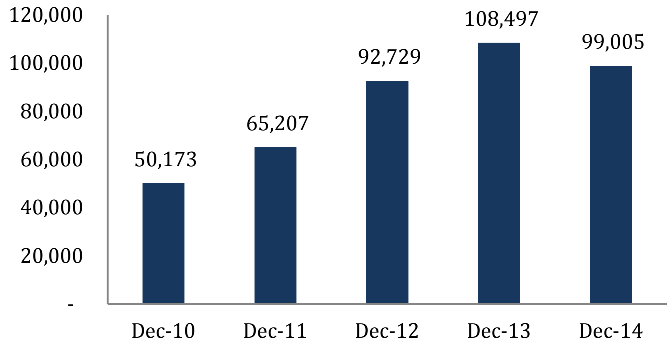
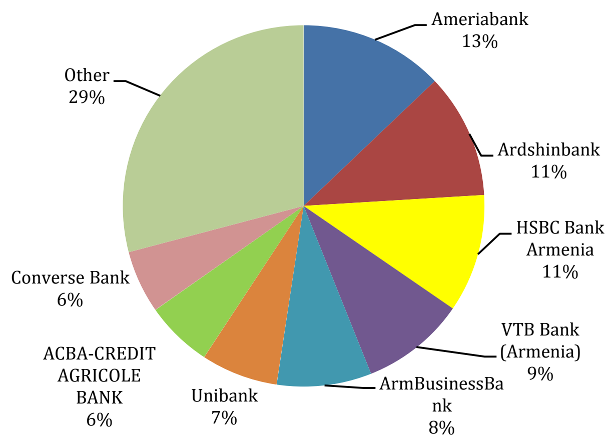


Fig 19. Total Deposits Market (both term and demand) at 31 December 2014 [1]



c. Other Services

Customer Loyalty Card

Unibank's Magnis loyalty programme was set up to increase customer satisfaction. Magnis loyalty cardholders accumulate bonuses and receive benefits when they make purchases from the Bank's partners and can participate in a raffle of valuable prizes and special offers. Currently Unibank has 76,845 Magnis loyalty cards outstanding.

Unistream money transfer system

Unistream is a money transfer system which provides transfers worldwide without the necessity for a client to open a bank account. Unibank is an agent of Unistream and offers customers its mony transfer services transferring and receiving cash at its bank branches. Unibank also issues its

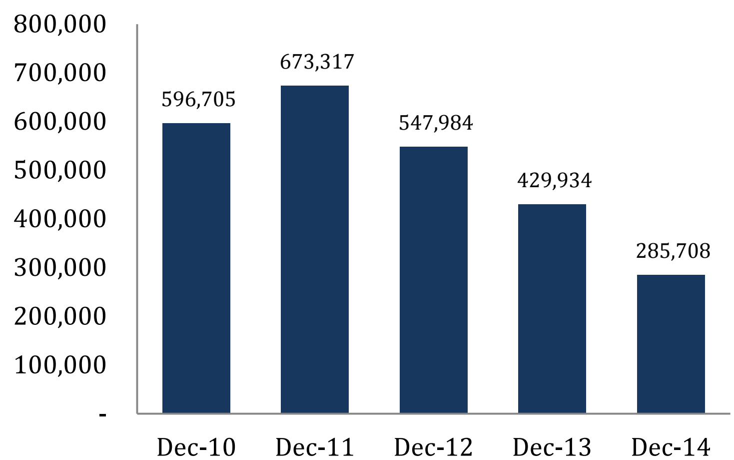
[1] According to the information provided by "Arka" news agency dated as of 31.12.2014

customers with Unistream's loyalty card and bankcard so that its customers can transfer money without having to visit a branch. Customers can also top up their Unistream cards by phone. Unibank makes money transfers in USD, €, and Russian Roubles (RUB). Remitted sums are paid in AMD, USD, EUR, and RUB. In other countries the remitted sum is paid in the currency determined by the laws of the given country.

Unibank earns commissions from Unistream; the minimum commission is 0.35%, and the maximum ranging from 1% for Russia, 1.5% for CIS and up to 3% for other international transfers. In 2014 Unibank customers transferred AMD 135.7 billion (USD 285.7 mln) through Unistream, earning Unibank AMD 286 million.

Since 2012 in order to build on its market position, Unistream started offering its services through other Armenian banks.

Fig 20. Unistream transfers by Unibank Customers 2010-2014 (thousand USD)



Intel express

On 4 November 2014 Unibank began cooperating with Intel Express, a competitor to Unistream providing international money transfers. Intel Express offers a similar service to that provided by Unistream giving Unibank customers an alternative service.

Unibank Privé

Unibank Privé was set up to provide Unibank's clients with a private banking service.

Unibank Privé offers financial solutions to customers with a certain status and income level including a structured approach to capital management, effective financial planning and the development of a tailored investment strategy. Unibank Privé clients may contact and make an appointment with a manager at any time convenient to the client. Confidentiality and security of all operations is guaranteed.

Unibank Privé clients get a range of additional opportunities and services including a Priority Pass card giving clients access to 700 VIP lounges at international airports throughout the world. The Bank also has plans to provide its Unibank Privé clients a free tourist SIM-card when travelling abroad, thereby cutting out expensive roaming charges.

Deposit Boxes

Unibank provides its clients with the use of safety deposit boxes in which to store valuable items and documents.

Internet Bank-Client System

Unibank offers its clients secure, contemporary and efficient Internet banking services. The system provides full banking services to a client in real time, offering secure access from any location in the world.

The system permits clients to conduct the following operations:

- Make payments,
- Deliver payment instructions to the Bank via the Internet,
- Receive account statements for any period,
- Pay for public utilities.

For the purpose of ensuring security information, Unibank uses VeriSign Secure Site Pro with an Extended Validation (EV) Certificate.

Public utility payment service

Payments of public utilities are accepted in all the branches of Unibank. The advantage of Unibank's utilities payment system is its convenience and efficiency. Customers are provided with a UNIPAY utilities payment card, which processes all the client's information and enables a client to make utility payments with confirmation received either by telephone, SMS or e-mail.

Securities dealing

Unibank was awarded "Best Dealing Bank in 2012'' by the Thomson Reuters International Corporation. The Bank received the award based on the results of its dealings in the interbank and money markets. Thomson Reuters's experts took into consideration the Bank's development strategy, its position in the market, the quality of the services it provided and the professionalism of its employees.

Current activities and prospects

During 2014 Unibank continued to show good performance meeting its targets set for 2014. The Bank's assets grew according to its budget at 12%, with its loan portfolio increasing by 3%.

From 2015 to 2017 the Bank intends to focus its activities as follows:

- Increase its retail business lending,
- Increase its lending to small and medium-sized businesses,
- Enhancing oversight of its loan portfolio through constant monitoring (and regular review of the status of pledged assets and meeting with customers),
- Increase its deposit taking,
- Expanding its list of plastic card operations,
- Increase in money transfers,
- Implementation of foreign exchange operations by carrying out foreign exchange operations in branches,
- Increasing the list and quality of services provided to its clients,
- Improving quality of services,
- Increasing commissions and fees,
- Involving itself in international lending programmes.

3. ***Infrastructure***

Head office

Unibank's operations are centralised at its head office where the Bank employs staff fulfilling management, finance, accounting, legal, risk, customer services, collections, IT, property, marketing and business development, HR training and administration roles. The Bank had 896 employees as at 31 December 2014.

Information technology

Unibank uses a variety of packages from leading local and international developers to support and develop its business. Unibank uses a centralised online automated banking system (Oracle based ABS from local developer L-soft), for its front office (branches) and back office (head office). All back office procedures at Unibank are centralised at the head office. Unibank is a Principal Member of Visa International and the Armenian Card payment systems and from January 2013 has operated its own processing centre developed by BPC banking technologies. Now Unibank serves its customers through one of the largest ATM and POS-terminal networks in Armenia. Unibank also offers its clients e-banking, mobile banking services and international money transfers.

Unibank is implementing ISO 27001:2013 standards in order to develop and enhance the effectiveness of its information security (IS) management. Getting ISO 27001 certificates enable the Bank to rationalise its information security system, enhance the processing effectiveness and protection level of a customers' personal data, enhance managerial control and increase employee qualifications. The project is being implemented with the support of Veritas, the French company, which is one of the world leaders in providing certification services.

The implementation of ISO 27001:2013 is another step in enhancing the effectiveness and performance of the Bank's management of its information security system and security processes.

Unibank has implemented processes to ensure the security of all client information and has already passed a certification audit on compliance with the PCI DSS (PCI Data security standard) international standard requirements. PCI DSS is the leading standard in the field of data security, developed by international payment systems.

The Bank intends to acquire a new server room, which will comply with the highest security and safety TIER3 international standards.

Internal audit services

Since it began operations 14 years ago, Unibank has had its own Internal Audit team. Internal Audit is an independent unit. Its role is to conduct checks on controls, evaluate risks and submit reports to the management and staff of the Bank, as set by the shareholders and the Board of the Bank.

Internal Audit submits its reports on monthly basis to the Bank's management and quarterly at the Bank's Board meetings, covering its activities and the audit results for the period, indicating any risks it has identified and suggesting effective ways to deal with them. Once a year Internal Audit conducts checks of the internal control system of the Bank.

The Head of Internal Audit reports directly to the Board and has free access to all levels of the top management of the Bank.

Internal Audit conducts periodical check-ups in the Bank's branches performing reviews of risk management and control.

The structure of Internal Audit complies with international best practices.

Call centre

The Bank has its own call centre which currently provides the Bank's clients with the following services:

- Completing credit applications
- Providing information and advice concerning Unibank's services
- Receiving suggestions or complaints concerning the Bank's activities

Information on card services

The Bank is the member of Visa, MasterCard and ArCa payment systems; however it will only begin issuing MasterCard cards in 2016. In order to improve its technology in card services the Bank has launched its own processing centre, and has successfully passed the certification audit on compliance according to international PCI DSS standards.

The Bank uses the SmartVisa system in the management of all aspects of the Bank's card business, including card issuance, acquisition and e-commerce support. The Bank has invested up to AMD 500 million into its own processing centre. At the same time, the Bank remains a full member of the Armenian Card payment system (ARCA).

In 2013 Unibank began issuing its clients with Visa chip cards. The launch of its Visa chip cards has resulted in the Bank increasing its issuance of cards and improving security and the quality of its card services.

One of the main advantages of Unibank's Visa chip cards are that they can be used for multicurrency transactions, which enables the Bank to attach several accounts in different currencies to one card. Today Unibank offers its customers chip cards along with other services such as concierge services (ordering air tickets, hotel reservations, booking cultural events and the delivery of documents).

The Bank is currently working on developing its ability to provide its clients with mobile and electronic commerce offerings.

Information on the independent auditor

Since 2009, the financial audit work at the Bank has been carried out by Grant Thornton CJSC Audit Company, the Armenian member of Grant Thornton International.

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E-mail: www.gta.am

Director-shareholder: Gagik Gyulbudaghyan

4. *Risk Factors*

Overview

Risk management is one of the most important functions of Unibank's management. Risk management in Unibank prevents and minimises potential losses of the Bank. The main goal of the risk management department is to ensure that the Bank keeps its risks at the level set out in the Bank's strategic plan whilst maximising its return on capital.

Principles of risk management

The risk management of Unibank is based on the guidelines issued by the Committee on Banking Supervision of the Bank for International Settlements (Basel Committee on Banking Supervision), Generally Accepted Risk Principles (GARP) and on laws of Armenia and CBA regulations. Risk is managed through a process of the on-going identification, measurement and monitoring of risks, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his/her responsibilities.

The Bank fosters a culture that increases the level of risk management related knowledge across the Bank, in particular by sending employees on seminars and training courses.

Risk management framework

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

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

Board of Bank

The Board is responsible for monitoring the overall risk management, approval of strategy and risk management principles.

Executive Board

The Executive Board of the Bank is responsible for investment and control over the risk management procedures.

Risk Management Directorate

The Risk Management Directorate is responsible for the implementation of risk procedures and control over risk management principles, policy and the Bank's risk limits, as well as providing risk valuation and the collection of overall information within the financial system. The Bank also runs worst case scenarios that would arise in the event that extreme events might occur.

Financial Directorate

The Financial Directorate of the Bank is responsible for management of assets and liabilities of the Bank. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

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

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities. Monthly and quarterly reports presented to the

Executive Board and Board of Bank make sure that the policies are embedded to the culture of the Bank.

Risk taking limits and risk management

The Risk Management Directorate submits analysis-based proposals on risk limits to the Assets and Liabilities Committee and/or Executive Board, following which they are submitted to the main Board for its approval.

If any exceptional cases occur the staff of the Risk Management Directorate reports them to the Assets and Liabilities Committee or to the Executive Board. These cases are then reported to the main Board who make the necessary decisions.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are managed accordingly.

Anti-money laundering (AML)

- The Bank is subject to and complies with the AML regulations of the Armenian authorities regulating the financial sector, namely basic circular of 2008 of the CBA.
- The Bank has committed to full compliance with all AML laws and regulations.
- The Bank does not have an AML Committee. It has a Risk and Audit Committee.

Policies and procedures

The Bank has adopted internal policies, procedures and controls to ensure that it complies with the AML obligations in current legislation and regulations. These procedures are subject to annual review or amended as and when necessary.

Credit risk

The Bank takes on exposure to credit risk; the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. The failure by the Bank's borrowers to meet their contractual obligations may materially affect the Bank's activities and have a negative impact on the Bank's profits. Credit risk is the most important risk for the Bank's business. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities such as loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as credit commitments and obligations arising from related security (collateral, warranty, guarantee, etc.) agreements. Credit risk management and control are centralized in the credit risk management team of Bank's Strategy and Risk Management Department and the Loan Department and are reported to the Board of Bank and the Executive Board.

The carrying value of the Bank's financial assets best represent the maximum exposure to the credit risk related to them, without taking account of any collateral held or other loan enhancements.

Risk limit control and mitigation policies

The Bank manages, limits and controls the concentration of credit risk whenever they are identified, in particular, with respect to individual counterparties and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review where considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of the Bank.

The exposure to any one borrower including banks and financial organisations is further restricted by sub-limits covering on balance sheet and off balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analyses of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is taking security against loan advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties,
- Movable properties of individuals,
- Charges over business assets such as premises, inventory,
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities is generally secured; revolving individual loan facilities are generally unsecured. In addition, in order to minimize loan losses the Bank will seek additional collateral from a counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credits carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to make a loan give rise to a risk from a loss of earnings if the loan is not drawn down. The capital, which could otherwise be deployed, is put aside to meet the contractual obligations of the Bank.

The Bank monitors the term to maturity of loan commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Market risk

The Bank classifies exposures to market risk into either trading or non-trading risks. The market risk for the trading portfolio is managed and monitored based on a VaR (Value at Risk) methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Market risk – Non-trading

Interest rate risk

The Board of Bank has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. Assumed changes in interest rates on the net interest income for one year, based on the floating rate of non-trading financial assets and financial liabilities, may affect the Bank's earnings. The sensitivity of equity is analysed by maturity of the asset. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

Currency risk

Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

Credit underwriting policies/procedures

Approval Level	Approval Authority
Board Meeting	Corporate loans over AMD 500 million or equivalent foreign currency (USD 1.052 million)
	Mortgages over AMD 100 million or equivalent foreign currency (USD 210,000)
	Car loans over AMD 50 million or equivalent foreign currency (USD 105,000)
	Consumer loans over AMD 50 million or equivalent foreign currency (USD 105,000)
	Deviations from the general conditions of loan approval
Credit Committee Meeting	Corporate loans over AMD 40 million or equivalent foreign currency (USD 85,000)
	Mortgage loans over AMD 40 million or equivalent foreign currency (USD 85,000)
	Car loans over AMD 20 million, or equivalent foreign currency (USD 42,000)

Consumer loans over AMD 20 million AMD, or equivalent foreign currency (USD 42,000)

Card loans over AMD 4 million AMD, or equivalent foreign currency (USD 8,400)

Impairment and provisioning policies

The main considerations for a loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, loan rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessments into two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

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

Collections, arrears management and recoveries

The Legal Service and Collection of Overdue Liabilities Directorate is responsible for overdue loan management across the Bank's lending portfolios.

The following measurements are made to manage problematic loans:

- Periodical calls to problematic borrowers,
- Regular visits,
- Collection of necessary information on problematic borrowers,
- Discussions with specialists in appropriate departments, security department employees and branch managers are conducted to improve the creditworthiness of the borrower (discussions can be also organized with the heads of appropriate departments if necessary),
- Resolving issues with problematic borrowers (recommending new repayment schedules, meeting with borrowers, pledgers, loan guarantors such as family members),
- Recall of the loan,
- Other arrangements made for loan repayment.

At the end of each month, the Bank's information system sends messages reminding borrowers about making their loan repayments.

The Legal Service and Collection of Overdue Liabilities Directorate tries to resolve the customer's ability to solve the problem by telephone if the loan is overdue by less than 10 days, after sending notifications to the borrower on the 1st, 3rd, 5th and 10th day it is overdue.

On the 91st day of a loan delinquency, if the Borrower doesn't take any measures to perform its obligations to pay off the loan, the Legal Service and Collection of Overdue Liabilities Directorate carries out the measures laid down in Unibank's policies entitled "Realization of Pledged Property" or "Performance of Legal Works" on the basis of the report submitted by the Bank branch or a department of the Bank and prescribed by the Chairman of the Executive Board.

Defaulted loans can be recovered by confiscating and realising the loan collateral out-of-court. This option to recover defaulted loans is applicable when the defaulting borrower does not create any obstacles and gives consent to the Bank to realise the security.

Funding risk

The Bank's funding source will continue to be traditional. It will be based on retail deposits, profits generated by the Bank and equity raised from the financial markets. There is a risk that depositors will no longer decide to put their money with Unibank and that Unibank is unable to attract financing from the financial markets.

Liquidity risk

To limit liquidity risk, management has arranged diversified funding sources in addition to its core deposit base. It also manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily bases. This involves an assessment of expected cash flows and the availability of high grade collateral, which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption to cash flow. Unibank also has committed interbank lines that it can access to meet its liquidity needs. The Bank also maintains the obligatory minimum reserves with the CBA equal to 2% of certain of its obligations denominated in AMD and 20% on certain obligations of the Bank denominated in foreign currency. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The liquidity management of the Bank takes into account the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios in accordance with the requirement of the CBA. At 31 December 2014 the Bank's liquidity ratio was 21.76% and the current liquidity ratio was 266.63 %.

The Bank has a significant cumulative maturity mismatch of assets and liabilities up to one year. This liquidity mismatch arises due to the fact that the major source of finance for the Bank as at 31 December 2014 was customer deposits maturing in up to one year. Management believes that in spite of a substantial portion of customer accounts with a maturity of up to one year, the past experience of the Bank indicates that these deposits provide a long-term and stable source of finance for the Bank.

Fixed assets

Unibank owns its premises located at 10 Kievyan Street, Building 8/63, which has a book value of AMD 519 million (approximately 10.71% of the book value of the Bank's fixed assets).

Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The Bank's capital adequacy is monitored using, among other measures, the rules and ratios established in 1988 by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the CBA in supervising the Bank.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong loan ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, the return of capital to shareholders or the issue of new equity securities.

The minimum ratio between total capital and risk weighted assets required by the CBA is 12%.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, and reserves. Regulatory capital is calculated in accordance with the requirements of the CBA and accounting standards of the Republic of Armenia. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves and longterm subordinated loans.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of loan, market and operating risks.

in thousands AMD	2014	2013	2012
Tier 1 capital	14,823,910	16,399,848	16,208,646
Tier 2 capital	795,926	5,004,527	5,792,800
Total regulatory capital	15,619,836	21,404,375	22,001,446
Risk-weighted assets	129,723,948	157,361,223	164,886,631
Capital adequacy ratio	12.0%	13.6 %	13.34 %

As of 31 December 2014 the Bank's total liabilities and equity was AMD 170,259 million, 12% of which was equity, and 78% liabilities. Equity was made up of share capital of AMD 13,101.million, reserves of AMD 215 million, and retained earnings of AMD 7,120.7 million.

The major items that make up the total liabilities are amounts due to customers which account for 68.1% of total liabilities and AMD 102,070 million and amounts due to banks and other financial institutions, which account for 21.7% of total liabilities or AMD 32,567.5 million.

The Bank publishes its quarterly intermediate and annual statements in the section "Statements" of the Bank website at www.unibank.am, which contains more comprehensive information on the Bank's equity and total liabilities.

Cash flow sources and amounts

Cash flows of the Bank originate from its basic operations, such as lending, acceptance of deposits, trading in securities, foreign exchange purchase and sale, provision of payment and settlements services and remittances.

The main cash flow items in 2014 are shown below:

thousands AMD

Item	2014	2013
Cash flows from operating activities before changes in operating assets and liabilities	2,482,706	5,573,328
Cash flows from operating activities before profit tax	(24,302,823)	(246,231)
Cash flows from operating activities	(25,003,719)	(342,287)
Cash flows from investment activities	(766,187)	(1,796,628)
Net cash flows from financial activities	18,836,058	13,056,406
Net growth of cash and cash equivalents	(6,933,848)	10,917,491
Cash and cash equivalents at the beginning of the period	27,844,755	21,118,118
Cash and cash equivalents at the end of the period	21,118,118	34,036,384

More comprehensive information on the Bank’s cash flows can be seen in its quarterly intermediate and annual statements in the section "Statements" on the Bank website at www.unibank.am.

Statutory Capital

	22.06.15	2014	2013	2012
Statutory capital (thousands AMD)	13.100.700.	13,100,700	13,100,700	11,400,700
Declared shares	600,000,000	0	0	0
Issued and paid ordinary shares	98.997.000	10,000	10,000	10,000
Issued and not paid ordinary shares	0	0	0	0

Issued and paid preferred shares	32.010.000	10	10	10
Issued and not paid preferred shares	0	0	0	0
Par value of ordinary shares (AMD)	100	989,970	989,970	859,970
Par value of preferred shares (AMD)	100	320,100,000	320,100,000	280,100,000

Current trading and prospects

At 31 December 2014 the Bank's net loan portfolio of the Bank was AMD 119 billion, which ranked the Bank 7th place in the Armenian banking system.

The Bank was ranked 5th place in the number of term deposits placed by physical persons (21,555 deposits).Liabilities to the Central Bank at the year-end to AMD 2.4 billion.

In 2014 income from foreign exchange operations was to AMD 1.2 billion, which decreased by 9% or AMD 120 million compared to 2013, due to the decreasing of Unistream money transfer volumes due to the downturn in Russia and the increase in the number of banks working with Unistream.

Commission incomes in 2014 were AMD 1.5 billion, which is a 23% or AMD 402 million increase over 2013.

In 2014 the amount of active cards was 139,726, with the number of ATMs increasing from 103 to 118 and the number of POS-terminals reached 688. The turnover in the service points increased from AMD 18.5 billion to AMD 22 billion.

By staying loyal to its lending policy, the Bank has continued to diversify its loan portfolio by increasing its share of retail and SME loans in the portfolio. The Bank has followed a conservative policy in lending to large organisations; the main portion of assets was placed on a short term in relatively low-risk branches. With this goal in mind the Bank has regularly performed an analysis of the economics of its branches, and has developed a scoring model for SME lending in order to achieve its goals in SME lending, including the automation of the SME loan application approval process, and improving the quality and training of employees engaged SME lending.

Consulting services provided to the Bank by IFC to improve the risk management of the Bank were finalised according to the agreement signed between the Bank and the IFC. As a result internal measures relating to risk management were developed, new reporting forms implemented and structural changes made in order to implement an up-to-date and effective internal system to evaluate the capital adequacy of the Bank. Vintage analyses, stress tests, inspections by Internal and External Audit will enable the management to identify concerns in a timely manner so that it can effectively manage the Bank's financial and operational risks.

Recoveries on defaulted loans (and the write back of reserves on recoveries) increased by 54% in 2014 over 2013. AMD 3 billion was recovered via court procedures and collateral of AMD 90 million was realised.

Due to the Bank’s improved customer service and its expanding suite of banking products and services Unibank managed to retain and significantly increase the total number of its customers. As of 1 January 2014 the Bank had 219,348 customers, of which 7,016 were juridical persons and 212,332 physical persons. As of 1 January 2015 the Bank had 269,090 customers, of which 7,482 were juridical persons and 261,608 physical persons.

The Bank's need for borrowing

A primary objective of the Bank is to attract deposits and other liabilities to be used to fund its loan portfolio.

There are no restrictions on the use of the Bank’s sources of capital that may directly or indirectly affect the Bank activities.

Research and development

There has been no policy which focussed on the implementation of research and development by the Bank in the past financial period.

Information on judicial, arbitral, administrative proceedings

The Bank has not been involved in any legal proceedings nor are there any potential legal proceedings envisaged, to the best of its knowledge within the 12 months prior to the submission of this Prospectus which have had or may have a material impact on the financial condition or profitability of the Bank.

5. HR Management Review

a. Board Members

Rights and responsibilities of the Board are stipulated in the Bank’s Charter.

Gagik Zakaryan, Chairman of the Unibank OJSC Board

Gagik Zakaryan has 21 years experience in the banking industry and has been involved in Unibank since 2001. In 1988 he graduated from the Moscow Aviation Institute and from 2003 to 2004 studied institutional securities trading at the Moscow International School of Finance and Banking. He is the co-founder and President of Uniastrum Bank, Chairman of the Board of Directors, Unistream Bank, Russia, Member of the Presidium, Interregional Banking Board of the Federation Council, Member of the Council, Association of Russian Banks, Member of the Supervisory Board, National Banking Journal and President of the International Association of Money Transfer Networks (IAMTN), Board Chairman at "RESO" ICJSC. Awards he has received include: Best Banker 2005, Person of the Year 2006 (Corporate Responsibility category), Efficient Bank Management National Banking Award 2007, Banker of the Year, 2013.

George Piskov, Member of the Board

George Piskov has 21 years experience in the banking industry and has been involved in Unibank since 2004. In 1987 he graduated from the Moscow Aviation Institute and in 2000 from the Institute of Investment Management and Research, London, UK. In 2005 he was awarded a Ph.D in economics by the Plekhanov Russian Academy of Sciences. He has had experience in private banking and wealth management since 1994, and has launched numerous successful projects in Russian and UK including the launch of the Private Banking division in Uniastrum Bank, Russia. He is Chairman of the Board of Directors and Co-founder of Uniastrum Bank, Member of the Board of Directors, Unistream Bank, Russia, Representative of the Association of Russian Banks (ARB) in London, United Kingdom, Chairman of the Protobase Laboratories, Russia and the Founder and President of Institute of Financial Planning (IFP), Russia.

Ararat Ghukasyan, Member of the Board

Ararat Ghukasyan has 20 years experience in the banking industry and joined Unibank recently. From 1982 to 1989 he studied at Faculty of Physics, Yerevan State University, from 1990-1993 he worked at Physical Research Institute and graduated Post Graduate courses of the RA National Academy of Science and from 1993 – 1995 worked at Mashtots Engineering Centre, Armenia and in parallel studied at American University of Armenia. He started his banking career in 1995 participating in establishment of HSBC's subsidiary in Armenia. From 1998-2001 he has worked as Manager Branches and Treasurer at HSBC Bank Armenia CJSC, then from 2001-2006 became Deputy CEO of HSBC Bank Armenia CJSC, he continued his career on overseas attachments as Project Manager at HSBC Bank Malta (from 2006-2007), and from 2007-2008 as Deputy Head of HSBC Bank PLC Rep Office, in HSBC Ukraine. In February 2008 he became Chief Executive Officer at Converse Bank CJSC and from November 2009 Chairman at Union of Banks of Armenia. Since September 2010 up to July 2015 he worked as CEO at Byblos Bank Armenia.

Eduard Zamanyan, Member of the Board

Eduard Zamanyan has 22 years experience in the financial markets and has been involved in Unibank since 2006. From 1979 to 1985 he studied at the Institute of Management Orjonikidze (Moscow), and in 2000 graduated from the Higher School of International Business of the National Economic Academy in Russia receiving his MBA. His professional experience includes senior positions in Globexbank, Savingbank, Dialog-Optim Bank, MDM bank, Technobank, and Interbank Financial House. Mr Zamanyan serves as a Board Member at "Unistream Bank" CB OJSC.

Hrahat Arzumanyan, Member of the Board

Hrahat Arzumanyan has 16 years experience in the banking industry being involved in Unibank since 2014. In 1990 he graduated from N.E.Bauman Moscow State Technical University with excellence and in 1994 completed his postgraduate studies. In 2002 he graduated from the Financial Academy in Moscow and received a diploma with excellence. Currently he is Chairman of the Board of Transstroybank, Russia. His professional banking experience includes senior positions in Tatagrobank and Ipoteka Invest Bank. He was awarded with a diploma from the Association of Russian Banks for his contribution in the development of the Russian Banking Industry.

b. Executive Board

Rights and responsibilities of the Executive Board are stipulated in the Bank's Charter.

Vardan Atayan, Chairman of the Executive Board – Executive Director

Vardan Atayan has over 19 years experience in financial and banking industry. He joined Unibank in September 2001. Prior joining Unibank he spent 5 years working in different commercial banks, as well as at the CBA. He also worked as Advisor for three years to the Chairman of the Standing Committee on Finance, Budget, and Economic Issues of the National Assembly of the Republic of Armenia. He is a Board Member of Reso Insurance CJSC, Chairman of the Board of Unileasing UCO CJSC (shareholder – 1%), a Board Member of the Union Banks of Armenia and a Member of Board of Directors of ACRA Credit Reporting Agency. He has participated in a number of big international programmes organized by the World Bank, Union Bank of Switzerland (UBS), TACIS programme and other financial institutions. In 1990 graduated from the Yerevan State University of Economics.

Zakar Boyajyan, First Vice-Chairman of the Executive Board - Risk Management Director

Zakar Boyajyan has over 23 years experience spent in the financial and banking industry. During his career Mr. Boyajyan has worked in both in commercial banks, governmental institutions, such as CBA and Ministry of Finance, as well as in international initiatives such as the Eurasia Foundation, Junior Achievement and the UN Mission in Armenia. Mr. Boyajyan holds an MBA from the American University of Armenia (1993). He has participated in a number of educational and consulting programmes organized by, inter alia, the International Currency Fund and the United Institute of Vienna. In 1993 Mr Boyajyan graduated from Yerevan State Economic Institute and American University of Armenia. From 2014 July Mr Boyajyan has been Investment Director at Gazelle Finance, Eurasian Foundation.

Mesrop Hakobyan, Vice Chairman of the Executive Board - Operational and information Systems Director

Mr. Mesrop Hakobyan has over 13 years of banking experience primarily focusing on plastic cards and technological innovation programmes. He has a held a variety of supervising roles at Unibank, Armenian Development Bank and ArmEcenomBank OSC. In 1998 he graduated from Yerevan Architectural and Construction State University. Mr Hakobyan serves as a Board Member at Unileasing UCO CJSC.

Gohar Grigoryan, Chief Accountant, Member of the Executive Board

Ms. Gohar Grigoryan has over 21 years experience in the Armenian banking industry, and holds the CBA Licence as the Chief Accountant. She has been on the Unibank Executive Board since October 2004. She began her career as an accountant in Armeconom Bank ending up Chief Accountant of Armeconom Bank. She joined Unibank in 2001 and now holds the position of First Deputy Chairman. She is also Board member of Unileasing UCO CJSC which was launched in April 2008.

She holds a PhD in Technical Science. In 2014 she began qualifying as a financial accountant with The Association of Chartered Certified Accountants and has so far passed levels F1 Accountant in Business, F2 Management Accounting, F3 Financial Accounting, F4 Corporate and Business Loans, F5 Performance Management, F6 Tax and F7 Financial Reporting. She has participated in a number of international programmes on accounting, management accounts and tax legislation. In 1996 Ms Grigoryan graduated from State Engineering University of Armenia and holds a PHD in Technical Sciences.

Ovsanna Arakelyan, Vice-Chairman of the Executive Board - Legal Service and Overdue Liabilities Collection Director

Mrs. Ovsanna Arakelyan is an experienced and well qualified legal adviser. She joined Unibank in 2001 undertaking key roles in Unibank In 1995 she graduated from Yerevan State University, with an emphasis in jurisprudence and in 2014 graduated at Gladzor University with an emphasis on finance. She lectured in Armenia’s Galik Legal University for three years. From 2011 to present she serves as Arbiter of Financial Arbitration to the Union of Banks of Armenia. She has over 15 years experience in the banking industry and has been awarded with a diploma of Union of Banks of Armenia and CBA for active and efficient work in the regulation of the banking industry in Armenia. Mrs Arakelyan is a Board member at “RESO” ICJSC, Unileasing” Credit Organization CJSC and Williams Incorporation LLC. Mrs Arakelyan serves as a Director of Polygraphia CJSC, and as a Director of Jivan Gasparyan Charity Fund.

Gurgen Ghukasyan, Vice-Chairman of the Executive Board, Retail Business Promotion and Sales Director

Mr. Gurgen Ghukasyan has over 10 years of banking experience. He has spent his career solely at Unibank, beginning in the loan department and working his way up to his present position of Vice-

Chairman of the Executive Board and Director of Retail Business Promotion and Sales. He is a competent decision maker, and is considered one of most Unibank’s most valuable employees. He has participated in a number of international programmes improving his knowledge and qualifications, including programmes run by USAID and KFW Bank. In 2004Mr Gurgen graduated with a Master’s Degree from Armenian State Architectural University.

David Petrosyan, Vice-Chairman of the Executive Board, Corporate Business Promotion and Sales Director

Mr. David Petrosyan has over 12 years of banking experience. He has been at Unibank since 2014. In 2005 he graduated from M.V.Lomonosov Moscow State University and in 2010 graduated from the Russian Academy of Sciences Institute of Economy. He is currently studying for his MBA at the American University of Armenia. He started his banking career at Uniastrum Bank as Senior Economist in the plastic cards department, and currently holds the position of Acting Vice-Chairman of the Executive Board and Acting Director of Corporate Business Promotion and Sales

During the 5 years preceding the date of filing the Prospectus for registration none of the members of the Board and the Executive Board have been convicted of fraud.

During the 5 years preceding the date of filing the Prospectus for registration the members of the Issuer's governing bodies have not been involved in any bankruptcy, liquidation or administration proceedings nor has any been declared bankrupt.

During the 5 years preceding the date of filing the Prospectus for registration, the members of the Issuer's governing bodies have not been held liable by any state regulatory (oversight) authority, nor have they been deprived by the court of the right to hold the position as a member of the Issuer's governing bodies.

There is no conflict of interest between the obligations of the Issuer's Board and Executive Board members towards the Issuer and each board member’s personal interests.

There exist no arrangements with any of the major shareholders, customers, suppliers or other persons, by virtue of which any person has been elected or appointed as a member of the Issuer's governing body.

Members of the Bank's governing bodies have not received any sums from the Bank’s subsidiaries as remuneration or a bonus.

Members of the Bank's governing bodies have not entered into any agreements with the Bank or its subsidiary companies under which they will receive bonus payments upon expiry of their tenure.

There are no family relations between the members of the Bank's governing bodies.

c. Remuneration and bonuses

During 2014 members of the Bank's governing bodies have received from the Bank the following remuneration and bonus amounts:

Title	First name, last name	Net salary and other net equivalent payments received during 2014 (AMD)
Chairman of the Board	Gagik Zakaryan	71 820 373
Board member	Georgi Piskov	71 820 373
Board member	Hrahat Arzumanyan	766 320
Board member	Eduard Zhamanyan	2 082 706
Board member	Suren Hayriyan	2 116 006
Chairman of the Executive Board	Vardan Atayan	59 749 987
First Vice-Chairman of the Executive Board - Risk Management Director	Zakar Boyajyan	25 979 727
Vice Chairman of the Executive Board - Operational and information Systems Director	Mesrop Hakobyan	30 674 548
Executive Board member, Chief Accountant	Gohar Grigoryan	30 074 960
Vice-Chairman of the Executive Board - Legal Service and Overdue Liabilities Collection Director	Ovsanna Arakelyan,	23 268 108
Vice-Chairman of the Executive Board, Corporate Business Promotion and Sales Director	David Petrosyan	1 393 277
Vice-Chairman of the Executive Board, Retail Business Promotion and Sales Director	Gurgen Ghukasyan	7 996 463

d. Employees

The average numbers of employees of the Bank during 2012-2014 are as follows:

	2012	2013	2014
Directors and Management (including Internal Audit, Heads and Deputy Heads of Departments, Divisions, Subdivisions, Branch Managers)	144	145	134
Bank's staff	774	852	762
TOTAL	918	997	896

At 31 March 2015 the Bank had a total of 891 employees, including 5 Board members and 7 Executive Board members. All employees are full time. Unibank does not have any temporary employees.

Gagik Zakaryan (Chairman of the Board) and George Piskov (Director) each indirectly control 50% of the current ordinary shares and 50% of preferred shares of the Bank.

No other Member of governing bodies holds any shares, nor do they have any options to acquire shares.

Currently there are no employee share option programmes designed to enable Bank employees to participate in the equity of the Bank.

e. Incentive Arrangements

The Bank's management believes that an important factor in the Bank's success is its ability to motivate its employees and that its motivation scheme will continue to support the Bank's business strategy in the future.

Employees are motivated through a number of bonus schemes introduced for different levels of employee.

All bonuses are made at the discretion of the Personnel Evaluation Committee.

Bonus scheme for senior management

Participants - Chairman of the Board, Board members,

The bonus is calculated based on the financial performance of the Bank, under the Bank semi-annual/annual targets, profit targets, as well as in the performance of individual KPIs. The size of bonus is linked to the level of profit generated by the Bank.

Bonus scheme for branches and supporting functions

Participants – Employees working in branches and providing support functions.

The basis for bonuses is based on achieving monthly targets. Bonuses are calculated at the end of the reporting period, are based on data provided about achieving actual KPI targets for each branch and for each employee.

The bonus amounts can be adjusted on the basis of decisions taken by the Personnel Evaluation Committee, depending on existence of disciplinary action, poor execution of targets of other products such as the level of past due loans.

Bonus scheme for Legal Service and Collection of Overdue Liabilities Directorate

The basis for bonus is the completion of quarterly targets on recoveries and collections. Based on meeting targets, a bonus pool is allocated between employees based on their individual involvement and influence in completing their targets.

Bonus scheme for Promo agents

Bonuses are calculated based on the results of the reporting month depending on:

- The total value of transactions,
- The total number of trades.

Bonus scheme for back office employees

Bonuses are calculated based on the annual profit of the Bank. The bonus amount is a one month's salary (the idea of a 13th salary).

Unibank has its own Training Centre. The training policy is aimed at increasing the efficiency of the Bank's employees and developing specialists with international qualifications. The Training Centre is responsible for the efficiency, relevance of training courses and the implementation of their continuous assessment. Training programmes are classified into the following groups:

- Internal training held by the Bank employees,
- Introduction course for newcomers organized by the Bank,
- E-Learning - the Bank has also introduced an e-learning platform which allows Bank employees to be more involved in the Bank's operations,
- Centralized e-testing of the theoretical knowledge of employees,
- External courses - external training courses conducted by professional organizations (including courses organized by donor organizations and international institutions or organizations).

f. Major Shareholders and Controlling Persons

The only shareholder of the Bank is Glovery Holding Limited (100%), a company registered in Belize with its office at the Corner of Hutson & Eyre Street, Blake Building Suite 302 Belize City, Belize, Central America. The Bank's ordinary shares held by Glovery Holding Limited entitle it to voting rights.

The Bank is indirectly controlled by the following persons:

Georgi Piskov (passport 45 01 597016 issued on 28 December 2001 by 772-110, Moscow, RF; residential address: 36 Frunzenskaya Naberezhnaya St., Apt. 425, Moscow 119146, RF), who indirectly controls 50% of the ordinary shares and 50% of the preferred shares of Unibank OJSC;

Gagik Zakaryan (passport 51N3886787 issued on 11.01.2008 by 772-110, Moscow, RF; residential address: 38 Narodnogo Opolcheniya St., Bldg. 1, Apt. 40, Moscow, RF), who indirectly controls 50% of ordinary shares and 50% of the preferred shares of Unibank OJSC.

6. Corporate Govennance

a. Compliance with the RA laws regulating corporate governance

Unibank focuses on ensuring effective transparent corporate governance aimed at implementing international best practices. The Banks’ corporate governance policy is designed to ensure the independence of the Board, its ability to effectively supervise the management and to maintain good relations with shareholders.

Unibank is committed to ensure compliance with high international standards of corporate governance, the application of high quality banking technologies and services. For better corporate governance the Bank has developed and introduced 145 procedures, as well as norms and directives ensuring the implementation of such procedures. Corporate governance in the Bank is regulated by Armenian legislation, in particular by the “Law on Banks and Banking Activities” and the “Law on Joint Stock Companies”, as well the charter and internal legal regulations of the Bank ensuring transparent accountability at all the levels of management.

Corporate governance guidelines are adopted by the Board of the Bank. Compliance with the guidelines is closely controlled by the Internal Audit Directive as well as various committees under the Board and Executive Board within the limits of their competency.

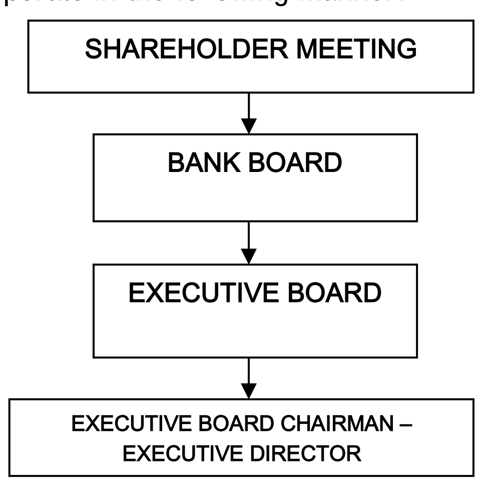
Unibank seeks to establish a corporate culture and a governance culture which will lead to the success of the Bank through regular staff training, corporate events, and establishing common goals in line with the mission of the Bank. Both the Board and Executive Board are supported by committees which make recommendations on matters delegated to them, in particular in relation to internal control, risk, financial reporting, and remuneration matters. This enables the management to spend a greater proportion of its time on strategic, forward-looking agenda items. The committees include Board members, Executive Board members and other relevant managers of the Bank. Committees are consultative.

The committees that report to the Board are the Audit and Risks Committee, the Investment Committee and the Remuneration committee.

The committees reporting to the Executive Board are the Tariff Committee, the Assets and Liabilities Committee, the Branch Network Management Committee, the Business Evaluation Committee, the Security Committee, the Inventory, Procurement and Disposal Committee, the Personnel Management Committee, the Personnel Evaluation Committee and the Credit Committee.

b. Structure of the Governing Bodies

The Bank’s governing bodies operate in the following manner:



c. Transactions with affiliated persons

Within the last year the Bank has not completed any transactions with affiliated persons exceeding 1% of the Bank's own capital nor any transaction with any affiliated persons not related to the Bank's normal course of business, of a value exceeding AMD 10 million.

d. Information on the Banks's assets and liabilities, financial condition, incomes and expenses

The Bank's audited annual financial statements for 2012, 2013 and 2014, together with a copy of external auditor's report, are enclosed with this Prospectus as Appendix A.

e. Essential Contracts

There are no contracts which have been entered into by the Bank outside its normal course of business and which remain in effect within the 2 years preceding the submission of the Prospectus which exceed 5 percent of the Bank's capital stated in the audited financial reports of the Bank for the year ended 31 December 2014.

f. Tax privileges

The Bank does not enjoy any tax privileges.

g. The Charter

The Charter sets out the goals and activity of the Bank. According to point 1.4 of the Bank's Charter, the Bank is entitled to carry out banking activities and financial operations in accordance with the license granted by CBA.

The rights and responsibilities of the Bank's Governing Bodies are stipulated in Section 10 of the Bank's Charter.

h. General Meeting of Shareholders

The sole shareholder of Unibank OJSC is Glovery Holding Limited. As of June 30, 2015, the share capital of the Bank was AMD 13,100,700,000, comprising 98,997,000 ordinary shares, each with a par value of AMD 100 and 32,010,000 preferred shares, each with a par value of AMD 100. The total share capital of the bank is denominated in AMD.

On 12 March 2015 the General Meeting of Shareholders approved a share split: as a result, par value of one ordinary share and par value of one preferred share was set at AMD 100.

The ultimate governing body of the Bank is the General Meeting of Shareholders. The General Meeting may be attended by the holders of ordinary shares or their authorized nominee shareholders, Board members, Executive Board Chairman-Executive Director, Executive Board, Head of the Internal Audit Service, external auditor and the CB representatives.

The scope of authority of the General Meeting of Shareholders covers issues of strategic importance such as the approval of amendments to the Bank's charter, reorganization of the Bank, appointment of the Board of Directors, approval of the annual financial statements, approval of the payment of dividends and agreement on their amount, decisions to increase the authorized capital through increasing of the nominal value of shares and allotment of additional shares.

i. The Procedure for Calling Regular (Annual) and Extraordinary Meetings of Shareholders

The Annual General Meeting of shareholders (the "AGM") has to be convened within six months of the end of each financial year. Any shareholder meeting other than the AGM is an Extraordinary General Meeting ("EGM").

Any EGM may be held remotely by distance voting (sending voting ballots). The AGM however must be convened at a location at which the shareholders can attend in person.

The following persons shall have a right to participate in an AGM and EGM:

a. owners of ordinary shares, with a vote that is equivalent to the quantity and nominal value of the shares they own;

b. owners of preferred shares, in cases stipulated by the Charter, with a vote that is equivalent to the quantity and nominal value of the shares they own;

c. members of the Board and the Executive Board of the Bank, with consultative vote;

d. members of the internal audit, as observers;

e. the external auditor, as an observer (if the auditor's report is part of the materials presented in a meeting),

f. a representative of the CBA, as an observer,

g. the heads of the regional divisions of the Bank, as observers,

h. other employees of the Bank for the purpose of presenting reports on the issues included in the meeting agenda,

i. persons having expert knowledge with respect to the issues included in the meeting agenda.

The Board shall make decision on the date on which to hold the AGM and any EGM, as well as the agenda, procedure of notification and list of the materials and information to be furnished to shareholders in connection with the issues included in the meeting agenda.

EGM's are held following a decision by the Board, either at its own initiative or at the request of the Management Board, Executive Director, Chairman of Management Board, the external auditor, or any shareholder holding at least 10% of voting shares of the Bank at the date of filing such request.

The shareholders shall be notified of an AGM or EGM, as stipulated by law, by sending registered letters, delivered by hand, post or by e-mail. Notification may be also posted by public announcement on the Internet.

j. Rights and Obligations of Owners of Each Type of Shares

According to Armenian Law on Joint-Stock Companies and the Bank's Charter, a holder/owner of ordinary shares is entitled to:

a. Personally or through an authorized person participate in the Annual or General Meeting, with the right to vote on all the issues decided upon by the meeting;

b. Personally or through an authorized representative participate in the Bank's management;

c. Receive dividends from the Bank profits when dividends are declared by the Board;

d. Have pre-emptive rights in purchasing shares issued by the Bank, unless otherwise stipulated by law;

e. Have access to the balance sheet, financial and tax reports, in the manner established in the Charter;

f. Make proposals at any Annual or Extraordinary General Meeting;

g. In the case of liquidation of the Bank receive its rightful share of any distributions to shareholders resulting from the liquidation;

h. Assign or otherwise transfer his/her shares to third party;

i. Enjoy other rights stipulated by the Charter.

According to Armenian law on Joint-Stock Companies and the Charter, a holder/owner of preferred shares is entitled to:

a. Personally or through an authorized person participate in the Annual or General Meeting, with the right to vote on the issues decided upon within the limitations stipulated by law and the Bank's Charter;

b. Receive dividends from the Bank's profits in accordance with the procedure and in the amount stipulated at the Annual Meeting;

c. Personally, or through an authorized representative, participate in the an Annual or Extraordinary General Meeting;

d. Obtain the information mentioned in Article 43 of Armenian law on Banks and Banking Activity;

e. In the case of liquidation of the Bank receive its rightful share of any distributions to shareholders resulting from the liquidation;

f. Assign or otherwise transfer the owned shares to third party;

g. Enjoy other rights stipulated by the Charter.

All shareholders of the Bank shall be obliged to:

a. Pay in full for shares within the term stipulated as part of the decision to issue new shares;

b. Abstain from disclosing or otherwise making available to third persons of any confidential information related to the Bank's activities;

c. Follow the requirements prescribed by the law and the Bank's Charter.

The rights and obligations of the shareholders may be amended only through a decision at General meeting to amend the Charter of the Bank and registering such amendments with the CBA.

According to the Article 154 of the Armenian law on the Securities Market any person who acquires, directly or indirectly, personally or through affiliated persons, more than 5% of the shares in a company with voting rights should notify the company and the CBA no later than 4 business days after crossing the thresholds of 5%, 10%, 20%, 50%, 75% and more, in accordance with the procedure defined by the CBA.

k. The Board

The Board of the Bank is responsible for the general management of the activities of the Bank. There have not been any changes to the Board since October 2014. Members of the Board are not affiliated persons.

There is no requirement for banks under Armenian legislation to have independent directors.

The members of the Board are elected at the Annual Meeting of the bank by those present for a period which shall not be less than one year.

The competencies of the Board are as follows:

- Determination of core activities of the bank, including the approval of the programme of prospective development of the bank;
- Convening the Annual and Extraordinary General Meetings, approval of agendas, ensuring the implementation of the correct procedures for convening and holding the meetings;
- Appointment of the members of the executive body of the bank, pre-term termination of their authority and approval of terms and conditions of their remuneration;
- Determination of standards of the internal control in the Bank;
- Internal audit of the bank, approval of its annual performance plan, pre-term termination of the authority of the internal auditors and approval of terms and conditions of their remuneration;
- Approval of the Bank’s annual budget vs. actual;
- Approval of administrative and organizational structure of the Bank and of the list of members of its staff;
- Increase of statutory fund of the Bank, if the Board is entrusted with such competency by the charter or a decision of the Annual or General Meeting;
- Proposals at the Annual Meeting regarding the payment of dividends, as well as for each payment of dividends - drawing up the list of the Bank’s shareholders who have a right to receive dividends; the list shall comprise those shareholders that are included in the Bank’s share register as of the day of completing the list;
- Preliminary approval of Bank’s annual financial reports and their submission to the Annual or General Meeting as appropriate;
- Presentation of the external auditor of the Bank for approval at the Annual Meeting;
- Determination of the fees of the external auditor of the Bank;
- The undertaking and implementation of measures to address any problems detected as a result of the audit or other examinations carried out in Bank;
- Adoption of the regulations determining the procedure of carrying out financial operations of the Bank under law;
- Approval of the charter of the Bank and its independent structural subdivisions, distribution of functions between them;
- Decision making on the allocation of bonds and other securities of the Bank;
- Use of reserve and other funds of the Bank;
- Establishment of branches of the Bank, representations and offices;

- Determination of Bank's accounting policies and principles;
- Decision making on other matters under law.

The decision-making on the above matters belongs to the exclusive competency of the Board of the Bank and shall not be deputed to other bodies of the Bank's management or other parties, except in cases regulated by law.

At least once a year the Board of the Bank reviews the auditor's report (the management letter), as well as discussing and reviewing, if needed, the core activities and trends of the Bank, its strategy and the regulatory environment in which it operates.

At least once a quarter the Board reviews the internal audit reports, management reports and accounting reports prepared by the chief accountant according to the principles and form set by the Board.

l. Meetings of the Board

Board meetings shall be convened at least once every two months. The procedure for convening and holding meetings is determined by the charter of the Bank. The Board can make decisions at a meeting with participants in the board meeting attending by telephone, video conference or other types of real time communication.

A quorum for Board meetings shall be determined by the charter of the Bank and shall not be less than the half of the number of Board members present. The decisions of the Board are made by a majority of the board members present at the meeting, unless otherwise stipulated by law, or agreed at the Annual or General Meeting. Each board member has only one vote. The assignment of a Board member's voting rights to another party (including to another member of the Board) is prohibited. In case of a situation where there are equal votes on an issue, the vote of the Chairman of the Board is decisive, unless otherwise stipulated in the charter.

m. Committees Attached to the Board

Audit and Risk Committee

Chairman – Board Member Hrahat Arzumanyan.

Members: Chairman of the Board Gagik Zakaryan, Board Member

Observer/Secretary - Internal Audit Director Hayk Suvaryan.

The task of the Committee is to assist the Board in corporate governance and control connected with compliance with internal and external audit, internal control structure and risk management structure, legal regulations. Meetings are held at a minimum twice a year.

Investment Committee

The Committee is attached to the Board and consists of 4 members, including:

Chairman – Board member George Piskov.

Members: Chairman of the Board, Board member, Executive financial director.

The Committee executes functions on making resolutions on reserves and investments and control on implementation, as well as discussion of issues and financial analysis concerning the current coordination of investment activity.

Remuneration Committee

The Committee is attached to the Board and consists of 4 members, including:

Chairman – Board member George Piskov.

Members: Chairman of the Board, Board member, Director of Administration.

The committee's functions are

- improvement of HR policies of the Bank,
- making suggestions concerning HR policies to the Board,
- development of motivational and remuneration schemes for the Bank personnel.

n. Committees Attached to the Executive Board

The committees under the Executive Board are: the Tariff Committee, Assets and Liabilities Committee, Branch Network Management Committee, Business Evaluation Committee, Security Committee, Inventory, Procurement and Disposal Committee, Disciplinary Committee.

Tariff and Assets and Liabilities Committee Operations/Functions

The Tariff and Assets and Liabilities Committee defines the types of tariffs for the services provided by the Bank, the principles of definition and review of tariffs and rates and the definition of general and individual tariffs. In the case of a deviation from the agreed tariffs, any proposal is submitted for final approval of Executive Board after it is discussed and approved by the Committee. This Committee also coordinates the management of the Bank's assets and liabilities, focussing on the

Bank's liquidity requirements, the target structure of Bank's liabilities and maturity margins, interest rates and interest rate margins and customer acquisition targets.

Business Evaluation Committee Operations/Functions

- Evaluate the current activity of subdivisions and employees in accordance with planned targets approved by the Board;
- Submit decisions to the Executive Board on the evaluation of employees' activities, incentive and disciplinary sanctions, motivations of employees as well as other recommendations and decisions related to the staff;
- Evaluate the performance of employees;
- Make recommendations and propose actions on business development and business process improvement;
- Supervise the performance of the recommendations made by the committee;
- Notify the Executive Board in the case of identifying violations of the current regulations that arises during the evaluation of personnel;
- Discuss employee applications, claims by the Bank's employees and submit them to relevant departments of the Bank.

Security Committee Operations/Functions

- Coordinate the Bank's security, and ensure that legal requirements regarding security are in place and operate efficiently;
- Other issues related to security including internal discipline;
- Organize the process of the Bank's IT and security of information;
- Analyse and approve the IT and information policy, distributing general responsibilities;
- Discuss the principal risks of IT and information resources;
- Approve the main approaches aimed at providing IT and information security.

Inventory, Procurement and Disposal Committee Operations/Functions

The recommendations on the following issues may be submitted for discussion by the Committee:

- Amendments to the annual budget; monthly, quarterly, semi-annual;
- Amendments to expenditure items;
- Amendments to the amounts under expenditure items;
- Amendments to the programmes, including the involvement of new programmes such as the procurement and disposal of the Bank's real estate assets;
- Other issues related to inventory management, procurement or disposal functions that may arise from time to time but are not specifically mentioned above.

Personnel Evaluation Committee

- Evaluation of the Bank employees according to the standards set by the Board;
- Evaluation of the Bank employees knowledge base, skills, and cooperation within departments;
- Investigation and solution to conflicts in the workplace;
- Disciplinary discussions and decision making;
- Review of any investigation results into employee grievances;
- Discussion and decision making on disciplinary actions;
- Discussion and decision making on employee incentives;
- Evaluation of the qualifications of the employees with respect to the positions taken.

Credit Committee

- Implementation and development of Bank lending policy;
- Management of banking risks;
- Effective and efficient organization and implementation of the Bank's lending procedures within its competencies.

Reserve Committee

The main objective of the Reserve committee is to mitigate the risks that may arise regarding loan repayments by the Bank's borrowers, re-evaluation and classification of these assets and advising on the levels of reserves that the bank should make in relation to its loan assets in accordance with guidelines provided by the CBA.

Dividend Policy

The Bank can declare and pay quarterly, semiannual and annual dividends.

The Bank can pay dividends of up to the 40% of the Bank's profit. The Board of the Bank or the shareholders at a General Meeting can propose dividend payments annually or at other intervals during the year.

Intermediate dividends cannot exceed 50% of the declared dividends in the previous financial year, as well as 40% of the net income of the bank as of the payment month.

Annual dividends cannot be less than the amount paid as intermediate dividends.

If the annual dividend amount equals the amount paid as an intermediate dividend according to the decision of the General Meeting, then shareholders will not receive any further dividends during the year in question.

If the annual dividend amount is declared at more than the intermediate dividend amount at a General Meeting, then the difference between the declared annual dividends and the intermediate dividends is paid to shareholders when the annual dividend is paid.

A decision can be taken at a General Meeting that dividends may be paid only on an annual basis. Dividends are paid in AMD.

The Bank is not required to pay dividends. At a General Meeting of the shareholders a decision may be taken to not pay dividends.

The decision to pay annual dividends and the terms of payment is made at the Annual Meeting based on a proposal by the Board which will detail the amount of the annual dividend, as well as the terms of their payment.

The decision on the payment of intermediate dividends is made by the Board of the Bank. The Board establishes the amount of the dividend, as well as the terms of their payment which should not be sooner than 30 days from the date of the decision to pay an intermediate dividend.

o. Preferred shares of the Bank

The Bank has issued and placed 32.010.000 (thirty-two million, ten thousand) preferred shares, each with AMD 100 (one hundred) par value.

The preferred shares have the following characteristics:

- annual dividends payable on the preferred shares shall be calculated at 5% of the par value of the preferred shares;
- payment of preferred dividends shall be made in cash;
- the liquidation value of the preferred shares is at par;
- dividends on preferred shares may be paid only from the Bank's net profit and/or from reserves accumulated from the net profit;
- the Bank's preferred shares are convertible into ordinary shares at one preferred share to one ordinary share. The conversion shall be carried out at the request of the holder of the preferred shares, no later than two months from the date of filing the request with the Bank;
- the term for submitting a conversion request is not limited. The conversion shall be effected through the offering of additional ordinary shares by the Bank, as a result of which preferred shares will be replaced by an equal number of ordinary shares;
- dividends on preferred shares are not subject to payment, either fully or partially, if such payment leads to breach of any of the Bank's regulatory requirements or ratios standards or the deterioration of the Bank's financial condition. Besides:

  a. Preferred dividends are not cumulative and therefore full or partial dividends may not be accrued and paid out in the future;

  b. no legal document signed between the Bank and the holder of the preferred shares may stipulate any restriction for the Bank due to non-payment of a preferred dividend either fully or partially, as well as no legal document may grant the holder of the preferred shares any right to make a provision for such restriction, except when it relates to the payment of dividends on ordinary shares. The restriction specified in this paragraph on the payment of dividends on ordinary shares may apply only to the period during which the dividends due on the preferred shares have not been paid fully or partially.

p. Professional Opinion of Expert, Appraiser, Adviser or Accountant and Information Obtained from Third Parties

This Prospectus includes the professional opinion of the following persons:

Business valuer

L&F Group LLC, not affiliated with Unibank.

Registered address: 19 Bagratunyats street, ap. 19, Yerevan, 0010, Armenia.

The valuator has conducted analysis, made conclusions, expressed opinions, and prepared the present report based on international standards and assessment IVSC TEGoVA, implementing discounted cash flow (DCF) method.

Legal adviser

K&P Law Firm, a Limited Liability Company, not affiliated with Unibank.

Registered address: 18/1 Vardanans str., 56 premises, Yerevan, 0010, Armenia.

Responsible person: Vardan Stepanyan, Managing Partner.

The Legal advisor has performed legal support of the process of the Prospectus preparation and provided a Legal Opinion.

Brief information concerning the RA economy and banking sector reflected in the Prospectus is taken from official publications made by the CBA, other bodies and banks functioning in the RA.

q. Other Information

The Charter of the Bank is available:

- electronic copy – at the following link www.unibank.am,
- hard copy (photocopy) – at the head office and branches of the Bank.

The expert opinions or reports, independent assessments and analytical materials, which have been prepared by the order of the Bank and which fully or partially has been used in the Prospectus are available at the head office and branches of the Bank.

r. Participation in Statutory Capital of Other Legal Entities

The does not have direct or indirect participation exceeding 5 per cent of share in other legal entities.

ABBREVIATIONS

CBA	Central bank of RA
ACRA	Armenian Credit Reporting

	Agency
ARCA	Armenian card closed joint stock company
IFAD	International Fund for Agricultural Development (IFAD)
SMEDNC	Small and Medium Entrepreneurship Development National Center
RA	Republic of Armenia
AMD	Drams of the Republic of Armenia

APPENDIX A.

The Bank's audited annual financial statements for 2012, 2013 and 2014 and copies of the Audit reports

Grant Thornton

Financial Statements and Independent Auditor's Report

UNIBANK closed joint stock company

31 December 2012

Contents

Statement of comprehensive income

In thousand Armenian drams	Notes	**Year ended December 31, 2012**	Year ended December 31, 2011
Interest and similar income	6	**14,091,613**	12,095,282
Interest and similar expense	6	**(9,187,773)**	(6,598,394)
Net interest income		**4,903,840**	5,496,888
Fee and commission income	7	**1,466,204**	1,656,657
Fee and commission expense	7	**(279,599)**	(209,109)
Net fee and commission income		**1,186,605**	1,447,548
Net trading income	8	**1,504,930**	1,667,001
Other income	9	**600,643**	498,931
Impairment charge for asset losses	10	**(510,696)**	(1,854,916)
Staff costs	11	**(3,061,794)**	(2,557,262)
Depreciation of property and equipment	20	**(367,932)**	(312,442)
Amortization of intangible assets	21	**(42,710)**	(44,906)
Other expenses	12	**(2,171,369)**	(2,016,053)
Profit before income tax		**2,041,517**	2,324,789
Income tax expense	13	**(438,448)**	(518,258)
Profit for the year		**1,603,069**	1,806,531
Other comprehensive income:			
Revaluation of fixed assets		**460,307**	-
Net unrealized loss from changes in fair value		**(42,590)**	(176,249)
Net loss realized to comprehensive income statement on disposal of available-for-sale instruments		**155**	-
Income tax relating to components of other comprehensive income		**(98,046)**	35,249
Other comprehensive income for the year, net of tax		**319,826**	(141,000)
Total comprehensive income for the year		**1,922,895**	1,665,531

The accompanying notes on pages 7 to 50 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2012	As of December 31, 2011
ASSETS			
Cash and balances with CBA	14	**24,584,447**	16,228,746
Precious metals	15	**87,642**	86,493
Amounts due from other financial institutions	16	**3,990,046**	3,526,993
Derivative financial assets	17	**-**	79,047
Loans and advances to customers	18	**98,013,073**	84,204,130
Investments available for sale	19	**4,994,648**	4,094,516
Securities pledged under repurchase agreements	26	**-**	917,393
Property, plant and equipment	20	**4,434,047**	2,756,701
Intangible assets	21	**464,849**	400,175
Prepaid income taxes		**-**	68,344
Other assets	22	**1,797,539**	2,180,122
TOTAL ASSETS		**138,366,291**	114,542,660
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to financial institutions	23	**6,156,299**	6,476,828
Amounts due to customers	24	**112,494,545**	90,590,088
Current income tax liabilities		**286,268**	-
Deferred income tax liabilities	13	**336,767**	287,967
Other liabilities	25	**696,983**	519,173
Total liabilities		**119,970,862**	97,874,056
Equity			
Share capital	27	**11,400,700**	11,400,700
Statutory general reserve		**257,939**	207,783
Other reserves		**(204,710)**	(524,536)
Retained earnings		**6,941,500**	5,584,657
Total equity		**18,395,429**	16,668,604
TOTAL LIABILITIES AND EQUITY		**138,366,291**	114,542,660

The financial statements from pages 3 to 50 were signed by the Bank's Chairman of Executive Board and Chief Accountant on 20 March, 2013.

The accompanying notes on pages 7 to 50 are an integral part of these financial statements.

V. ATAYAN
Chairman of Executive Board

G. GRIGORYAN
Chief accountant

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Balance as of January 1, 2011	11,400,700	132,932	(455,891)	72,355	4,049,047	15,199,143
Distribution to reserve	-	74,851	-	-	(74,851)	-
Dividends to shareholders	-	-	-	-	(196,070)	(196,070)
Transactions with owners	-	74,851	-	-	(270,921)	(196,070)
Profit for the year	-	-	-	-	1,806,531	1,806,531
Other comprehensive income:						
Net unrealized loss from changes in fair value	-	-	(176,249)	-	-	(176,249)
Income tax relating to components of other comprehensive income	-	-	35,249	-	-	35,249
Total comprehensive income for the year	-	-	(141,000)	-	1,806,531	1,665,531
Balance as of December 31, 2011	**11,400,700**	**207,783**	**(596,891)**	**72,355**	**5,584,657**	**16,668,604**
Distribution to reserve	**-**	**50,156**	**-**	**-**	**(50,156)**	**-**
Dividends to shareholders	**-**	**-**	**-**	**-**	**(196,070)**	**(196,070)**
Transactions with owners	**-**	**50,156**	**-**	**-**	**(246,226)**	**(196,070)**
Profit for the year	**-**	**-**	**-**	**-**	**1,603,069**	**1,603,069**
Other comprehensive income:						
Revaluation of PPE	**-**	**-**	**-**	**460,307**	**-**	**460,307**
Net unrealized loss from changes in fair value	**-**	**-**	**(42,590)**	**-**	**-**	**(42,590)**
Net loss realized to comprehensive income statement on disposal of available-for-sale instruments	**-**	**-**	**155**	**-**	**-**	**155**
Income tax relating to components of other comprehensive income	**-**	**-**	**8,487**	**(106,533)**	**-**	**(98,046)**
Total comprehensive income for the year	**-**	**-**	**(33,948)**	**353,774**	**1,603,069**	**1,922,895**
Balance as of December 31, 2012	**11,400,700**	**257,939**	**(630,839)**	**426,129**	**6,941,500**	**18,395,429**

Statement of cash flows

In thousand Armenian drams

	Year ended December 31, 2012	Year ended December 31, 2011
Cash flows from operating activities		
Profit before tax	**2,041,517**	2,324,789
Adjustments for		
Impairment charge for asset losses	**510,696**	1,854,916
Amortization and depreciation allowances	**410,642**	357,348
Loss from sale of PPE	**1,211**	-
Interest receivable	**(676,076)**	(281,846)
Interest payable	**9,480**	(96,261)
Loss from changes in fair value of derivative instruments	**-**	37,372
Foreign currency translation net (gain)/loss of non-trading assets and liabilities	**56,343**	(50,751)
Cash flows from operating activities before changes in operating assets and liabilities	**2,353,813**	4,145,567
(Increase)/decrease in operating assets		
Derivative instruments	**60,048**	183,893
Deposited funds with CBA	**(41,561)**	95,043
Amounts due from other financial institutions	**377,047**	(479,048)
Loans and advances to customers	**(11,416,268)**	(7,746,012)
Other assets	**412,979**	3,383
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	**196,745**	1,141,587
Amounts due to customers	**30,415,390**	9,188,936
Other liabilities	**177,810**	82,380
Net cash flow from operating activities before income tax	**22,536,003**	6,615,729
Income tax paid	**(133,082)**	(675,727)
Net cash from operating activities	**22,402,921**	5,940,002
Cash flows from investing activities		
Redemption of investment securities	**13,384**	255,318
Purchase of property and equipment	**(1,586,181)**	(503,970)
Proceeds from sale of property and equipment	**-**	25,749
Purchase of intangible assets	**(107,384)**	(32,203)
Net cash used in investing activities	**(1,680,181)**	(255,106)
Cash flow from financing activities		
Dividends paid	**(196,070)**	(152,021)
Loans received from financial institutions	**(969,421)**	(1,809,940)
Other long-term loans	**(11,050,912)**	(3,346,723)
Net cash used in financing activities	**(12,216,403)**	(5,308,684)
Net increase in cash and cash equivalents	**8,506,337**	376,212
Cash and cash equivalents at the beginning of the year	**18,649,530**	18,069,852
Exchange differences on cash and cash equivalents	**688,888**	203,466
Cash and cash equivalents at the end of the year (Note 14)	**27,844,755**	18,649,530

Supplementary information:

Interest received	**13,415,537**	11,813,436
Interest paid	**(9,178,293)**	(6,694,655)

Accompanying notes to the financial statements

1 Principal activities

"Unibank" CJSC (the "Bank") is a closed joint-stock bank, which was incorporated in the Republic of Armenia on 9 October 2001. The Bank is regulated by the legislation of RA and conducts its business under license number N81, granted on 10 October 2001, by the Central Bank of Armenia (the "CBA").

The Bank accepts deposits from the public and extends credit, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

Its main office is in Yerevan and it has 22 branches in Yerevan, 20 branches in different regions of RA, 2 branches in the Republic of Nagorno Karabakh and one representative office in Moscow, the Russian Federation. The registered office of the Bank is located at: 12/53 Charents street, #1-5, Yerevan.

The international rating agency Moody's Investors Service issued "Unibank" E+ standalone bank financial strength rating (BFSR) with stabile outlook, and Ba3/NP deposit attraction rating with negative outlook which was reconfirmed in February 2013.

2 Armenian business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base.

There are still uncertainties about the economic situation of countries, collaborating with the RA, due to the forecasted slowdown in the world economy, which may lead to the shortage of money transfers from abroad, as well as to the decline in the prices of mining products, upon which the economy of Armenia is significantly dependant. In times of more severe market stress the situation of Armenian economy and of the Bank may be exposed to deterioration. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Bank may be affected.

Accordingly, the financial statements of the Bank do not include the effects of adjustments, which might have been considered necessary.

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as developed and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost, with the exception of buildings, which are stated at revalued amount.

3.3 Functional and presentation currency

Functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's functional currency and the Bank's presentation currency is Armenian Drams ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Bank. The Bank prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These financial statements are based on the Bank's books and records as adjusted and reclassified in order to comply with IFRS. The financial statements are presented in thousands of AMD, which is not convertible outside Armenia.

3.4 Changes in accounting policies

In the current year the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2012. The standards and interpretations which became effective in the current year didn't affect the financial statements presented by the Bank.

3.5 Standards, amendments and interpretations not yet applied by the Bank

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

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

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

IAS 32 (Amendment) *Offsetting Financial Assets and Financial Liabilities*

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

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

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

IFRS 7 (Amendment) *Offsetting Financial Assets and Financial Liabilities*

The amendment adds qualitative and quantitative disclosures to IFRS 7 relating to gross and net amounts of recognized financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position.
The amendments are effective for annual reporting periods beginning on or after 1 January 2013, and are required to be applied retrospectively.

IFRS 9 *Financial Instruments*

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

The IASB has issued an amendment to IFRS 9 by which the mandatory effective date of IFRS was postponed from 1 January 2013 to 1 January 2015. This means that all the phases of the replacement project of IAS 39 now have the same mandatory effective date. The amendment also does not require restatement of comparative-period financial statements upon initial application of IFRS 9. Previously this exemption was only available to the companies that had chosen to apply IFRS 9 before 2012. Additional transition disclosures will now be required to help understand the initial application of the Standard.

Management have yet to assess the impact of this new standard on the Bank’s financial statements.

IFRS 12 *Disclosure of Interests in Other Entities*

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

IFRS 13 *Fair Value Measurement*

IFRS 13 does not address which items are required to be measured at fair value, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. This IFRS shall be applied prospectively and there is no requirement for presenting comparative information for the periods prior to initial application of this IFRS. The Bank’s management have to assess the impact of this new standard on the financial statements.

IAS 1 *Presentation of Financial Statements*

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

Annual Improvements to IFRSs 2009-2011 Cycle

The amendments to IFRSs contained in Annual Improvements 2009-2011 Cycle are effective for annual periods beginning on or after January 1, 2013, although early application is permitted.

The brief descriptions of the issues addressed are presented below:

IAS 1 *Presentation of Financial Statements*

The amendment provides clarification of the requirements for comparative information when an entity either provides a third statement of financial position as required by IAS 8 or voluntarily.

The following issues are addressed for opening statement of financial position

- Comparative information for the opening statement of financial position is required when an entity changes accounting policies, or makes retrospective restatements or reclassifications, in accordance with IAS 8, and
- The appropriate date for the opening statement of financial position is the beginning of the preceding period. Related notes to this opening statement of financial position are no longer required to be presented

The amendment also clarifies issues related to comparative information beyond the minimum requirements, particularly

- addresses whether an entity should be required to present a complete set of financial statement when it provides financial statements beyond the minimum comparative information requirements (i.e., additional comparative information)
- explains that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements. Any additional information presented should however be presented in accordance with IFRSs and the entity should present comparative information in the related notes for that additional information.

IAS 16 *Property, plant and Equipment*

The amendment addresses the classification of servicing equipment. It clarifies that major spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

IAS 32 *Financial Instruments: Presentation*

The amendment clarifies that income tax relating to distribution to equity holders and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes.

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Bank and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within "interest income" and "interest expense" in the income statement using the effective interest method.

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

Fee and commission income

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences related to trading assets and liabilities. Net trading income also includes gains less losses from trading in foreign currencies.

4.2 Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in net trading income.

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

	December 31, 2012	December 31, 2011
AMD/1 US Dollar	**403.58**	385.77
AMD/1 Euro	**532.24**	498.72

4.3 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks, which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value.

4.5 Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Changes in the bid prices are recorded in net gain/loss on operations with precious metals in other income/expense.

4.6 Amounts due from other financial institutions

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.7 Financial instruments

The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

When financial assets and liabilities are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

After initial recognition all financial liabilities, other than liabilities at fair value through profit or loss (including held for trading) are measured at amortized cost using effective interest method. After initial recognition financial liabilities at fair value through profit or loss are measured at fair value.

The Bank classified its financial assets into the following categories: loans and receivables, financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Bank determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss. A financial asset is classified in this category if acquired for the purpose of selling in the short-term or if so designated by management from the initial acquisition of that asset.

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of income as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments, which arise when the Bank provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Bank with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

Available-for-sale financial instruments

Investments available for sale represent debt and equity investments that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of income. However, interest calculated using the effective interest method is recognised in the statement of income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis. Otherwise the investments are stated at cost less any allowance for impairment.

4.8 Impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Criteria used to determine that there is objective evidence of an impairment loss may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty (for example, equity ratio, net income percentage of sales), default or delinquency in interest or principal payments, breach of loan covenants or conditions, deterioration in the value of collateral, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If future write-off is later recovered, the recovery is credited to the allowance account.

Renegotiated loans

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement on income, is transferred from equity to the statement of income. Reversals of impairment in respect of equity instruments classified as available-for-sale are not recognised in the statement of income but accounted for in other comprehensive income in a separate component of equity. Reversals of impairment losses on debt instruments are reversed through the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4.9 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

4.10 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The corresponding liability is presented within amounts due to financial institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized on the balance sheet. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

4.11 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the balance sheet if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized on the balance sheet, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in "Net trading income".

4.12 Leases

Operating - Bank as leasee

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

4.13 Property, plant and equipment

Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation. The Bank's buildings are stated at fair value less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

	Useful life (years)	Rate (%)
Buildings	30	3.3
Computers	3	33,33
Vehicles	5	20
Other fixed assets	5	20

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses.

Repairs and maintenance are charged to the income statement during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

When revalued assets are sold, the amounts attributed to disposed item of assets and included in the revaluation reserve are transferred to retained earnings.

4.14 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 3 to 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

4.15 Assets held for sale

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use. Such sale transaction shall be principally completed within one year from the date of classification of an asset as held for sale.

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the income statement as loss from assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

4.16 Borrowings

Borrowings, which include amounts due to the Central Bank and Government, amounts due to financial institutions, amounts due to customers, debt securities issued and subordinated debt are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the liabilities are derecognised as well as through the amortisation process.

4.17 Pensions

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

4.18 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value, in "Other liabilities", being the premium received. Following initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

4.19 Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

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

4.20 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The most significant areas of judgements and estimates with regards to these financial statements are presented below:

Classification of investment securities

Securities owned by the Bank comprise of CBA, Armenian state and corporate bonds. Upon initial recognition, the Bank designates securities as available-for-sale financials assets recognition of changes in fair value through equity.

Related party transactions

In the normal course of business the Bank enters into transactions with its related parties. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Allowance for impairment of loans and receivables

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 28.

Impairment of available-for-sale equity investments

The Bank determined that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged required judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.

6 Interest and similar income and expense

In thousand Armenian drams	2012	2011
Loans and advances to customers	**12,326,144**	10,051,053
Debt investment securities available-for-sale	**571,049**	670,753
Amounts due to financial institutions	**200,455**	157,702
Factoring	**58**	1,660
Reverse repurchase transactions	**1,884**	49,633
Interest accrued on impaired financial assets	**992,023**	1,164,481
Total interest and similar income	**14,091,613**	12,095,282
Amounts due to customers	**6,825,634**	4,972,137
Amounts due to financial institutions	**1,381,551**	379,325
Government loans	**963,440**	1,234,280
Repurchase transactions	**17,148**	12,652
Total interest and similar expense	**9,187,773**	6,598,394

7 Fee and commission income and expense

In thousand Armenian drams	2012	2011
Cash collection	**976,190**	1,118,528
Plastic cards operations	**282,434**	273,253
Guarantees and letters of credit	**14,436**	19,482
Foreign currency translation operations	**123,147**	182,193
Other fees and commissions	**69,997**	63,201
Total fee and commission income	**1,466,204**	1,656,657
Wire transfer fees	**76,342**	61,026
Plastic cards operations	**187,176**	133,482
Foreign currency translation operations	**12,461**	12,402
Stock exchange services	**2,980**	1,917
Other expenses	**640**	282
Total fee and commission expense	**279,599**	209,109

8 Net trading income

In thousand Armenian drams	2012	2011
Gains less losses from derivatives	**-**	19,089
Gains less losses from transactions in foreign currencies	**1,504,930**	1,647,912
Total net trading income	**1,504,930**	1,667,001

9 Other income

In thousand Armenian drams	2012	2011
Fines and penalties received	**529,176**	414,814
Income from sale of fixed assets	**4,638**	9,040
Gains from operations of precious metals	**11,479**	12,494
Foreign currency translation net gains of non-trading assets and liabilities	**-**	50,751
Other income	**55,350**	11,832
Total other income	**600,643**	498,931

10 Impairment charge/(reversal) of impairment for credit losses

In thousand Armenian drams	2012	2011
Loans and advances to customers (Note 18)	**511,340**	1,837,675
Other assets (Note 22)	**(644)**	17,241
Total impairment charge of impairment for credit losses	**510,696**	1,854,916

11 Staff costs

In thousand Armenian drams	2012	2011
Salaries	**2,789,664**	2,328,652
Social security contributions	**272,130**	228,610
Total staff costs	**3,061,794**	2,557,262

12 Other expenses

In thousand Armenian drams	2012	2011
Fixed assets maintenance	**158,219**	106,978
Advertising costs	**106,906**	70,988
Business trip expenses	**8,186**	14,628
Communications	**123,695**	112,938
Operating lease	**903,237**	877,529
Taxes, other than income tax, duties	**192,087**	171,296
Consulting and other services	**28,839**	23,922
Security	**112,191**	96,137
Representative expenses	**36,523**	57,900
Office supplies	**61,479**	43,801
Penalties paid	**581**	2,715
Deposit insurance	**131,825**	106,170
Foreign currency translation net losses of non-trading assets and liabilities	**56,343**	-
Computer software maintenance	**61,556**	53,832
Cash collection services	**61,546**	56,067
Loss on disposal of foreclosed assets	**-**	118,483
Other expenses	**128,156**	102,669
Total other expense	**2,171,369**	2,016,053

13 Income tax expense

In thousand Armenian drams	2012	2011
Current tax expense	**487,694**	268,569
Deferred tax	**(49,246)**	247,778
Adjustments of current income tax of previous years	**-**	1,911
Total income tax expense	**438,448**	518,258

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2011: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

Numerical reconciliation between the tax expenses and accounting profit is provided below:

In thousand Armenian drams	2012	Effective rate (%)	2011	Effective rate (%)
Profit before tax	**2,041,517**		2,324,789	
Income tax at the rate of 20%	**408,303**	**20**	464,958	20
Non-taxable income	**(1,860)**	**-**	(2,569)	-
Non-deductible expenses	**20,736**	**1**	56,634	2
Loss from changes in fair value of derivative instruments	**-**	**-**	7,474	-
Foreign exchange (gains)/losses	**11,269**	**-**	(10,150)	-
Adjustments of current income tax of previous year	**-**	**-**	1,911	-
Income tax expense	**438,448**	**21**	518,258	22

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	**As of December 31, 2011**	Recognized in comprehensive income statement	Recognized in equity	**As of December 31, 2012**
Accrued expenses and other liabilities	**29,263**	**14,545**	**-**	**43,808**
Securities available for sale	**109,724**	**40,343**	**8,487**	**158,554**
Total deferred tax assets	**138,987**	**54,888**	**8,487**	**202,362**
Contingent liabilities	**(30,609)**	**9,252**	**-**	**(21,357)**
Amounts due from other financial institutions	**(6,772)**	**(1,208)**	**-**	**(7,980)**
Loans and advances to customers	**(389,573)**	**(14,445)**	**-**	**(404,018)**
Revaluation of PPE	**-**	**759**	**(106,533)**	**(105,774)**
Total deferred tax liability	**(426,954)**	**(5,642)**	**(106,533)**	**(539,129)**
Net deferred tax liability	**(287,967)**	**49,246**	**(98,046)**	**(336,767)**

In thousand Armenian drams	As of December 31, 2010	Recognized in comprehensive income statement	Recognized in equity	As of December 31, 2011
Accrued expenses and other liabilities	29,816	(553)	-	29,263
Securities available for sale	114,516	(40,041)	35,249	109,724
Total deferred tax assets	144,332	(40,594)	35,249	138,987
Contingent liabilities	(21,280)	(9,329)	-	(30,609)
Amounts due from other financial institutions	(10,660)	3,888	-	(6,772)
Loans and advances to customers	(187,830)	(201,743)	-	(389,573)
Total deferred tax liability	(219,770)	(207,184)	-	(426,954)
Net deferred tax liability	(75,438)	(247,778)	35,249	(287,967)

14 Cash, cash equivalents and balances with CBA

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Cash on hand	**8,464,976**	7,637,429
Correspondent account with the CBA	**15,909,471**	8,422,878
Included in cash and cash equivalents	**24,374,447**	16,060,307
Deposits with the CBA	**210,000**	168,439
Total cash and balances with the CBA	**24,584,447**	16,228,746
Cash and balances with the CBA, included in cash flow	**24,374,447**	16,060,307
Placements with other banks (note 16)	**3,470,308**	2,589,223
Total cash and cash equivalents	**27,844,755**	18,649,530

As at 31 December 2012 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 8% of certain obligations of the Bank denominated in Armenian drams and 12% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 11,636,819 thousand (2011: AMD 8,238,019 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Cash on hand, other money market placements, correspondent account, deposited funds with CBA and mandatory reserve deposits are non-interest bearing.

Deposited funds with CBA include a guaranteed deposit for settlements via ArCa payment system.

Non-cash transactions performed by the Bank during 2012 are represented by:

- repayment of AMD 480,449 thousand loan by transfer of property rights on pledge (2011: AMD 1,005,732 thousand).

15 Precious metals

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Gold in vault	**87,642**	86,493
Total precious metals	**87,642**	86,493

16 Amounts due from other financial institutions

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Correspondent accounts	**3,470,308**	2,589,223
Included in cash and cash equivalents	**3,470,308**	2,589,223
Deposits to financial institutions	**519,738**	800,746
Other amounts	**-**	137,024
Total amounts due from other financial institutions	**3,990,046**	3,526,993

As at 31 December 2012 the amounts due from two banks amount in AMD 2,725,424 thousand (79%) (2011: AMD 1,471,868 thousand (57%)) were due from 2 banks.

The deposited funds with financial institutions represent guarantee deposits (2011: AMD 496,801 thousand) placed by the Bank for its settlement payments operations through VISA payment system.

17 Derivative financial instruments

In thousand Armenian drams	**As of December 31, 2012**			As of December 31, 2011		
	Notional amount	**Fair value of assets**	**Fair value of liabilities**	Notional amount	Fair value of assets	Fair value of liabilities
Derivatives held for trading						
Currency swaps	-	-	-	4,488,480	79,047	-
Total derivative financial instruments	-	-	-	4,488,480	79,047	-

In 2011 the Bank has signed 2 swap contracts with a bank of Non-OECD country. According to one of the contracts the Bank acquires USD 3,175 thousand paying EUR 2,500 thousand and obliges to sell USD 3,175 thousand paying interest rate of 0.31%. According to the next contract, the Bank acquires USD 8,255 thousand paying EUR 6,500 thousand and obliges to sell USD 8,255 thousand by paying interest rate of 0.29%.

18 Loans and advances to customers

In thousand Armenian drams	As of December 31, 2012	As of December 31, 2011
Loans to customers	**99,860,433**	86,426,627
Overdraft	**420,149**	232,765
	100,280,582	86,659,392
Less allowances for impairment of loans and advances	**(2,267,509)**	(2,455,262)
Total loans and advances to customers	**98,013,073**	84,204,130

As of 31 December 2012 accrued interest included in loans and advances to customers amounted to AMD 3,146,696 thousand (2011: AMD 2,459,063 thousand).

As of 31 December 2012 the average effective interest rates on loans and advances to corporate customers were 14.1% for loans in AMD, 13.4% for loans in USD, 11.8% for loans in EUR. And the average effective interest rates on loans and advances to individuals were 17.1% for loans in AMD, 12.8% for loans in USD, 14.6% for loans in EUR (2011: on loans and advances to corporate customers 14.7% for loans in AMD, 12.3% for loans in USD, 12% for loans in EUR and to individuals 19% for loans in AMD, 15.4% for loans in USD, 14.6% for loans in EUR).

As of December 31, 2012, the Bank had a concentration of loans represented by AMD 30,865,660 thousand due from the 15 largest third party entities and parties related with them (30.8% of gross loan portfolio) (2011: AMD 27,583,957 thousand or 32% due from the 15 largest third party entities and parties related with them). An allowance of AMD 929,442 thousand (2011: AMD 1,221,899 thousand) was made against these loans.

Reconciliation of allowance account for losses on loans and advances by economic sectors is as follows:

In thousand Armenian drams	As of December 31, 2012	As of December 31, 2011
Manufacture	**15,649,730**	16,582,230
Agriculture	**522,407**	594,489
Construction	**3,762,890**	5,310,767
Transportation	**5,277,579**	4,386,341
Trade	**23,660,868**	21,326,569
Services	**6,446,846**	4,498,725
Consumer	**21,741,945**	15,758,876
Mortgage	**13,118,483**	11,707,196
Other	**10,099,834**	6,494,199
	100,280,582	86,659,392
Less allowances for impairment of loans and advances	**(2,267,509)**	(2,455,262)
Total loans and advances	**98,013,073**	84,204,130

Reconciliation of allowance account for losses on loans and advances by class is as follows:

2012

In thousand Armenian drams	Manu-facture	Agri-culture	Const-ruction	Transport	Trading	Services	Con-sumer	Mort-gage	Other	Total
At 1 January 2012	**651,034**	**12,568**	**167,774**	**213,354**	**494,545**	**231,031**	**270,953**	**350,111**	**63,892**	**2,455,262**
Charge/(reversal) for the year	**70,469**	**(29,985)**	**44,596**	**266,821**	**(250,269)**	**(360,610)**	**669,727**	**63,493**	**37,098**	**511,340**
Amounts written off	**(321,056)**	**-**	**(320,698)**	**(210,211)**	**(1,136,815)**	**(54,000)**	**(1,066,640)**	**(646,191)**	**-**	**(3,755,611)**
Recoveries	**693,389**	**22,641**	**150,602**	**33,759**	**1,186,307**	**260,757**	**345,462**	**363,601**	**-**	**3,056,518**
At 31 December 2012	**1,093,836**	**5,224**	**42,274**	**303,723**	**293,768**	**77,178**	**219,502**	**131,014**	**100,990**	**2,267,509**
Individual impairment	**776,155**	**-**	**-**	**258,363**	**59,239**	**-**	**-**	**-**	**-**	**1,093,757**
Collective impairment	**317,681**	**5,224**	**42,274**	**45,360**	**234,529**	**77,178**	**219,502**	**131,014**	**100,990**	**1,173,752**
	1,093,836	**5,224**	**42,274**	**303,723**	**293,768**	**77,178**	**219,502**	**131,014**	**100,990**	**2,267,509**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**5,060,353**	**-**	**-**	**3,399,342**	**198,592**	**-**	**-**	**-**	**-**	**8,658,287**

2011

In thousand Armenian drams	Manu-facture	Agri-culture	Const-ruction	Trans-port	Trading	Services	Con-sumer	Mort-gage	Other	Total
At 1 January 2011	527,402	7,244	81,718	15,296	296,569	43,377	155,745	236,660	53,459	1,417,470
Charge for the year	614,836	5,324	96,219	198,058	304,649	276,035	112,935	219,186	10,433	1,837,675
Amounts written off	(508,282)	-	(82,099)	-	(501,836)	(88,381)	(445,031)	(338,335)	-	(1,963,964)
Recoveries	17,078	-	71,936	-	395,163	-	447,304	232,600	-	1,164,081
At 31 December 2011	651,034	12,568	167,774	213,354	494,545	231,031	270,953	350,111	63,892	2,455,262
Individual impairment	521,585	-	79,980	6,496	284,577	-	226,623	175,400	-	1,294,661
Collective impairment	129,449	12,568	87,794	206,858	209,968	231,031	44,330	174,711	63,892	1,160,601
	651,034	12,568	167,774	213,354	494,545	231,031	270,953	350,111	63,892	2,455,262
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	7,999,140	-	266,598	85,753	316,622	-	327,505	727,969	-	9,723,587

Loans and advances by customer profile may be specified as follows:

In thousand Armenian drams	As of December 31, 2012	As of December 31, 2011
State owned enterprises	**2,868,408**	2,878,129
Privately held companies	**51,395,590**	49,069,177
Individuals	**37,536,383**	27,770,280
Sole proprietors	**8,480,201**	6,941,806
	100,280,582	86,659,392
Less allowance for impairment of loans and advances	**(2,267,509)**	(2,455,262)
Total loans and advances to customers	**98,013,073**	84,204,130

Loans to individuals comprise the following products:

In thousand Armenian drams	As of December 31, 2012	As of December 31, 2011
Mortgage loans	**13,056,783**	11,508,574
Consumer loans	**16,340,701**	9,062,373
Car loans	**3,310,830**	4,203,205
Trading	**4,118,054**	2,098,187
Other	**710,015**	897,941
Total loans and advances to individuals	**37,536,383**	27,770,280

At 31 December 2012 and 2011 the estimated fair value of loans and advances to customers approximates it carrying value. Refer to Note 30.

Maturity analysis of loan portfolio is disclosed in Note 31. Credit, currency and interest rate analyses of loans and advances to customers are disclosed in Note 32. The information on related party balances is disclosed in Note 29.

19 Available-for-sale investments

In thousand Armenian drams	As of December 31, 2012	As of December 31, 2011
Unquoted investments		
Shares of Armenian companies	**12,690**	12,690
Securities issued by the Ministry of Finance of Armenia	**4,981,958**	4,081,826
Total investments	**4,994,648**	4,094,516

All debt securities have fixed coupons.

The fair value of unquoted available-for-sale debt securities is measured using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

Available for sale debt securities by efficient interest rates and maturity date comprise:

In thousand Armenian drams	**2012** %	**2012** Maturity	2011 %	2011 Maturity
Securities issued the Ministry of Finance of Armenia	**8.71-15.04%**	**2013-2028**	9.0-15.41%	2012-2028

As of December 31, 2012 there were no available for sale debt securities, which were pledged to third parties in sale and repurchase agreements (2011: AMD 917,393 thousand at fair value have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet, as a separate item (Note 26)).

All unquoted available-for-sale debt securities are recorded at cost less impairment losses, as the fair value cannot be reliably estimated. There is no quoted market for these investments and the Bank intends to keep them for a long time.

20 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Leasehold improve-ments	Computer and communi-cation technologies	Vehicles	Fixtures and fittings	Assets under construc-tion	Total
COST							
At January 1, 2011	1,081,800	337,428	544,829	129,671	1,385,487	335,273	3,814,488
Additions	3,132	40,350	105,576	100,462	240,533	13,917	503,970
Disposals	-	(2,879)	(15,204)	(55,791)	(16,309)	-	(90,183)
At December 31, 2011	**1,084,932**	**374,899**	**635,201**	**174,342**	**1,609,711**	**349,190**	**4,228,275**
Additions	**926,316**	**5,674**	**211,025**	**104,473**	**338,694**	**-**	**1,586,182**
Disposals	**-**	**(3,003)**	**(14,967)**	**-**	**(1,490)**	**-**	**(19,460)**
Revaluation of PPE	**460,307**	**-**	**-**	**-**	**-**	**-**	**460,307**
Revaluation adjustments	**(90,814)**	**-**	**-**	**-**	**-**	**-**	**(90,814)**
Reclassification	**349,190**	**-**	**-**	**-**	**-**	**(349,190)**	**-**
At December 31, 2012	**2,729,931**	**377,570**	**831,259**	**278,815**	**1,946,915**	**-**	**6,164,490**
DEPRECIATION							
At January 1, 2011	129,673	52,758	301,271	65,710	674,154	-	1,223,566
Depreciation charge	35,639	10,754	105,915	23,577	136,557	-	312,442
Disposals	-	(155)	(15,204)	(36,960)	(12,115)	-	(64,434)
At December 31, 2011	**165,312**	**63,357**	**391,982**	**52,327**	**798,596**	**-**	**1,471,574**
Depreciation charge	**53,014**	**15,618**	**101,642**	**25,936**	**171,722**	**-**	**367,932**
Disposals	**-**	**(3,003)**	**(13,756)**	**-**	**(1,490)**	**-**	**(18,249)**
Revaluation adjustments	**(90,814)**	**-**	**-**	**-**	**-**	**-**	**(90,814)**
At December 31, 2012	**127,512**	**75,972**	**479,868**	**78,263**	**968,828**	**-**	**1,730,443**
CARRYING VALUE							
At December 31, 2012	**2,602,419**	**301,598**	**351,391**	**200,552**	**978,087**	**-**	**4,434,047**
At December 31, 2011	919,620	311,542	243,219	122,015	811,115	349,190	2,756,701
At December 31, 2010	952,127	284,670	243,558	63,961	711,333	335,273	2,590,922

Revaluation of assets

The buildings owned by the Bank were evaluated by an independent appraiser in December 2012 using the comparative sales methods resulting in a revaluation of AMD 460,307 thousand.

Management has based their estimate of the fair value of the buildings on the results of the independent appraisal.

The net book value of buildings that would have been recognized under the historic cost method is AMD 2,085,262 thousand, as at 31 December 2012 (2011: AMD 870,706 thousand).

Fully depreciated items
As at 31 December 2012 fixed assets included fully depreciated and amortized assets in amount of AMD 621,826 thousand (2011: AMD 556,566 thousand).

Fixed assets in the phase of installation
As at 31 December 2012 fixed assets included assets in the phase of installation amounting AMD 498,000 thousand, containing buildings in amount of AMD 25,038 thousand (2011: AMD 371,161 thousand, containing buildings in amount of AMD 45,438 thousand), which are not amortized and are classified in accordance with their type.

Restrictions on title of fixed assets
As at 31 December 2012, the Bank did not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments
As at 31 December 2012, the Bank had contractual commitments in respect of investments in fixed assets in amount of AMD 13,177 thousand (2011: nil).

21 Intangible assets

In thousand Armenian drams	Licenses	Acquired software licenses	Other	Total
COST				
At January 1, 2011	277,458	153,967	76,854	508,279
Additions	-	32,203	-	32,203
At December 31, 2011	**277,458**	**186,170**	**76,854**	**540,482**
Additions	**6,775**	**77,030**	**23,579**	**107,384**
At December 31, 2012	**284,233**	**263,200**	**100,433**	**647,866**
AMORTISATION				
At January 1, 2011	15,205	33,951	46,245	95,401
Amortisation charge	13,638	29,129	2,139	44,906
At December 31, 2011	**28,843**	**63,080**	**48,384**	**140,307**
Amortisation charge	**13,738**	**26,839**	**2,133**	**42,710**
At December 31, 2012	**42,581**	**89,919**	**50,517**	**183,017**
CARRYING VALUE				
At December 31, 2012	**241,652**	**173,281**	**49,916**	**464,849**
At December 31, 2011	248,615	123,090	28,470	400,175
At December 31, 2010	262,253	120,016	30,609	412,878

Contractual commitments
As at 31 December 2012, the Bank did not have contractual commitments in respect of investments in intangible assets.

As at 31 December 2012, the Bank did not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

As at 31 December 2012, the licenses included the software license for clearing operations with plastic cards at the carrying amount of AMD 206,282 thousand (2011: AMD 217,865 thousand).

22 Other assets

In thousand Armenian drams	As of December 31, 2012	As of December 31, 2011
Prepayments and other debtors	**146,234**	180,255
Accounts receivable	**67,977**	-
Other assets	**124,169**	112,683
	338,380	292,938
Less allowance for impairment	**(3,090)**	(3,962)
	335,290	288,976
Repossessed collateral	**1,116,588**	1,859,362
Assets held for sale	**240,000**	-
Materials	**105,661**	31,784
Total other assets	**1,797,539**	2,180,122

Foreclosed assets serving as security for loans extended by the Bank are real estate. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

Reconciliation of allowance account for losses on other assets is as follows:

In thousand Armenian drams	Total
At January 1, 2011	2,303
Charge for the year	17,241
Amounts written off	(15,582)
At December 31, 2011	**3,962**
Reversal for the year	**(644)**
Amounts written off	**(260)**
Recoveries	**32**
At December 31, 2012	**3,090**

23 Amounts due to financial institutions

In thousand Armenian drams	As of December 31, 2012	As of December 31, 2011
Subordinate debt from CBA	**2,809,439**	2,810,209
Repurchase agreements with CBA	**-**	917,483
Correspondent accounts of other banks	**915,115**	787,429
Current accounts of other financial institutions	**72,966**	73,207
Loans from financial institutions	**355,982**	1,171,435
Deposits from financial institutions	**2,002,797**	717,065
Total amounts due to financial institutions	**6,156,299**	6,476,828

The subordinate debt was provided by the Central Bank of RA on 06 April, 2010, the maturity term of which is determined till 06 April, 2015. The interest rate comprises 7.5%.

As of 31 December 2012 the average effective interest rates on amounts due to financial institutions was 9.3% for borrowings in AMD (2011: 10.2%).

All deposits and loans from financial institutions have fixed interest rates.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2011: nil).

24 Amounts due to customers

In thousand Armenian drams	As of December 31, 2012	As of December 31, 2011
Government of the RA		
Loans	**6,831,750**	15,589,197
	6,831,750	15,589,197
Corporate customers		
Current/Settlement accounts	**7,516,419**	5,388,769
Time deposits	**24,683,586**	10,675,235
	32,200,005	16,064,004
Retail customers		
Current/Demand accounts	**6,623,908**	4,003,483
Time deposits	**66,838,882**	54,933,404
	73,462,790	58,936,887
Total amounts due to customers	**112,494,545**	90,590,088

The amounts due to Government of the RA represent loans received from the International Fund for Agricultural Development within the scope of “Rural Areas Development Programme” and “Economy stabilization lending programme”. Loans carry fixed interest rates.

Deposits from corporate and retail customers carry fixed interest rates.

As at 31 December 2012 included in current and time deposit accounts of retail and corporate customers are deposits amounting to AMD 5,427,407 thousand (2011: AMD 5,127,209 thousand), held as security against loans provided and guarantees issued. The fair value of those deposits approximates the carrying amount.

At 31 December 2012 the aggregate balance of top ten retail and corporate customers of the Bank amounts to AMD 31,241,338 thousand (2011: AMD 8,240,641 thousand) or 30% of total retail and corporate customer accounts (2011: 11%).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2011: nil).

As of 31 December 2012 the average effective interest rate on amounts due to Government of the RA was 6.1% for liabilities in AMD, 4% for liabilities in USD (2011: the average effective interest rate was 6.4% for liabilities in AMD, 4% for liabilities in USD).

As of 31 December 2012 the average effective interest rates on amounts due to corporate customers were 11.5% for liabilities in AMD, 11.3% for liabilities in USD, 5.5% for liabilities in EUR. The average effective interest rates on amounts due to individuals were 13.5% for liabilities in AMD, 8.8% for liabilities in USD, 6.9% for liabilities in EUR (2011: for corporate customers 8.6% for liabilities in AMD, 9.1% for liabilities in USD, 8.4% for liabilities in EUR, and for individuals 12.4% for liabilities in AMD, 8.7% for liabilities in USD, 6.4% for liabilities in EUR).

25 Other liabilities

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Accounts payables	**77,892**	84,285
Dividends payable	**196,070**	196,070
Due to personnel	**141,156**	62,031
Total other financial liabilities	**415,118**	342,386
Tax payable, other than income tax	**266,026**	166,993
Revenues of future periods	**15,839**	9,794
	281,865	176,787
Total other liabilities	**696,983**	519,173

26 Securities pledged under repurchase agreements

In thousand Armenian drams	**Asset**		Liability	
	2012	2011	**2012**	2011
Securities issued the Ministry of Finance of Armenia (Note 19, 23)	**-**	917,393	**-**	917,483
	-	917,393	**-**	917,483

27 Equity

As at 31 December 2012 the Bank's registered and paid-in share capital was AMD 11,400,700 thousand. In accordance with the Bank's statute, the share capital consists of 10,000 ordinary shares, all of which have a par value of AMD 859,970 each and 10 preference shares, all of which have a par value of AMD 280,100,000 each.

The respective shareholdings as at 31 December 2012 and 2011 may be specified as follow:

In thousand Armenian drams	**Paid-in share capital**	**% of total paid-in capital**
Ripatonso Holdings Ltd	**8,599,700**	**75.4**
Gagik Zakaryan	**1,400,500**	**12.3**
George Piskov	**1,400,500**	**12.3**
	11,400,700	**100**

As at 31 December 2012, the Bank did not possess any of its own shares.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank. The holders of preference shares are entitled to one vote only at reorganization and liquidation of the Bank and when decisions of the statute limit their rights, as well as they have guaranteed annual dividend.

As at 31 December 2012 the dividends for preference shareholders recognized in the financial statements amounted to AMD 196,070 thousand (2011: AMD 196,070 thousand).

Distributable among shareholders reserves equal the amount of retained earnings. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Bank's share capital reported in statutory books.

28 Contingent liabilities and commitments

Tax and legal matters

The taxation system in Armenia is characterized by frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among various taxation authorities and jurisdictions.

Often tax authorities claim additional taxes for transactions and accounting methods, for which they did not claim previously. As a result additional fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include earlier periods.

Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Bank, will not have a material adverse impact on the financial condition or results of future operations of the Bank.

Loan commitment, guarantee and other financial facilities

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Undrawn loan commitments	**6,795,872**	9,216,530
Letters of credit	**38,516**	-
Guarantees	**1,097,360**	942,904
Total commitments and contingent liabilities	**7,931,748**	10,159,434

Operating lease commitments – Bank as a lessee

In the normal course of business the Bank enters into commercial lease agreements for its buildings and premises.

The future aggregate minimum lease payments under operating leases are as follows:

In thousand Armenian drams	As of December 31, 2012	As of December 31, 2011
Not later than 1 year	**852,647**	855,364
Later than 1 year and not later than 5 years	**1,199,043**	1,912,693
Total operating lease commitments	**2,051,690**	2,768,057

Capital commitments

Information on the Bank's capital commitments is disclosed in notes 20 and 21.

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank anticipates partiallyl coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

Starting 2005 the Bank is member of the obligatory deposit insurance system. The system operates under the Armenian laws and regulations and is governed by the Law on Guarantee of Physical Persons Deposits. Insurance covers Bank's liabilities to individual depositors for the amount up to AMD 4,000 thousand (up to AMD 2,000 thousand for deposits in foreign currency) for each individual in case of business failure and revocation of the banking license.

29 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively.

The shareholder company is controlled by Russian businessmen G. Zaqaryan and G. Piskov with equal voting shares.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	As of December 31, 2012		As of December 31, 2011	
	Shareholders	Key management personnel	Shareholders	Key management personnel
Loans and advances to customers				
Loans outstanding at January 1, gross	30,746	116,176	22,055	68,312
Loans issued during the year	281,577	209,778	17,528	214,382
Loan repayments during the year	(10,073)	(190,574)	(8,837)	(166,518)
Loans outstanding at December 31, gross	302,250	135,380	30,746	116,176
Less: allowance for loan impairment	(3,023)	(1,354)	(306)	(1,162)
Loans outstanding at December 31	299,227	134,026	30,440	115,014
Interest income on loans	27,003	23,210	2,926	12,569
Impairment charge for credit losses	2,717	192	86	479
Amounts due from other financial institutions				
At January 1	775,040	-	901,634	-
Increase	324,223,952	-	342,724,782	-
Decrease	(323,425,831)	-	(342,851,376)	-
At December 31	1,573,161	-	775,040	-
Interest income	12,104	-	4,704	-
Amounts due to financial institutions				
At January 1	633,116	-	2,283,298	-
Increase	531,210	-	11,229,283	-
Decrease	(784,184)	-	(12,879,465)	-
At December 31	380,142	-	633,116	-
Interest expense	21,591		49,553	-
Amounts due to customers				
Deposits at January 1	3,025,745	1,503,871	3,577,490	268,665
Deposits received during the year	104,802	27,277,989	95,204,160	27,327,562
Deposits repaid during the year	(3,049,255)	(26,487,999)	(95,755,905)	(26,092,356)
Deposits at December 31	81,292	2,293,861	3,025,745	1,503,871
Interest expense on deposits	81	135,120	201,552	-
Purchase of PPE	-	-	-	18,357
Proceeds from sale of PPE	-	-	11,760	-
				-
Comprehensive income statement items				
Operational lease payments	297,600	-	297,600	-
Insurance payments	30,845	-	18,333	-

The loans issued to the Bank's related parties during the year are repayable from 1 to 15 years and have interest rates of 12-21%.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	As of December 31, 2012	As of December 31, 2011
Salaries and other short-term benefits	**580,438**	544,071
Social security costs	**18,632**	17,465
Total key management compensation	**599,070**	561,536

30 Fair value of Financial instruments

Financial instruments that are not measured at fair value

The fair value of financial assets and liabilities, not presented on the balance sheet at their fair value, are presented below with their carrying values:

In thousand Armenian drams	**As of December 31, 2012**		As of December 31, 2011	
	Carrying value	**Fair value**	Carrying value	Fair value
FINANCIAL ASSETS				
Cash and balances with CBA	**24,584,447**	**24,584,447**	16,228,746	16,228,746
Precious metals	**87,642**	**87,642**	86,493	86,493
Amounts due from financial institutions	**3,990,046**	**3,990,046**	3,526,993	3,526,993
Loans and advances to customers	**98,013,073**	**98,013,073**	84,204,130	84,204,130
FINANCIAL LIABILITIES				
Amounts due to financial institutions	**6,156,299**	**6,156,299**	6,476,828	6,476,828
Amounts due to customers	**112,494,545**	**112,494,545**	90,590,088	90,590,088
Other liabilities (Note 25)	**415,118**	**415,118**	342,386	342,386

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Precious metals are included in other assets in the statement of financial position.

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 9% to 24% per annum. The interest rates mainly approximate current interest rates.

Other borrowings

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

30.1 Fair Value Hierarchy

The fair value hierarchy has the following levels:
- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In thousand Armenian drams				**As of December 31, 2012**
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Unquoted securities and debentures	**-**	**4,981,958**	**-**	**4,981,958**
Total	**-**	**4,981,958**	**-**	**4,981,958**

In thousand Armenian drams				As of December 31, 2011
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Unquoted securities and debentures	-	4,999,219	-	4,999,219
Derivative financial assets	-	79,047	-	79,047
Total	-	5,078,266	-	5,078,266

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

Unquoted RA equity investments

The fair value of Bank's investment in unquoted RA equity investments cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 19 for further information about this equity investment.

31 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 32.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams								**As of December 31, 2012**
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
ASSETS								
Cash and balances with CBA	**24,374,447**	**-**	**-**	***24,374,447***	**-**	**210,000**	***210,000***	**24,584,447**
Precious metals	**87,642**	**-**	**-**	***87,642***	**-**	**-**	***-***	**87,642**
Amounts due from other financial institutions	**3,470,308**	**-**	**-**	***3,470,308***	**-**	**519,738**	***519,738***	**3,990,046**
Loans and advances to customers	**3,547,726**	**6,480,872**	**19,491,775**	***29,520,373***	**51,543,658**	**16,949,042**	***68,492,700***	**98,013,073**
Investments available for sale	**197,726**	**253,719**	**103,629**	***555,074***	**279,028**	**4,160,546**	***4,439,574***	**4,994,648**
	31,677,849	**6,734,591**	**19,595,404**	***58,007,844***	**51,822,686**	**21,839,326**	***3,662,012***	**131,669,856**

In thousand Armenian drams — **As of December 31, 2012**

	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
LIABILITIES								
Amounts due to financial institutions	**1,845,578**	**352,763**	**799,393**	***2,997,734***	**2,903,138**	**255,427**	***3,158,565***	**6,156,299**
Amounts due to customers	**23,722,581**	**23,603,181**	**57,719,760**	***105,045,522***	**6,795,251**	**653,772**	***7,449,023***	**112,494,545**
Other liabilities	**415,118**	**-**	**-**	***415,118***	**-**	**-**	**-**	**415,118**
	25,983,277	**23,955,944**	**58,519,153**	***108,458,374***	**9,698,389**	**909,199**	***10,607,588***	**119,065,962**
Net position	**5,694,572**	**(17,221,353)**	**(38,923,749)**	**(50,450,530)**	**42,124,297**	**20,930,127**	**63,054,424**	**12,603,894**
Accumulated gap	**5,694,572**	**(11,526,781)**	**(50,450,530)**		**(8,326,233)**	**12,603,894**		

In thousand Armenian drams — As of December 31, 2011

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Cash and balances with CBA	16,060,307	-	-	*16,060,307*	-	168,439	*168,439*	16,228,746
Precious metals	86,493	-	-	*86,493*	-	-	-	86,493
Amounts due from other financial institutions	2,724,924	-	300,300	*3,025,224*	-	501,769	*501,769*	3,526,993
Derivative financial assets	79,047	-	-	79,047	-	-	-	79,047
Loans and advances to customers	1,602,848	5,608,577	22,304,253	*29,515,678*	39,313,106	15,375,346	*54,688,452*	84,204,130
Investments available for sale	156,383	69,365	57,151	*282,899*	279,028	3,532,589	*3,811,617*	4,094,516
Securities pledged under repurchase agreements	917,393	-	-	*917,393*	-	-	-	917,393
	21,627,395	5,677,942	22,661,704	*49,967,041*	39,592,134	19,578,143	*59,170,277*	109,137,318
LIABILITIES								
Amounts due to financial institutions	1,801,256	279,058	1,440,510	*3,520,824*	2,863,775	92,229	*2,956,004*	6,476,828
Amounts due to customers	13,780,044	19,026,553	45,732,869	*78,539,466*	11,804,677	245,945	*12,050,622*	90,590,088
Other liabilities	342,386	-	-	*342,386*	-	-	-	342,386
	15,923,686	19,305,611	47,173,379	*82,402,676*	14,668,452	338,174	*15,006,626*	97,409,302
Net position	5,703,709	(13,627,669)	(24,511,675)	*(32,435,635)*	24,923,682	19,239,969	*44,163,651*	11,728,016
Accumulated gap	5,703,709	(7,923,960)	(32,435,635)		(7,511,953)	11,728,016		

32 Risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

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

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

Board of Bank

The Board is responsible for monitoring the overall risk management, approval of strategy and risk management principles.

Executive board

The Executive board of the Bank is responsible for investment and control over the risk management procedures.

Risk Management Directorate

The Risk Management Directorate is responsible for implementation of risk procedures and control over risk management principles, policy and the Bank's risk limits, as well as providing risk valuation and collection of overall information within the financial system.

Financial Directorate

The Financial Directorate of the Bank is responsible for management of assets and liabilities of the Bank. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

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

Risk measurement and reporting systems

The Bank also runs worst case scenarios that would arise in the event that extreme events which are to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are managed accordingly.

32.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Bank's Strategy and Risk Management Department and the Credit subdivision and are reported to the Board of Bank and the Executive board.

The carrying amounts of the Bank's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

32.1.1 Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December.

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Cash and balances with CBA	**24,584,447**	**-**	**-**	**24,584,447**
Precious metals	**87,642**	**-**	**-**	**87,642**
Amounts due from other financial institutions	**70,471**	**2,333,483**	**1,586,092**	**3,990,046**
Loans and advances to customers	**96,151,073**	**-**	**1,862,000**	**98,013,073**
Investments available for sale	**4,994,648**	**-**	**-**	**4,994,648**
As at 31 December 2012	**125,888,281**	**2,333,483**	**3,448,092**	**131,669,856**
As at 31 December 2011	105,057,446	1,862,112	2,217,760	109,137,318

Assets have been classified based on the country in which the counterparty is located.

Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December.

In thousand Armenian drams	Financial institu-tions	Manufac-turing	Agricul-ture	Const-ruction	Trans-port	Trading	Services	Consumer sector	Mortgage	Other	Total
Cash and balances with CBA	**24,584,447**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**24,584,447**
Precious metals	**87,642**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**87,642**
Amounts due from other financial institutions	**3,990,046**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,990,046**
Loans and advances to customers	**-**	**14,555,894**	**517,183**	**3,720,616**	**4,973,856**	**23,367,100**	**6,369,668**	**21,522,443**	**12,987,469**	**9,998,844**	**98,013,073**
Investments available for sale	**4,994,648**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,994,648**
As at 31 December 2012	**33,656,783**	**14,555,894**	**517,183**	**3,720,616**	**4,973,856**	**23,367,100**	**6,369,668**	**21,522,443**	**12,987,469**	**9,998,844**	**131,669,856**
As at 31 December 2011	24,933,188	15,931,196	581,921	5,142,993	4,172,987	20,832,024	4,267,694	15,487,923	11,357,085	6,430,307	109,137,318

32.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of Bank.

The exposure to any one borrower including banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Movable properties of individuals;
- Charges over business assets such as premises, inventory;
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

The analysis of loan portfolio by collateral is represented as follows:

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Loans collateralized by real estate	**76,850,372**	63,686,504
Loans collateralized by movable property	**3,218,131**	4,589,788
Loans collateralized by goods in circulation	**607,004**	532,939
Loans collateralized by guarantees	**3,720,546**	3,765,171
Loans collateralized by cash	**4,097,246**	4,574,215
Loans collateralized by Armenian Government guarantees	**242,978**	4,263,742
Loans collateralized by household appliances	**4,152,349**	2,060,000
Unsecured loans	**7,391,956**	3,187,033
Total loans and advances to customers (gross)	**100,280,582**	86,659,392

The amounts presented in the table above are carrying values of the loans, and do not necessarily represent the fair value of the collaterals. Estimates of market values of collaterals are based on valuation of the collateral at the date when loans were provided. Generally they are not updated unless loans are assessed as individually impaired.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

32.1.3 Impairment and provisioning policies

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

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

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

Loans and advances neither past due or impaired

The table below shows the credit quality by class of asset for loans and advances neither past due or impaired, based on the historical counterparty default rates.

In thousand Armenian drams	**As of December 31, 2012**	As of December 31, 2011
Loans and advances to customers		
Manufacture	**3%**	1.5%
Agriculture	**-**	2.1%
Construction	**1.1%**	1.7%
Transportation	**2.5%**	4.8%
Trade	**-**	1%
Service	**1.3%**	1%
Consumer	**1.4%**	1.1%
Mortgage	**0.7%**	2.1%

As of 31 December 2012 and 2011 the Bank has not had any losses on other financial assets bearing credit risk.

Past due but not impaired loans

Past due loans and advances include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired. Analysis of past due loans by age and by class is provided below.

In thousand Armenian drams				**As of December 31, 2012**	
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Manufacture	**72,512**	**102,077**	**36,263**	**498,607**	**709,459**
Construction	**123,094**	**4,679**	**-**	**-**	**127,773**
Transportation	**16,692**	**-**	**-**	**330,724**	**347,416**
Trade	**122,842**	**27,027**	**193,350**	**118,195**	**461,414**
Service	**122,795**	**10,300**	**10,562**	**2,129,202**	**2,272,859**
Consumer	**141,275**	**37,630**	**51,685**	**122,386**	**352,976**
Mortgage	**151,944**	**117,915**	**6,194**	**51,041**	**327,094**
Other	**567,066**	**2,512**	**-**	**-**	**569,578**
Total	**1,318,220**	**302,140**	**298,054**	**3,250,155**	**5,168,569**

In thousand Armenian drams					As of December 31, 2011
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacture	5,288	57,558	-	55,790	118,636
Agriculture	-	15,891	104,777	-	120,668
Construction	35,385	-	-	-	35,385
Transportation	32,258	233,774	-	-	266,032
Trade	114,479	24,614	85,524	478,404	703,021
Service	38,977	52,442	7,711	1,591,881	1,691,011
Consumer	140,934	104,011	59,989	173,678	478,612
Mortgage	148,812	81,591	64,721	138,524	433,648
Other	1,016	-	-	-	1,016
Total	517,149	569,881	322,722	2,438,277	3,848,029

Loans and advances individually impaired

The total gross amount of individually impaired loans and advances to customers before netting the individually assessed allowances for impairment is AMD 8,658,287 thousand (2011: AMD 9,723,587 thousand). Refer to Note 18.

32.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

32.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Bank has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2012. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, at 31 December 2012 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

In thousand Armenian drams — **As of December 31, 2012**

Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity: Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	**+ 1**	**-**	**(361)**	**(557)**	**(895)**	**(168,675)**	**(170,488)**
AMD	**(1)**	**-**	**364**	**564**	**918**	**179,658**	**181,504**

In thousand Armenian drams — As of December 31, 2011

Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity: Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	+1	-	(149)	(232)	(3,439)	(187,348)	(191,168)
AMD	(1)	-	150	235	3,523	200,483	204,391

Currency risk

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2012 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams

Currency	**As of December 31, 2012** Change in currency rate in %	**Effect on profit before tax**	As of December 31, 2011 Change in currency rate in %	Effect on profit before tax
USD	**3**	**(7,374)**	3	(5,350)
EUR	**(0.1)**	**17**	(3)	198

The Bank's exposure to foreign currency exchange risk is as follow:

In thousand Armenian drams	Armenian Dram	Freely convertible currencies/ precious metals	Non-freely convertible currencies	Total
ASSETS				
Cash and balances with the CBA	**11,491,884**	**12,611,579**	**480,984**	**24,584,447**
Precious metals	**-**	**87,642**	**-**	**87,642**
Amounts due from other financial institutions	**2,071**	**3,031,745**	**956,230**	**3,990,046**
Loans and advances to customers	**34,385,386**	**63,627,687**	**-**	**98,013,073**
Investments available for sale	**4,994,648**	**-**	**-**	**4,994,648**
	50,873,989	**79,358,653**	**1,437,214**	**131,669,856**
LIABILITIES				
Amounts due to financial institutions	**5,267,695**	**884,990**	**3,614**	**6,156,299**
Amounts due to customers	**34,372,985**	**77,132,779**	**988,781**	**112,494,545**
Other liabilities	**415,118**	**-**	**-**	**415,118**
	40,055,798	**78,017,769**	**992,395**	**119,065,962**
Net position as at 31 December 2012	**10,818,191**	**1,340,884**	**444,819**	**12,603,894**
Commitments and contingent liabilities as at 31 December 2012	**2,965,292**	**4,931,954**	**34,502**	**7,931,748**
Total financial assets	50,252,583	57,809,960	1,074,775	109,137,318
Total financial liabilities	38,805,343	57,338,081	1,265,878	97,409,302
Net position as at 31 December 2011	11,447,240	471,879	(191,103)	11,728,016
Commitments and contingent liabilities as at 31 December 2011	2,684,244	7,475,190	-	10,159,434

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

32.3 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily bases. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 8% of certain obligations of the Bank denominated in Armenian drams and 12% on certain obligations of the Bank denominated in foreign currency. See note 14. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia.

As at 31 December, these ratios were as follows:	Not audited 2012, %	 2011, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	**26.17**	23.61
N22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	**221.99**	249.92

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2012 based on contractual undiscounted repayment obligations. See note 31 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams	**As of December 31, 2012**					
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
FINANCIAL LIABILITIES						
Amounts due to financial institutions	**1,886,681**	**394,535**	**1,020,288**	**3,120,908**	**559,401**	**6,981,813**
Amounts due to customers	**25,529,130**	**24,206,799**	**60,871,766**	**9,717,461**	**845,006**	**121,170,162**
Other liabilities	**415,118**	**-**	**-**	**-**	**-**	**415,118**
Total undiscounted financial liabilities	**27,830,929**	**24,601,334**	**61,892,054**	**12,838,369**	**1,404,407**	**128,567,093**
Commitments and contingent liabilities	**1,150,551**	**519,958**	**2,023,946**	**4,237,293**	**-**	**7,931,748**

In thousand Armenian drams	As of December 31, 2011					
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
FINANCIAL LIABILITIES						
Amounts due to financial institutions	1,825,445	324,711	2,408,713	3,468,477	120,345	8,147,691
Amounts due to customers	13,787,397	19,236,782	47,006,264	13,592,512	396,885	94,019,840
Other liabilities	342,386	-	-	-	-	342,386
Total undiscounted financial liabilities	15,955,228	19,561,493	49,414,977	17,060,989	517,230	102,509,917
Commitments and contingent liabilities	3,537,228	542,728	1,956,799	4,122,679	-	10,159,434

Derivative financial liabilities						
Currency swap contracts						
Inflow	4,488,480	-	-	-	-	4,488,480
Outflow	4,409,753	-	-	-	-	4,409,753

The Bank has a significant cumulative maturity mismatch of the assets and liabilities up to one year. Refer to note 31. This liquidity mismatch arises due to the fact that the major source of finance for the Bank as at 31 December 2012 was customer deposits maturing in up to one year. Management believes that in spite of a substantial portion of customer accounts with maturity up to one year, the past experience of the Bank indicates that these deposits provide a long-term and stable source of finance for the Bank.

33 Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established in 1988 by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Armenia in supervising the Bank.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, police and processes from the previous years.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 12%.

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

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

As of 31 December 2012 and 2011 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Not audited	
In thousand Armenian drams	**2012**	2011
Tier 1 capital	**14,823,910**	14,876,637
Tier 2 capital	**795,926**	1,229,542
Total regulatory capital	**15,619,836**	16,106,179
Risk-weighted assets	**129,761,473**	111,415,733
Capital adequacy ratio	**12.04%**	14.46%

The Bank has complied with externally imposed capital requirements through the period.

The Central Bank of Armenia has set the minimal required total capital at AMD 5,000,000 thousand from January 1 2009.

The Bank has borrowed subordinated debt from Ripatonso Holdings Ltd in amount of USD 5,000,000 which led to an increase in the regulatory capital and capital adequacy ratio.

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Financial Statements and Independent Auditor's Report

UNIBANK closed joint stock company

31 December 2013

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Independent auditor's report

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To the Shareholders and Board of Directors of Closed Joint Stock Company "UNIBANK":

We have audited the accompanying financial statements of "UNIBANK" closed joint stock company (the "Bank"), which comprise the statement of financial position as at December 31, 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the "UNIBANK" closed joint stock company as of December 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gagik Gyulbudaghyan
Managing partner

Armen Vanyan
Auditor

Grant Thornton CJSC
April 09, 2014
Yerevan

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	**Year ended December 31, 2013**	Year ended December 31, 2012
Interest and similar income	6	**16,828,969**	14,091,613
Interest and similar expense	6	**(11,220,783)**	(9,187,773)
Net interest income		**5,608,186**	4,903,840
Fee and commission income	7	**1,354,979**	1,466,204
Fee and commission expense	7	**(271,931)**	(279,599)
Net fee and commission income		**1,083,048**	1,186,605
Net trading income	8	**1,272,318**	1,504,930
Net loss from investments available-for-sale		**(1,783)**	-
Other income	9	**1,067,729**	600,643
Impairment charge for asset losses	10	**(1,017,935)**	(510,696)
Staff costs	11	**(3,751,192)**	(3,061,794)
Depreciation of property and equipment	18	**(469,237)**	(367,932)
Amortization of intangible assets	19	**(47,633)**	(42,710)
Other expenses	12	**(2,848,982)**	(2,171,369)
Profit before income tax		**894,519**	2,041,517
Income tax expense	13	**(410,929)**	(438,448)
Profit for the year		**483,590**	1,603,069
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of PPE		**(52,148)**	460,307
Income tax relating to items not reclassified		**10,430**	(106,533)
		(41,718)	353,774
Items that will be reclassified subsequently to profit or loss			
Net unrealized gains/(losses) from changes in fair value of available-for-sale instruments		**689,965**	(42,590)
Net loss realized to statement of profit or loss on disposal of available-for-sale instruments		**1,863**	155
Income tax relating to items that will be reclassified		**(138,366)**	8,487
		553,462	(33,948)
Other comprehensive income for the year, net of tax		**511,744**	319,826
Total comprehensive income for the year		**995,334**	1,922,895

The accompanying notes on pages 7 to 52 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2013	As of December 31, 2012
ASSETS			
Cash and cash equivalents	14	**21,118,118**	27,844,755
Amounts due from other financial institutions	15	**1,256,997**	729,738
Loans and advances to customers	16	**116,795,259**	98,013,073
Investments available for sale	17	**5,418,344**	4,994,648
Property, plant and equipment	18	**4,296,555**	4,434,047
Intangible assets	19	**945,216**	464,849
Prepaid income taxes		**414,628**	-
Other assets	20	**3,244,617**	1,885,181
TOTAL ASSETS		**153,489,734**	138,366,291
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to financial institutions	21	**1,311,989**	3,346,860
Amounts due to customers	22	**105,118,523**	112,494,545
Borrowings	23	**24,768,761**	2,809,439
Current income tax liabilities		**-**	286,268
Deferred income tax liabilities	13	**875,632**	336,767
Other liabilities	24	**664,526**	696,983
Total liabilities		**132,739,431**	119,970,862
Equity			
Share capital	25	**13,100,700**	11,400,700
Statutory general reserve		**370,137**	257,939
Other reserves		**307,034**	(204,710)
Retained earnings		**6,972,432**	6,941,500
Total equity		**20,750,303**	18,395,429
TOTAL LIABILITIES AND EQUITY		**153,489,734**	138,366,291

The financial statements from pages 3 to 52 were signed by the Bank's Chairman of Executive Board and Chief Accountant on 09 April, 2014.

The accompanying notes on pages 7 to 52 are an integral part of these financial statements.

Vardan ATAYAN
Chairman of Executive Board

Gohar GRIGORYAN
Chief accountant

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Balance as of January 1, 2012	11,400,700	207,783	(596,891)	72,355	5,584,657	16,668,604
Distribution to reserve	-	50,156	-	-	(50,156)	-
Dividends to shareholders	-	-	-	-	(196,070)	(196,070)
Transactions with owners	-	50,156	-	-	(246,226)	(196,070)
Profit for the year	-	-	-	-	1,603,069	1,603,069
Other comprehensive income:						
Revaluation of PPE	-	-	-	460,307	-	460,307
Net unrealized loss from changes in fair value	-	-	(42,590)	-	-	(42,590)
Net loss realized to statement of profit or loss on disposal of available-for-sale instruments	-	-	155	-	-	155
Income tax relating to components of other comprehensive income	-	-	8,487	(106,533)	-	(98,046)
Total comprehensive income for the year	-	-	(33,948)	353,774	1,603,069	1,922,895
Balance as of December 31, 2012	**11,400,700**	**257,939**	**(630,839)**	**426,129**	**6,941,500**	**18,395,429**
Increase in share capital	**1,700,000**	**-**	**-**	**-**	**-**	**1,700,000**
Distribution to reserve	**-**	**112,198**	**-**	**-**	**(112,198)**	**-**
Dividends to shareholders	**-**	**-**	**-**	**-**	**(340,460)**	**(340,460)**
Transactions with owners	**1,700,000**	**112,198**	**-**	**-**	**(452,658)**	**1,359,540**
Profit for the year	**-**	**-**	**-**	**-**	**483,590**	**483,590**
Other comprehensive income:						
Revaluation of PPE	**-**	**-**	**-**	**(52,148)**	**-**	**(52,148)**
Net unrealized gain from changes in fair value	**-**	**-**	**689,965**	**-**	**-**	**689,965**
Net loss realized to statement of profit or loss on disposal of available-for-sale instruments	**-**		**1,863**	**-**	**-**	**1,863**
Income tax relating to components of other comprehensive income	**-**	**-**	**(138,366)**	**10,430**	**-**	**(127,936)**
Total comprehensive income for the year	**-**	**-**	**553,462**	**(41,718)**	**483,590**	**995,334**
Balance as of December 31, 2013	**13,100,700**	**370,137**	**(77,377)**	**384,411**	**6,972,432**	**20,750,303**

Statement of cash flows

In thousand Armenian drams

	Year ended December 31, 2013	Year ended December 31, 2012
Cash flows from operating activities		
Profit before tax	**894,519**	2,041,517
Adjustments for		
Impairment charge for asset losses	**1,017,935**	510,696
Impairment and loss on sale of repossessed assets	**273,475**	-
Impairment of PPE	**120,003**	-
Amortization and depreciation allowances	**516,870**	410,642
Loss from sale of PPE	**-**	1,211
Interest receivable	**(2,151,568)**	(676,076)
Interest payable	**1,779,853**	9,480
Foreign currency translation net loss of non-trading assets and liabilities	**31,619**	56,343
Cash flows from operating activities before changes in operating assets and liabilities	**2,482,706**	2,353,813
(Increase)/decrease in operating assets		
Derivative instruments	**-**	60,048
Amounts due from other financial institutions	**(509,986)**	335,486
Loans and advances to customers	**(18,718,819)**	(11,416,268)
Other assets	**(242,680)**	412,979
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	**(838,782)**	196,745
Amounts due to customers	**(6,612,165)**	30,415,390
Other liabilities	**136,903**	177,810
Net cash flow from/(used in) operating activities before income tax	**(24,302,823)**	22,536,003
Income tax paid	**(700,896)**	(133,082)
Net cash from/(used in) operating activities	**(25,003,719)**	22,402,921
Cash flows from investing activities		
Redemption of investment securities	**265,710**	13,384
Purchase of property and equipment	**(521,157)**	(1,586,181)
Proceeds from sale of property and equipment	**17,260**	-
Purchase of intangible assets	**(528,000)**	(107,384)
Net cash used in investing activities	**(766,187)**	(1,680,181)
Cash flow from financing activities		
Proceeds from issue of share capital	**1,700,000**	-
Dividends paid	**(488,909)**	(196,070)
Loans received from financial institutions	**(1,123,901)**	(3,770,251)
Other long-term loans and advances	**18,748,868**	(8,250,082)
Net cash used in financing activities	**18,836,058**	(12,216,403)
Net increase/(decrease) in cash and cash equivalents	**(6,933,848)**	8,506,337
Cash and cash equivalents at the beginning of the year	**27,844,755**	18,649,530
Exchange differences on cash and cash equivalents	**207,211**	688,888
Cash and cash equivalents at the end of the year (Note 14)	**21,118,118**	27,844,755

Supplementary information:

Interest received	**14,677,979**	13,415,537
Interest paid	**(9,471,304)**	(9,178,293)

Accompanying notes to the financial statements

1 Principal activities

"Unibank" CJSC (the "Bank") is a closed joint-stock bank, which was incorporated in the Republic of Armenia on 9 October 2001. The Bank is regulated by the legislation of RA and conducts its business under license number N81, granted on 10 October 2001, by the Central Bank of Armenia (the "CBA").

The Bank accepts deposits from the public and extends credit, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

Its main office is in Yerevan and it has 24 branches in Yerevan, 20 branches in different regions of RA, 2 branches in the Republic of Nagorno Karabakh and one representative office in Moscow, the Russian Federation. The registered office of the Bank is located at: 12/53 Charents street, #1-5, Yerevan.

The international rating agency Moody's Investors Service issued "Unibank" E+ standalone bank financial strength rating (BFSR) with stabile outlook, and Ba3/NP deposit attraction rating with negative outlook which was reconfirmed in February 2013.

2 Armenian business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base.

There are still uncertainties about the economic situation of countries collaborating with the RA, which may lead to the shortage of money transfers from abroad, as well as to the decline in the prices of mining products, upon which the economy of Armenia is significantly dependant. In times of more severe market stress the situation of Armenian economy and of the Bank may be exposed to deterioration. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Bank may be affected.

Accordingly, the financial statements of the Bank do not include the effects of adjustments, which might have been considered necessary.

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as developed and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost, with the exception of buildings, which are stated at revalued amount.

3.3 Functional and presentation currency

Functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's functional currency and the Bank's presentation currency is Armenian Drams ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Bank. The Bank prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These financial statements are based on the Bank's books and records as adjusted and reclassified in order to comply with IFRS. The financial statements are presented in thousands of AMD, which is not convertible outside Armenia.

3.4 Changes in accounting policies

In the current year the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2013.

IFRS 13 Fair Value Measurement

IFRS 13 clarifies the definition of fair value and provides relevant guidelines and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of IFRS 13 is broad and it applies to both financial and non-financial items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in certain circumstances.

Its disclosure requirements need not be applied for comparative information in the first year of application.

The Bank has applied IFRS 13 for the first time in the current year. Refer to note 28.

IAS 1* (Amendment) *Presentation of Financial Statements

The IAS 1 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. The amendment, which has changed the current presentation of items in other comprehensive income; however, it has not affected the measurement or recognition of such items.

IFRS 7* (Amendment) *Offsetting Financial Assets and Financial Liabilities

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

The IFRS has been applied for the first time in the current year. Refer to note 29.

Annual Improvements to IFRSs 2009-2011 Cycle

IAS 16 Property, plant and Equipment

The amendment addresses the classification of servicing equipment. It clarifies that major spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

3.5 Standards and amendments not yet applied by the Bank

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

Management anticipates that all of the pronouncements will be adopted in the Bank's accounting policy for the first period beginning after the effective date of the pronouncement.

The amendments are effective for annual reporting periods beginning on or after 1 January 2014 and are required to be applied retrospectively, with the exception of amendments performed in IFRS 9 *Financial Instruments.*

Management does not anticipate a material impact on the Bank's financial statements from these Amendments, they are presented below.

IAS 32 **(Amendment)** *Offsetting Financial Assets and Financial Liabilities*

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

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

IFRS 9 Financial Instruments

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

Because the impairment phase of the IFRS 9 project has not yet been completed, the IASB decided that a mandatory date of 1 January 2015 would not allow sufficient time for entities to prepare to apply the new Standard. Accordingly, the IASB decided that a new date should be decided upon when the entire IFRS 9 project is closer to completion. The amendments made to IFRS 9 in November 2013 remove the mandatory effective date from IFRS 9. However, entities may still choose to apply IFRS 9 immediately.

IAS 36 **(Amendment)** ***Recoverable Amount Disclosure for Non-Financial Assets***

Amendments to IAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

Earlier application is permitted provided the entity has already adopted IFRS 13.

Annual Improvements to IFRSs 2010-2012 Cycle

The Annual Improvements 2010-2012 made several minor amendments to a number of IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014

IFRS 13 Fair Value Measurement

Short-term receivables and payables

- amends the Basis for Conclusions to clarify that an entity is not required to discount short-term receivables and payables without a stated interest rate below their invoice amount when the effect of discounting is immaterial.

IAS 16 Property, Plant and Equipment

Revaluation method-proportionate restatement of accumulated depreciation

- addresses the diversity in practice in calculating the accumulated depreciation for an item of PP&E that is measured using the revaluation method
- clarifies that the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount
- clarifies that the accumulated depreciation is calculated as the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

IAS 24 Related Party Disclosures

Key management personnel

- amends the definition of a ‘related party’ in order to include 'management entities' that provide key management personnel services to the reporting entity
- requires the disclosure of the amounts recognized by the reporting entity as a service fee to a separate management entity for the provision of the key management personnel services
- provides a relief so that the reporting entity is not required to disclose components of the compensation to key management personnel where the compensation is paid via a management entity.

IAS 38 Intangible Assets

Revaluation method-proportionate restatement of accumulated amortisation

- makes equivalent changes to the accounting of intangible assets, as described above for *IAS 16 Property, Plant and Equipment.*

Annual Improvements to IFRSs 2011-2013 Cycle

The Annual Improvements 2011-2013 made several minor amendments to a number of IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014.

IFRS 13 Fair Value Measurement

Scope of paragraph 52 (portfolio exception)

- clarifies that the portfolio exception in IFRS 13.52 applies to all contracts accounted for within the scope of IAS 39 'Financial Instruments: Recognition and Measurement' or IFRS 9 'Financial Instruments', regardless of whether those contracts meet the definitions of financial assets or financial liabilities in accordance with IAS 32 'Financial Instruments: Presentation'
- this means for example that commodity contracts that can be settled net in cash and which are accounted for as financial instruments, can qualify for the exemption.

Several new standards and interpretations have been issued, however it is not anticipated that they will have impact on the Bank's financial statements.

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Bank and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within "interest income" and "interest expense" in the income statement using the effective interest method.

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

Fee and commission income

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences related to trading assets and liabilities. Net trading income also includes gains less losses from trading in foreign currencies.

4.2 Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss and other comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in net trading income.

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

	December 31, 2013	December 31, 2012
AMD/1 US Dollar	**405.64**	403.58
AMD/1 Euro	**559.54**	532.24

4.3 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks, which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value.

4.5 Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Changes in the bid prices are recorded in net gain/loss on operations with precious metals in other income/expense.

4.6 Amounts due from other financial institutions

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.7 Financial instruments

The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

When financial assets and liabilities are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

After initial recognition all financial liabilities, other than liabilities at fair value through profit or loss (including held for trading) are measured at amortized cost using effective interest method. After initial recognition financial liabilities at fair value through profit or loss are measured at fair value.

The Bank classified its financial assets into the following categories: loans and receivables, financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Bank determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss. A financial asset is classified in this category if acquired for the purpose of selling in the short-term or if so designated by management from the initial acquisition of that asset.

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of income as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and

- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments, which arise when the Bank provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Bank with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

Available-for-sale financial instruments

Investments available for sale represent debt and equity investments that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of income. However, interest calculated using the effective interest method is recognised in the statement of income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis. Otherwise the investments are stated at cost less any allowance for impairment.

4.8 Impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Criteria used to determine that there is objective evidence of an impairment loss may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty (for example, equity ratio, net income percentage of sales), default or delinquency in interest or principal payments, breach of loan covenants or conditions, deterioration in the value of collateral, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of profit or loss and other comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If future write-off is later recovered, the recovery is credited to the allowance account.

Renegotiated loans

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement on income, is transferred from equity to the statement of income. Reversals of impairment in respect of equity instruments classified as available-for-sale are not recognised in the statement of profit or loss and other comprehensive income but accounted for in other comprehensive income in a separate component of equity. Reversals of impairment losses on debt instruments are reversed through the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4.9 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

4.10 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The corresponding liability is presented within amounts due to financial institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized on the balance sheet. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

4.11 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the balance sheet if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized on the balance sheet, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in "Net trading income".

4.12 Leases

Operating - Bank as leasee

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

4.13 Property, plant and equipment

Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation. The Bank's buildings are stated at fair value less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

	Useful life (years)	Rate (%)
Buildings	30	3.3
Computers	3	33,33
Communication	5	20
Vehicles	7	20
ATM	10	10
Other fixed assets	5	20

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses.

Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

When revalued assets are sold, the amounts attributed to disposed item of assets and included in the revaluation reserve are transferred to retained earnings.

4.14 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 3 to 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

4.15 Assets held for sale

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use. Such sale transaction shall be principally completed within one year from the date of classification of an asset as held for sale.

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the statement of profit or loss and other comprehensive income as loss from assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

4.16 Borrowings

Borrowings, which include amounts due to the Central Bank and Government, amounts due to financial institutions, amounts due to customers, debt securities issued and subordinated debt are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

4.17 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value, in "Other liabilities", being the premium received. Following initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

4.18 Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

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

4.19 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The most significant areas of judgements and estimates with regards to these financial statements are presented below:

Classification of investment securities

Securities owned by the Bank comprise of CBA, Armenian state and corporate bonds. Upon initial recognition, the Bank designates securities as available-for-sale financials assets recognition of changes in fair value through equity.

Related party transactions

In the normal course of business the Bank enters into transactions with its related parties. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Allowance for impairment of loans and receivables

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 26.

Impairment of available-for-sale equity investments

The Bank determined that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged required judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.

6 Interest and similar income and expense

In thousand Armenian drams	**2013**	2012
Loans and advances to customers	**15,423,407**	12,326,144
Debt investment securities available-for-sale	**630,156**	571,049
Amounts due to financial institutions	**44,584**	200,455
Factoring	**-**	58
Reverse repurchase transactions	**-**	1,884
Interest accrued on impaired financial assets	**730,822**	992,023
Total interest and similar income	**16,828,969**	14,091,613
Amounts due to customers	**8,106,806**	6,615,559
Amounts due to financial institutions	**736,307**	1,381,551
Government loans	**368,632**	963,440
Repurchase transactions	**103,293**	17,148
Borrowings	**1,905,745**	210,075
Total interest and similar expense	**11,220,783**	9,187,773

7 Fee and commission income and expense

In thousand Armenian drams	**2013**	2012
Cash collection	**905,847**	976,190
Plastic cards operations	**237,505**	282,434
Guarantees and letters of credit	**39,615**	14,436
Foreign currency translation operations	**87,674**	123,147
Other fees and commissions	**84,338**	69,997
Total fee and commission income	**1,354,979**	1,466,204
Wire transfer fees	**80,922**	76,342
Plastic cards operations	**169,737**	187,176
Foreign currency translation operations	**15,633**	12,461
Stock exchange services	**4,118**	2,980
Other expenses	**1,521**	640
Total fee and commission expense	**271,931**	279,599

8 Net trading income

In thousand Armenian drams	2013	2012
Gains less losses from transactions in foreign currencies	**1,272,318**	1,504,930
Total net trading income	**1,272,318**	1,504,930

9 Other income

In thousand Armenian drams	2013	2012
Fines and penalties received	**1,050,565**	529,176
Income from sale of fixed assets	**-**	4,638
Gains from operations of precious metals	**-**	11,479
Other income	**17,164**	55,350
Total other income	**1,067,729**	600,643

10 Impairment charge for credit losses

In thousand Armenian drams	2013	2012
Loans and advances to customers (Note 16)	**685,665**	511,340
Other assets (Note 20)	**332,270**	(644)
Total impairment charge of impairment for credit losses	**1,017,935**	510,696

11 Staff costs

In thousand Armenian drams	2013	2012
Salaries	**3,751,192**	2,789,664
Social security contributions	**-**	272,130
Total staff costs	**3,751,192**	3,061,794

* With the entry into force on 1st January 2013 of the RA Law on Income Tax, the previous RA Law on Income Tax and the RA Law on Mandatory Social Security Contributions are revoked. The RA Law on Income Tax combines income tax, employee's social security contributions and social security contributions made by the employer.

12 Other expenses

In thousand Armenian drams	**2013**	2012
Fixed assets maintenance	**275,774**	158,219
Advertising costs	**150,419**	106,906
Business trip expenses	**10,996**	8,186
Communications	**131,548**	123,695
Operating lease	**824,776**	903,237
Taxes, other than income tax, duties	**321,635**	192,087
Consulting and other services	**45,517**	28,839
Security	**118,986**	112,191
Representative expenses	**68,805**	36,523
Office supplies	**53,561**	61,479
Penalties paid	**746**	581
Operations with precious metals	**23,716**	-
Deposit insurance	**161,271**	131,825
Foreign currency translation net losses of non-trading assets and liabilities	**31,619**	56,343
Computer software maintenance	**34,026**	61,556
Cash collection services	**24,640**	61,546
Loss on impairment of PPE	**120,003**	-
Impairment and loss on disposal of repossessed collaterals	**273,475**	-
Other expenses	**177,469**	128,156
Total other expense	**2,848,982**	2,171,369

13 Income tax expense

In thousand Armenian drams	**2013**	2012
Current tax expense	**-**	487,694
Deferred tax	**410,929**	(49,246)
Total income tax expense	**410,929**	438,448

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2012: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

Numerical reconciliation between the tax expenses and accounting profit is provided below:

In thousand Armenian drams	**2013**	**Effective rate (%)**	2012	Effective rate (%)
Profit before tax	**894,519**		2,041,517	
Income tax at the rate of 20%	**178,904**	**20**	408,303	20
Non-taxable income	**-**	**-**	(1,860)	-
Non-deductible expenses	**225,701**	**25**	20,736	1
Foreign exchange losses	**6,324**	**1**	11,269	-
Income tax expense	**410,929**	**46**	438,448	21

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	**As of December 31, 2012**	Recognized in profit or loss	Recognized in equity	**As of December 31, 2013**
Accrued expenses and other liabilities	**43,808**	**12,498**	**-**	**56,306**
Securities available for sale	**158,554**	**292**	**(138,366)**	**20,480**
Carried forward tax losses	**-**	**145,221**	**-**	**145,221**
Total deferred tax assets	**202,362**	**158,011**	**(138,366)**	**222,007**
Contingent liabilities	**(21,357)**	**(3,556)**	**-**	**(24,913)**
Amounts due from other financial institutions	**(7,980)**	**(470)**	**-**	**(8,450)**
Loans and advances to customers	**(404,018)**	**(568,465)**	**-**	**(972,483)**
Revaluation of PPE	**(105,774)**	**3,551**	**10,430**	**(91,793)**
Total deferred tax liability	**(539,129)**	**(568,940)**	**10,430**	**(1,097,639)**
Net deferred tax liability	**(336,767)**	**(410,929)**	**(127,936)**	**(875,632)**

In thousand Armenian drams	As of December 31, 2011	Recognized in profit or loss	Recognized in equity	As of December 31, 2012
Accrued expenses and other liabilities	29,263	14,545	-	43,808
Securities available for sale	109,724	40,343	8,487	158,554
Total deferred tax assets	138,987	54,888	8,487	202,362
Contingent liabilities	(30,609)	9,252	-	(21,357)
Amounts due from other financial institutions	(6,772)	(1,208)	-	(7,980)
Loans and advances to customers	(389,573)	(14,445)	-	(404,018)
Revaluation of PPE	-	759	(106,533)	(105,774)
Total deferred tax liability	(426,954)	(5,642)	(106,533)	(539,129)
Net deferred tax liability	(287,967)	49,246	(98,046)	(336,767)

14 Cash and cash equivalents

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Cash on hand	**8,814,349**	8,464,976
Correspondent account with the CBA	**9,025,569**	15,909,471
Placements with other banks	**3,278,200**	3,470,308
Total cash and cash equivalents	**21,118,118**	27,844,755

As at 31 December 2013 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 4% of certain obligations of the Bank denominated in Armenian drams and 12% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 3,957,471 thousand (2012: AMD 11,636,819 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Cash on hand, other money market placements, correspondent account, deposited funds with CBA and mandatory reserve deposits are non-interest bearing.

Deposited funds with CBA include a guaranteed deposit for settlements via ArCa payment system.

As at 31 December 2013 the accounts in amount of AMD 2,666,069 thousand (81%) (2012: AMD 2,725,424 thousand (79%)) were due from two commercial banks.

Non-cash transactions performed by the Bank during 2013 are represented by:

- repayment of AMD 1,978,943 thousand loan by transfer of property rights on pledge (2012: AMD 480,449 thousand).

15 Amounts due from other financial institutions

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Deposits in banks	**330,490**	-
Deposits in financial institutions	**616,507**	519,738
Deposited funds with the CBA	**310,000**	210,000
Total amounts due from other financial institutions	**1,256,997**	729,738

16 Loans and advances to customers

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Loans to customers	**117,879,239**	99,860,433
Overdraft	**1,396,638**	420,149
	119,275,877	100,280,582
Less allowances for impairment of loans and advances	**(2,480,618)**	(2,267,509)
Total loans and advances to customers	**116,795,259**	98,013,073

As of 31 December 2013 accrued interest included in loans and advances to customers amounted to AMD 5,318,397 thousand (2012: AMD 3,146,696 thousand).

As of 31 December 2013 the average effective interest rates on loans and advances to corporate customers were 21.6% for loans in AMD, 15.71% for loans in USD, 15.37% for loans in EUR, 18.72% for loans in RUB. And the average effective interest rates on loans and advances to individuals were 23.05% for loans in AMD, 15.9% for loans in USD, 16.22% for loans in EUR (2012: on loans and advances to corporate customers 14.1% for loans in AMD, 13.4% for loans in USD, 11.8% for loans in EUR and to individuals 17.1% for loans in AMD, 12.8% for loans in USD, 14.6% for loans in EUR).

As of December 31, 2013, the Bank had a concentration of loans represented by AMD 25,178,363 thousand due from the 15 largest third party entities and parties related with them (21.11% of gross loan portfolio) (2012: AMD 30,865,660 thousand or 30.8% due from the 15 largest third party entities and parties related with them). An allowance of AMD 2,577,490 thousand (2012: AMD 929,442 thousand) was made against these loans.

Reconciliation of allowance account for losses on loans and advances by economic sectors is as follows:

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Manufacture	**12,458,143**	15,649,730
Agriculture	**770,002**	522,407
Construction	**4,950,361**	3,762,890
Transportation	**3,683,759**	5,277,579
Trade	**27,231,673**	23,660,868
Services	**10,433,890**	6,446,846
Consumer	**37,330,268**	21,741,945
Mortgage	**13,906,498**	13,118,483
Other	**8,511,283**	10,099,834
	119,275,877	100,280,582
Less allowances for impairment of loans and advances	**(2,480,618)**	(2,267,509)
Total loans and advances	**116,795,259**	98,013,073

Reconciliation of allowance account for losses on loans and advances by class is as follows:

										2013
In thousand Armenian drams	Manu-facture	Agri-culture	Const-ruction	Transport	Trading	Services	Con-sumer	Mort-gage	Other	Total
At 1 January 2013	**1,093,836**	**5,224**	**42,274**	**303,723**	**293,768**	**77,178**	**219,502**	**131,014**	**100,990**	**2,267,509**
Charge/(reversal) for the year	**(570,459)**	**62,013**	**103,373**	**(279,691)**	**580,700**	**260,130**	**301,526**	**(50,419)**	**278,492**	**685,665**
Amounts written off	**(163,543)**	**(25,658)**	**(58,784)**	**(89,727)**	**(467,774)**	**(33,517)**	**(933,566)**	**(253,729)**	**(233,814)**	**(2,260,112)**
Recoveries	**73,218**	**483**	**12,144**	**119,365**	**498,107**	**33,924**	**696,248**	**278,823**	**75,244**	**1,787,556**
At 31 December 2013	**433,052**	**42,062**	**99,007**	**53,670**	**904,801**	**337,715**	**283,710**	**105,689**	**220,912**	**2,480,618**
Individual impairment	**313,330**	**-**	**-**	**35,803**	**651,023**	**245,012**	**-**	**-**	**143,661**	**1,388,829**
Collective impairment	**119,722**	**42,062**	**99,007**	**17,867**	**253,778**	**92,703**	**283,710**	**105,689**	**77,251**	**1,091,789**
	433,052	**42,062**	**99,007**	**53,670**	**904,801**	**337,715**	**283,710**	**105,689**	**220,912**	**2,480,618**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**485,924**	**-**	**-**	**114,283**	**1,853,911**	**2,352,819**	**-**	**-**	**786,041**	**5,592,978**

In thousand Armenian drams	Manu-facture	Agri-culture	Const-ruction	Trans-port	Trading	Services	Con-sumer	Mort-gage	Other	2012 Total
At 1 January 2012	651,034	12,568	167,774	213,354	494,545	231,031	270,953	350,111	63,892	2,455,262
Charge/(reversal) for the year	70,469	(29,985)	44,596	266,821	(250,269)	(360,610)	669,727	63,493	37,098	511,340
Amounts written off	(321,056)	-	(320,698)	(210,211)	(1,136,815)	(54,000)	(1,066,640)	(646,191)	-	(3,755,611)
Recoveries	693,389	22,641	150,602	33,759	1,186,307	260,757	345,462	363,601	-	3,056,518
At 31 December 2012	1,093,836	5,224	42,274	303,723	293,768	77,178	219,502	131,014	100,990	2,267,509
Individual impairment	776,155	-	-	258,363	59,239	-	-	-	-	1,093,757
Collective impairment	317,681	5,224	42,274	45,360	234,529	77,178	219,502	131,014	100,990	1,173,752
	1,093,836	5,224	42,274	303,723	293,768	77,178	219,502	131,014	100,990	2,267,509
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	5,060,353	-	-	3,399,342	198,592	-	-	-	-	8,658,287

Loans and advances by customer profile may be specified as follows:

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
State owned enterprises	**2,399,504**	2,868,408
Privately held companies	**52,417,734**	51,395,590
Individuals	**51,906,440**	37,536,383
Sole proprietors	**12,552,199**	8,480,201
	119,275,877	100,280,582
Less allowance for impairment of loans and advances	**(2,480,618)**	(2,267,509)
Total loans and advances to customers	**116,795,259**	98,013,073

Loans to individuals comprise the following products:

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Mortgage loans	**13,906,498**	13,056,783
Consumer loans	**32,722,646**	16,340,701
Car loans	**2,627,749**	3,310,830
Trading	**1,980,041**	4,118,054
Other	**669,506**	710,015
Total loans and advances to individuals	**51,906,440**	37,536,383

As at 31 December 2013 and 2012 the estimated fair value of loans and advances to customers approximates it carrying value. Refer to Note 28.

Maturity analysis of loan portfolio is disclosed in Note 30. Credit, currency and interest rate analyses of loans and advances to customers are disclosed in Note 31. The information on related party balances is disclosed in Note 27.

17 Available-for-sale investments

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Unquoted investments		
Shares of Armenian companies	**12,690**	12,690
Securities issued by the Ministry of Finance of Armenia	**5,405,654**	4,981,958
Total investments	**5,418,344**	4,994,648

All debt securities have fixed coupons.

The fair value of unquoted available-for-sale debt securities is measured using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

Available for sale debt securities by efficient interest rates and maturity date comprise:

In thousand Armenian drams		**2013**		2012
	%	**Maturity**	%	Maturity
Securities issued the Ministry of Finance of Armenia	**8.62-10.84%**	**2014-2028**	8.71-15.04%	2013-2028

As of December 31, 2013 there were no available for sale debt securities, which were pledged to third parties in sale and repurchase agreements (2012: nil).

All unquoted available-for-sale debt securities are recorded at cost less impairment losses, as the fair value cannot be reliably estimated. There is no quoted market for these investments and the Bank intends to keep them for a long time.

18 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Leasehold improvements	Computer and communication technologies	Vehicles	Fixtures and fittings	Assets under construction	Total
COST AND REVALUED AMOUNT							
At January 1, 2012	1,084,932	374,899	635,201	174,342	1,609,711	349,190	4,228,275
Additions	926,316	5,674	211,025	104,473	338,694	-	1,586,182
Disposals	-	(3,003)	(14,967)	-	(1,490)	-	(19,460)
Revaluation of PPE	460,307	-	-	-	-	-	460,307
Revaluation adjustments	(90,814)	-	-	-	-	-	(90,814)
Reclassification	349,190	-	-	-	-	(349,190)	-
At December 31, 2012	**2,729,931**	**377,570**	**831,259**	**278,815**	**1,946,915**	**-**	**6,164,490**
Additions	**134,286**	**1,561**	**123,645**	**81,047**	**180,618**	**-**	**521,157**
Disposals		**(4,734)**	**(11,577)**	**-**	**(31,547)**	**-**	**(47,858)**
Revaluation of PPE	**(52,148)**	**-**	**-**	**-**	**-**	**-**	**(52,148)**
Revaluation adjustments	**(211,901)**	**-**	**-**	**-**	**-**	**-**	**(211,901)**
Reclassification	**-**	**-**	**157**	**-**	**(157)**	**-**	**-**
At December 31, 2013	**2,600,168**	**374,397**	**943,484**	**359,862**	**2,095,829**	-	**6,373,740**
ACCUMULATED DEPRECIATION							
At January 1, 2012	165,312	63,357	391,982	52,327	798,596	**-**	1,471,574
Depreciation charge	53,014	15,618	101,642	25,936	171,722	-	367,932
Disposals	-	(3,003)	(13,756)	-	(1,490)	-	(18,249)
Revaluation adjustments	(90,814)	-	-	-	-	-	(90,814)
At December 31, 2012	**127,512**	**75,972**	**479,868**	**78,263**	**968,828**	**-**	**1,730,443**
Depreciation charge	**92,820**	**11,076**	**136,889**	**37,235**	**191,217**	**-**	**469,237**
Disposals	**-**	**(4,734)**	**(11,532)**	**-**	**(14,331)**	**-**	**(30,597)**
Revaluation adjustments	**(211,901)**	**-**	**-**	**-**	**-**	**-**	**(211,901)**
Impairment losses	**120,003**	**-**	**-**	**-**	**-**	**-**	**120,003**
At December 31, 2013	**128,434**	**82,314**	**605,225**	**115,498**	**1,145,714**	**-**	**2,077,185**
CARRYING VALUE							
At December 31, 2013	**2,471,734**	**292,083**	**338,259**	**244,364**	**950,115**	**-**	**4,296,555**
At December 31, 2012	2,602,419	301,598	351,391	200,552	978,087	-	4,434,047
At December 31, 2011	919,620	311,542	243,219	122,015	811,115	349,190	2,756,701

Revaluation of assets

The buildings owned by the Bank were evaluated by an independent appraiser in December 2013 using the comparative sales methods resulting in a net decrease in amount of AMD 52,148 thousand and impairment in amount of AMD 120,003 thousand (2012: AMD 460,307 thousand). Management has based their estimate of the fair value of the buildings on the results of the independent appraisal.

The net book value of buildings that would have been recognized under the historic cost method is AMD 2,144,483 thousand, as at 31 December 2013 (2012: AMD 2,085,262 thousand).

Fully depreciated items

As at 31 December 2013 fixed assets included fully depreciated and amortized assets in amount of AMD 818,262 thousand (2012: AMD 621,826 thousand).

Fixed assets in the phase of installation

As at 31 December 2013 fixed assets included assets in the phase of installation amounting AMD 472,046 thousand, containing buildings in amount of AMD 150,470 thousand (2012: AMD 498,000 thousand, containing buildings in amount of AMD 25,038 thousand), which are not amortized and are classified in accordance with their type.

Restrictions on title of fixed assets

As at 31 December 2013, the Bank did not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments

As at 31 December 2013, the Bank had no contractual commitment in respect of investments in fixed assets (2012: AMD 13,177 thousand).

19 Intangible assets

In thousand Armenian drams	Licenses	Acquired software licenses	Other	Total
COST				
At January 1, 2012	277,458	186,170	76,854	540,482
Additions	6,775	77,030	23,579	107,384
At December 31, 2012	**284,233**	**263,200**	**100,433**	**647,866**
Additions	**449,972**	**78,028**	**-**	**528,000**
At December 31, 2013	**734,205**	**341,228**	**100,433**	**1,175,866**
AMORTISATION				
At January 1, 2012	28,843	63,080	48,384	140,307
Amortisation charge	13,738	26,839	2,133	42,710
At December 31, 2012	**42,581**	**89,919**	**50,517**	**183,017**
Amortisation charge	**20,636**	**22,818**	**4,179**	**47,633**
At December 31, 2013	**63,217**	**112,737**	**54,696**	**230,650**
CARRYING VALUE				
At December 31, 2013	**670,988**	**228,491**	**45,737**	**945,216**
At December 31, 2012	241,652	173,281	49,916	464,849
At December 31, 2011	248,615	123,090	28,470	400,175

Contractual commitments

As at 31 December 2013, the Bank did not have contractual commitments in respect of investments in intangible assets.

As at 31 December 2013, the Bank did not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

As at 31 December 2013, the licenses included the software license for clearing operations with plastic cards at the carrying amount of AMD 488,041 thousand (2012: AMD 206,282 thousand).

20 Other assets

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Prepayments and other debtors	**430,940**	146,234
Accounts receivable	**50,004**	67,977
Other assets	**221,934**	124,169
	702,878	338,380
Less allowance for impairment	**(6,529)**	(3,090)
	696,349	335,290
Repossessed collateral	**2,377,987**	1,116,588
Assets held for sale	**-**	240,000
Materials	**105,309**	105,661
Precious metals	**64,972**	87,642
Total other assets	**3,244,617**	1,885,181

Foreclosed assets serving as security for loans extended by the Bank are real estate. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

Reconciliation of allowance account for losses on other assets is as follows:

In thousand Armenian drams	Total
At January 1, 2012	3,962
Reversal for the year	(644)
Amounts written off	(260)
Recoveries	32
At December 31, 2012	**3,090**
Charge for the year	**332,270**
Amounts written off	**(333,459)**
Recoveries	**4,628**
At December 31, 2013	**6,529**

21 Amounts due to financial institutions

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Correspondent accounts of other banks	**9,694**	915,115
Current accounts of other financial institutions	**58,072**	72,966
Loans from financial institutions	**699,001**	355,982
Deposits from financial institutions	**541,340**	2,002,797
Other	**3,882**	-
Total amounts due to financial institutions	**1,311,989**	3,346,860

As of 31 December 2013 the average effective interest rates on amounts due to financial institutions was 8.5% for borrowings in AMD (2012: 9.3%).

All deposits and loans from financial institutions have fixed interest rates.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2012: nil).

22 Amounts due to customers

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Government of the RA		
Loans	**3,648,327**	6,831,750
	3,648,327	6,831,750
Corporate customers		
Current/Settlement accounts	**7,758,995**	7,516,419
Time deposits	**6,826,377**	24,683,586
	14,585,372	32,200,005
Retail customers		
Current/Demand accounts	**7,024,351**	6,623,908
Time deposits	**79,860,473**	66,838,882
	86,884,824	73,462,790
Total amounts due to customers	**105,118,523**	112,494,545

The amounts due to Government of the RA represent loans received from the International Fund for Agricultural Development within the scope of "Rural Areas Development Programme" and "Economy stabilization lending programme". Loans carry fixed interest rates.

Deposits from corporate and retail customers carry fixed interest rates.

As of 31 December 2013 the average effective interest rate on amounts due to Government of the RA was 6.19% for liabilities in AMD, 4.05% for liabilities in USD (2012: the average effective interest rate was 6.1% for liabilities in AMD, 4% for liabilities in USD).

As at 31 December 2013 included in current and time deposit accounts of retail and corporate customers are deposits amounting to AMD 8,503,505 thousand (2012: AMD 5,427,407 thousand), held as security against loans provided and guarantees issued. The fair value of those deposits approximates the carrying amount.

At 31 December 2013 the aggregate balance of top ten retail and corporate customers of the Bank amounts to AMD 14,749,046 thousand (2012: AMD 31,241,338 thousand) or 15% of total retail and corporate customer accounts (2012: 30%).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2012: nil).

As of 31 December 2013 the average effective interest rates on amounts due to corporate customers were 13.03% for liabilities in AMD, 9.87% for liabilities in USD, 6.69% for liabilities in EUR. The average effective interest rates on amounts due to individuals were 13.6% for liabilities in AMD, 8.04% for liabilities in USD, 6.3% for liabilities in EUR (2012: for corporate customers 11.5% for liabilities in AMD, 11.3% for liabilities in USD, 5.5% for liabilities in EUR, and for individuals 13.5% for liabilities in AMD, 8.8% for liabilities in USD, 6.9% for liabilities in EUR).

23 Borrowings

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Subordinated debt provided by non-financial organizations	**4,057,734**	-
Subordinated debt provided by the CBA	**2,810,448**	2,809,439
Other borrowing	**17,900,579**	-
Total subordinated debt	**24,768,761**	2,809,439

The subordinate debt was provided by the Central Bank of RA on 06 April, 2010, the maturity term of which is determined till 06 April, 2015. The interest rate comprises 7.5%.

In the current year the Bank has borrowed long-term subordinated debt and short-term revolving borrowing from the party related to Bank (see note 27).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2012: nil).

As of 31 December 2013 average weighted interest rate of borrowings was 9.97%.

24 Other liabilities

In thousand Armenian drams	As of December 31, 2013	As of December 31, 2012
Accounts payables	**85,102**	77,892
Dividends payable	**47,621**	196,070
Due to personnel	**213,475**	141,156
Total other financial liabilities	**346,198**	415,118
Tax payable, other than income tax	**290,236**	266,026
Revenues of future periods	**28,092**	15,839
	318,328	281,865
Total other liabilities	**664,526**	696,983

25 Equity

As at 31 December 2013 the Bank's registered and paid-in share capital was AMD 13,100,700 thousand. In accordance with the Bank's statute, the share capital consists of 10,000 ordinary shares, all of which have a par value of AMD 989,970 each and 10 preference shares, all of which have a par value of AMD 320,100,000 each.

The respective shareholdings as at 31 December 2013 and 2012 may be specified as follow:

In thousand Armenian drams	2013		2012	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Ripatonso Holdings Ltd	**13,100,700**	**100**	8,599,700	75.4
Gagik Zakaryan	**-**	**-**	1,400,500	12.3
George Piskov	**-**	**-**	1,400,500	12.3
	13,100,700	**100**	11,400,700	100

As at 31 December 2013, the Bank did not possess any of its own shares.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank. The holders of preference shares are entitled to one vote only at reorganization and liquidation of the Bank and when decisions of the statute limit their rights, as well as they have guaranteed annual dividend.

As at 31 December 2013 the dividends for preference shareholders recognized in the financial statements amounted to AMD 340,456 thousand (2012: AMD 196,070 thousand).

Distributable among shareholders reserves equal the amount of retained earnings. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Bank's share capital reported in statutory books.

26 Contingent liabilities and commitments

Tax and legal matters

The taxation system in Armenia is characterized by frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among various taxation authorities and jurisdictions.

Often tax authorities claim additional taxes for transactions and accounting methods, for which they did not claim previously. As a result additional fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include earlier periods.

Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Bank, will not have a material adverse impact on the financial condition or results of future operations of the Bank.

Loan commitment, guarantee and other financial facilities

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Undrawn loan commitments	**6,285,302**	6,795,872
Letters of credit	**-**	38,516
Guarantees	**1,820,658**	1,097,360
Total commitments and contingent liabilities	**8,105,960**	7,931,748

Operating lease commitments – Bank as a lessee

In the normal course of business the Bank enters into commercial lease agreements for its buildings and premises.

The future aggregate minimum lease payments under operating leases are as follows:

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Not later than 1 year	**741,277**	852,647
Later than 1 year and not later than 5 years	**553,584**	1,199,043
Total operating lease commitments	**1,294,861**	2,051,690

Capital commitments

Information on the Bank's capital commitments is disclosed in notes 18 and 19.

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank anticipates partiallyl coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

Starting 2005 the Bank is member of the obligatory deposit insurance system. The system operates under the Armenian laws and regulations and is governed by the Law on Guarantee of Physical Persons Deposits. Insurance covers Bank's liabilities to individual depositors for the amount up to AMD 4,000 thousand (up to AMD 2,000 thousand for deposits in foreign currency) for each individual in case of business failure and revocation of the banking license.

27 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively.

The shareholder company is controlled by Russian businessmen G. Zaqaryan and G. Piskov with equal voting shares.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	As of December 31, 2013		As of December 31, 2012	
	Shareholders	**Key management personnel**	Shareholders	Key management personnel
Statement of financial position				
Assets				
Loans and advances to customers				
Loans outstanding at January 1, gross	**302,250**	**135,380**	30,746	116,176
Loans issued during the year	**5,747**	**880,083**	281,577	209,778
Loan repayments during the year	**(8,857)**	**(493,849)**	(10,073)	(190,574)
Loans outstanding at December 31, gross	**299,140**	**521,614**	302,250	135,380
Less: allowance for loan impairment	**(2,991)**	**(5,216)**	(3,023)	(1,354)
Loans outstanding at December 31	**296,149**	**516,398**	299,227	134,026
Amounts due from other financial institutions				
At January 1	**1,573,161**	**-**	775,040	-
Increase	**228,382,874**	**-**	324,223,952	-
Decrease	**(229,720,379)**	**-**	(323,425,831)	-
At December 31	**235,656**	**-**	1,573,161	-
Liabilities				
Amounts due to financial institutions				
At January 1	**380,142**	**-**	633,116	-
Increase	**8,656,586**	**-**	531,210	-
Decrease	**(8,722,116)**	**-**	(784,184)	-
At December 31	**314,612**	**-**	380,142	-
Amounts due to customers				
Deposits at January 1	**81,292**	**2,293,861**	3,025,745	1,503,871
Deposits received during the year	**281,328,674**	**10,071,663**	104,802	27,277,989
Deposits repaid during the year	**(280,918,950)**	**(11,645,684)**	(3,049,255)	(26,487,999)
Deposits at December 31	**491,016**	**719,840**	81,292	2,293,861
Borrowings				
At January 1	**-**	**-**	-	-
Received during the year	**65,718,166**	**-**	-	-
Repaid during the year	**(43,766,938)**	**-**	-	-
Borrowings at December 31	**21,951,228**	**-**	**-**	**-**
Statement of profit or loss and other comprehensive income				
Interest and similar income	**6,440**	**48,406**	39,107	23,210
Interest and similar expenses	**1,786,481**	**130,217**	21,672	135,120
Charge/(recovery) of credit losses	**(32)**	**3,862**	2,717	192
Operating lease payments	**376,800**	**-**	297,600	-
Insurance payments	**38,997**	**-**	30,845	-

The loans issued to the Bank's related parties during the year are repayable from 1 to 15 years and have interest rates of 12-21%.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Salaries and other short-term benefits	**786,483**	**580,438**
Social security costs	**-**	**18,632**
Total key management compensation	**786,483**	**599,070**

28 Fair value measurment

The Bank's Management determines the policies and procedures for both recurring fair value measurement, such as unquoted trading and available-for-sale securities, buildings and for non-recurring measurement, such as assets held for sale.

External valuers are involved for valuation of significant assets, such as properties, trading and available-for-sale securities and derivatives. Involvement of external valuers is decided upon annually by the Bank's management.

At each reporting date, the Bank's Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, are verified the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Bank's Management, in conjunction with the Bank's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Financial and non-financial assets and liabilities measured at fair value in the statement of financial position are presented below. This hierarchy groups financial and non-financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

28.1 Financial instruments that are not measured at fair value

The table below presents the fair value of financial assets and liabilities not measured at their fair value in the statement of financial position and analyses them by the level in the fair value hierarchy into which teach fair value measurement is categorised.

In thousand Armenian drams	**As of 31 December 2013**				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
FINANCIAL ASSETS					
Cash and cash equivalents	**-**	**21,118,118**	**-**	**21,118,118**	**21,118,118**
Amounts due from financial institutions	**-**	**1,256,997**	**-**	**1,256,997**	**1,256,997**
Loans and advances to customers	**-**	**116,795,259**	**-**	**116,795,259**	**116,795,259**
FINANCIAL LIABILITIES					
Amounts due to financial institutions	**-**	**1,311,989**	**-**	**1,311,989**	**1,311,989**
Amounts due to customers	**-**	**105,118,523**	**-**	**105,118,523**	**105,118,523**
Borrowings	**-**	**24,768,761**	**-**	**24,768,761**	**24,768,761**
Other financial liabilities	**-**	**346,198**	**-**	**346,198**	**346,198**

In thousand Armenian drams	As of 31 December 2012				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	27,844,755	-	27,844,755	27,844,755
Amounts due from financial institutions	-	729,738	-	729,738	729,738
Loans and advances to customers	-	98,013,073	-	98,013,073	98,013,073
FINANCIAL LIABILITIES					
Amounts due to financial institutions	-	3,346,860	-	3,346,860	3,346,860
Amounts due to customers	-	112,494,545	-	112,494,545	112,494,545
Borrowings	-	2,809,439	-	2,809,439	2,809,439
Other financial liabilities	-	415,118	-	415,118	415,118

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 9% to 24% per annum.

The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by independent, professionally-qualified property valuers.

Other borrowings

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

28.2 Financial instruments that are measured at fair value

In thousand Armenian drams				**As of 31 December 2013**
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Unlisted equity investments	**-**	**5,405,654**	**-**	**5,405,654**
Total	**-**	**5,405,654**	**-**	**5,405,654**

In thousand Armenian drams				As of 31 December 2012
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Unlisted equity investments	-	4,981,958	-	4,981,958
Total	-	4,981,958	-	4,981,958

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

Unlisted equity investments.

The fair value of Bank's investments in unlisted equity investments cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 17 for further information about this equity investment.

28.3 Fair value measurement of non-financial assets and liabilities

In thousand Armenian drams				**As of 31 December 2013**
	Level 1	**Level 2**	**Level 3**	**Total**
NON FINANCIAL ASSETS				
Property plant and equipment				
Buildings	-	-	2,477,022	2,477,022
Total non-financial assets	**-**	**-**	**2,477,022**	**2,477,022**
NET FAIR VALUE	**-**	**-**	**2,477,022**	**2,477,022**

Fair value measurements in Level 3

The Bank's non financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial assets and financial liabilities within this level can be reconciled from beginning to ending balance as follows:

In thousand Armenian drams		**2013**
	Property plant equipment	**Total**
NON FINANCIAL ASSETS		
Balance as at 1 January 2013	2,726,788	2,726,788
Impairment losses recognised in profit or loss	(120,003)	(120,003)
Revaluation adjustment of PPE	(211,901)	(211,901)
Llosses recognised in other comprehensive income	(52,148)	(52,148)
Purchases	134,286	134,286
Balance as at 31 December, 2013	**2,477,022**	**2,477,022**
NET FAIR VALUE	**2,477,022**	**2,477,022**

Fair value of the Bank's main property assets is estimated based on appraisals performed by independent, professionally-qualified property valuers. The significant inputs and assumptions are developed in close consultation with Management. The valuation processes and fair value changes are reviewed by the board of directors and audit committee at each reporting date.

The appraisal was carried out using a comparative approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use and other.

29 Offsetting of financial assets and financial liabilities

In the ordinary course of business, the Bank performs different operations with financial instruments which may be presented in net amounts when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

As of December 31, 2013 and 2012 the Bank does not have financial assets and financial liabilities in the statement of financial position which are presented in net amount or will be offset due to presence of the master netting arrangements or similar agreements.

30 Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 31.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
								As of December 31, 2013
ASSETS								
Cash and cash equivalents	21,118,118	-	-	*21,118,118*	-	-	-	21,118,118
Amounts due from other financial institutions	616,507	-	330,490	*946,997*	-	310,000	*310,000*	1,256,997
Loans and advances to customers	13,214,987	18,443,103	25,287,194	56,945,284	45,991,905	13,858,070	59,849,975	116,795,259
Investments available for sale	-	43,618	205,673	249,291	4,152,278	1,016,775	5,169,053	5,418,344
	34,949,612	18,486,721	25,823,357	*79,259,690*	50,144,183	15,184,845	*65,329,028*	144,588,718
LIABILITIES								
Amounts due to financial institutions	150,269	342,696	155,740	648,705	224,517	438,767	663,284	1,311,989
Amounts due to customers	26,673,957	27,652,152	49,677,975	104,004,084	1,038,262	76,177	1,114,439	105,118,523
Borrowings	9,209	17,900,579	1,334	17,911,122	6,857,639	-	6,857,639	24,768,761
Other liabilities	346,198	-	-	346,198	-	-	-	346,198
	27,179,633	45,895,427	49,835,049	*122,910,109*	8,120,418	514,944	*8,635,362*	131,545,471
Net position	7,769,979	(27,408,706)	(24,011,692)	(43,650,419)	42,023,765	14,669,901	56,693,666	13,043,247
Accumulated gap	7,769,979	(19,638,727)	(43,650,419)		(1,626,654)	13,043,247		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
								As of December 31, 2012
ASSETS								
Cash and cash equivalents	27,844,755	-	-	*27,844,755*	-	-	-	27,844,755
Amounts due from other financial institutions	-	-	-	-	-	729,738	*729,738*	*729,738*
Loans and advances to customers	3,547,726	6,480,872	19,491,775	*29,520,373*	51,543,658	16,949,042	*68,492,700*	98,013,073
Investments available for sale	197,726	253,719	103,629	*555,074*	279,028	4,160,546	*4,439,574*	4,994,648
	31,590,207	6,734,591	19,595,404	*57,920,202*	51,822,686	21,839,326	*73,662,012*	131,582,214
LIABILITIES								
Amounts due to financial institutions	1,845,578	352,763	799,393	*2,997,734*	93,699	255,427	*349,126*	3,346,860
Amounts due to customers	23,722,581	23,603,181	57,719,760	*105,045,522*	6,795,251	653,772	*7,449,023*	112,494,545
Borrowings	-	-	-	-	2,809,439	-	*2,809,439*	2,809,439
Other liabilities	415,118	-	-	*415,118*	-	-	-	415,118
	25,983,277	23,955,944	58,519,153	*108,458,374*	9,698,389	909,199	*10,607,588*	119,065,962
Net position	5,606,930	(17,221,353)	(38,923,749)	(50,538,172)	42,124,297	20,930,127	63,054,424	12,516,252
Accumulated gap	5,606,930	(11,614,423)	(50,538,172)		(8,413,875)	12,516,252		

31 Risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

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

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

Board of Bank

The Board is responsible for monitoring the overall risk management, approval of strategy and risk management principles.

Executive board

The Executive board of the Bank is responsible for investment and control over the risk management procedures.

Risk Management Directorate

The Risk Management Directorate is responsible for implementation of risk procedures and control over risk management principles, policy and the Bank's risk limits, as well as providing risk valuation and collection of overall information within the financial system.

Financial Directorate

The Financial Directorate of the Bank is responsible for management of assets and liabilities of the Bank. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

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

Risk measurement and reporting systems

The Bank also runs worst case scenarios that would arise in the event that extreme events which are to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are managed accordingly.

31.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Bank's Strategy and Risk Management Department and the Credit subdivision and are reported to the Board of Bank and the Executive board.

The carrying amounts of the Bank's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

31.1.1 Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December.

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Cash and cash equivalents	**17,853,436**	**3,024,651**	**240,031**	**21,118,118**
Amounts due from other financial institutions	**370,846**	**555,661**	**330,490**	**1,256,997**
Loans and advances to customers	**115,041,153**	**-**	**1,754,106**	**116,795,259**
Investments available for sale	**5,418,344**	**-**	**-**	**5,418,344**
As at 31 December 2013	**138,683,779**	**3,580,312**	**2,324,627**	**144,588,718**
As at 31 December 2012	125,800,639	2,333,483	3,448,092	131,582,214

Assets have been classified based on the country in which the counterparty is located.

Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December.

In thousand Armenian drams	Financial institu-tions	Manufac-turing	Agricul-ture	Const-ruction	Trans-port	Trading	Services	Consumer sector	Mortgage	Other	Total
Cash and cash equivalents	**21,118,118**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21,118,118**
Amounts due from other financial institutions	**1,256,997**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,256,997**
Loans and advances to customers	**-**	**11,739,290**	**770,145**	**5,004,116**	**3,683,173**	**25,947,360**	**9,384,733**	**37,645,679**	**13,991,638**	**8,629,125**	**116,795,259**
Investments available for sale	**5,418,344**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,418,344**
As at 31 December 2013	**27,793,459**	**11,739,290**	**770,145**	**5,004,116**	**3,683,173**	**25,947,360**	**9,384,733**	**37,645,679**	**13,991,638**	**8,629,125**	**144,588,718**
As at 31 December 2012	33,569,141	14,555,894	517,183	3,720,616	4,973,856	23,367,100	6,369,668	21,522,443	12,987,469	9,998,844	131,582,214

31.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of Bank.

The exposure to any one borrower including banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Movable properties of individuals;
- Charges over business assets such as premises, inventory;
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

The analysis of loan portfolio by collateral is represented as follows:

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Loans collateralized by real estate	**80,680,096**	76,850,372
Loans collateralized by movable property	**4,234,573**	3,218,131
Loans collateralized by goods in circulation	**1,023,981**	607,004
Loans collateralized by guarantees	**7,904,284**	3,720,546
Loans collateralized by cash	**5,516,603**	4,097,246
Loans collateralized by Armenian Government guarantees	**-**	242,978
Loans collateralized by household appliances	**7,650,503**	4,152,349
Unsecured loans	**12,265,837**	7,391,956
Total loans and advances to customers (gross)	**119,275,877**	100,280,582

The amounts presented in the table above are carrying values of the loans, and do not necessarily represent the fair value of the collaterals. Estimates of market values of collaterals are based on valuation of the collateral at the date when loans were provided. Generally they are not updated unless loans are assessed as individually impaired.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

31.1.3 Impairment and provisioning policies

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

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

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

Loans and advances neither past due or impaired

The table below shows the credit quality by class of asset for loans and advances neither past due or impaired, based on the historical counterparty default rates.

In thousand Armenian drams	**As of December 31, 2013**	As of December 31, 2012
Loans and advances to customers		
Manufacture	**3.6%**	3%
Agriculture	**5.5%**	-
Construction	**1.7%**	1.1%
Transportation	**0.5%**	2.5%
Trade	**-**	-
Service	**1.2%**	1.3%
Consumer	**1%**	1.4%
Mortgage	**0.7%**	0.7%

As of 31 December 2013 and 2012 the Bank has not had any losses on other financial assets bearing credit risk.

Past due but not impaired loans

Past due loans and advances include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired. Analysis of past due loans by age and by class is provided below.

In thousand Armenian drams				**As of December 31, 2013**	
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Manufacture	**71,569**	**10,492**	**1,934**	**4,989,310**	**5,073,305**
Agriculture	**6,166**	**1,100**	**14,240**	**12,888**	**34,394**
Construction	**40,261**	**6,480**	**-**	**131,231**	**177,972**
Transportation	**122,698**	**16,905**	**-**	**2,413,081**	**2,552,684**
Trade	**515,069**	**77,062**	**179,032**	**449,344**	**1,220,507**
Service	**68,688**	**2,929,230**	**27,018**	**1,100**	**3,026,036**
Consumer	**312,856**	**239,606**	**60,873**	**395,606**	**1,008,941**
Mortgage	**176,437**	**335,009**	**72,434**	**132,282**	**716,162**
Other	**117,683**	**6,766**	**8,670**	**32,107**	**165,226**
Total	**1,431,427**	**3,622,650**	**364,201**	**8,556,949**	**13,975,227**

In thousand Armenian drams				As of December 31, 2012	
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacture	72,512	102,077	36,263	498,607	709,459
Construction	123,094	4,679	-	-	127,773
Transportation	16,692	-	-	330,724	347,416
Trade	122,842	27,027	193,350	118,195	461,414
Service	122,795	10,300	10,562	2,129,202	2,272,859
Consumer	141,275	37,630	51,685	122,386	352,976
Mortgage	151,944	117,915	6,194	51,041	327,094
Other	567,066	2,512	-	-	569,578
Total	1,318,220	302,140	298,054	3,250,155	5,168,569

31.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

31.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Bank has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2013. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, at 31 December 2013 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

In thousand Armenian drams

			As of December 31, 2013				
			Sensitivity of equity				
Currency	**Change in basis points**	**Sensitivity of net interest income**	**Up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
AMD	**+ 1**			**(354)**	**(134,083)**	**(67,934)**	**(202,371)**
AMD	**(1)**			**359**	**139,732**	**75,559**	**215,650**

In thousand Armenian drams

			As of December 31, 2012				
			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	+ 1	-	(361)	(557)	(895)	168,675)	(170,488)
AMD	(1)	-	364	564	918	179,658	181,504

Currency risk

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2013 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	As of December 31, 2013		As of December 31, 2012	
Currency	**Change in currency rate in %**	**Effect on profit before tax**	Change in currency rate in %	Effect on profit before tax
USD	**3**	**(17,371)**	3	(7,374)
EUR	**1**	**(477)**	(0.1)	17

The Bank's exposure to foreign currency exchange risk is as follow:

In thousand Armenian drams	**Armenian Dram**	**Freely convertible currencies/ precious metals**	**Non-freely convertible currencies**	**Total**
ASSETS				
Cash and cash equivalents	**11,927,543**	**8,530,309**	**660,266**	**21,118,118**
Amounts due from other financial institutions	**310,000**	**946,997**	**-**	**1,256,997**
Loans and advances to customers	**42,035,894**	**74,496,831**	**262,534**	**116,795,259**
Investments available for sale	**5,418,344**	**-**	**-**	**5,418,344**
	59,691,781	**83,974,137**	**922,800**	**144,588,718**
LIABILITIES				
Amounts due to financial institutions	**1,125,582**	**183,018**	**3,389**	**1,311,989**
Amounts due to customers	**39,364,231**	**64,903,818**	**850,474**	**105,118,523**
Borrowings	**2,810,448**	**21,958,313**	**-**	**24,768,761**
Other liabilities	**346,198**	**-**	**-**	**346,198**
	43,646,459	**87,045,149**	**853,863**	**131,545,471**
Net position as at 31 December 2013	**16,045,322**	**(3,071,012)**	**68,937**	**13,043,247**
Commitments and contingent liabilities as at 31 December 2013	**3,877,347**	**4,228,613**	**-**	**8,105,960**
Total financial assets	50,873,989	79,271,011	1,437,214	131,582,214
Total financial liabilities	40,055,798	78,017,769	992,395	119,065,962
Net position as at 31 December 2012	10,818,191	1,253,242	444,819	12,516,252
Commitments and contingent liabilities as at 31 December 2012	2,965,292	4,931,954	34,502	7,931,748

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

31.3 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily bases. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 4% of certain obligations of the Bank denominated in Armenian drams and 12% on certain obligations of the Bank denominated in foreign currency. See note 14. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia.

	Not audited	
As at 31 December, these ratios were as follows:	**2013, %**	2012, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	**20.12**	26.17
N22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	**249.77**	221.99

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2013 based on contractual undiscounted repayment obligations. See note 30 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams	**As of December 31, 2013**					
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
FINANCIAL LIABILITIES						
Amounts due to financial institutions	**151,485**	**356,619**	**184,494**	**363,234**	**659,648**	**1,715,480**
Amounts due to customers	**27,145,744**	**48,362,755**	**54,847,306**	**5,327,536**	**1,561,460**	**137,244,801**
Borrowings	**17,842**	**17,934,537**	**645,044**	**8,731,571**		**27,328,994**
Other liabilities	**346,198**	**-**	**-**	**-**	**-**	**346,198**
Total undiscounted financial liabilities	**27,661,269**	**66,653,911**	**55,676,844**	**14,422,341**	**2,221,108**	**166,635,473**
Commitments and contingent liabilities	**591,744**	**404,343**	**3,673,917**	**1,879,857**	**1,556,099**	**8,105,960**

In thousand Armenian drams	As of December 31, 2012					
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
FINANCIAL LIABILITIES						
Amounts due to financial institutions	1,869,175	359,523	810,213	57,314	559,401	3,655,626
Amounts due to customers	25,529,130	24,206,799	60,871,766	9,717,461	845,006	121,170,162
Borrowings	17,506	35,012	210,075	3,063,594	-	3,326,187
Other liabilities	415,118	-	-	-	-	415,118
Total undiscounted financial liabilities	27,830,929	24,601,334	61,892,054	12,838,369	1,404,407	128,567,093
Commitments and contingent liabilities	1,150,551	519,958	2,023,946	4,237,293	-	7,931,748

The Bank has a significant cumulative maturity mismatch of the assets and liabilities up to one year. Refer to note 30. This liquidity mismatch arises due to the fact that the major source of finance for the Bank as at 31 December 2013 was customer deposits maturing in up to one year. Management believes that in spite of a substantial portion of customer accounts with maturity up to one year, the past experience of the Bank indicates that these deposits provide a long-term and stable source of finance for the Bank.

32 Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established in 1988 by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Armenia in supervising the Bank.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, police and processes from the previous years.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 12%.

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

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

As of 31 December 2013 and 2012 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Not audited	
In thousand Armenian drams	**2013**	2012
Tier 1 capital	**16,399,848**	14,823,910
Tier 2 capital	**5,004,527**	795,926
Total regulatory capital	**21,404,375**	15,619,836
Risk-weighted assets	**157,361,223**	129,761,473
Capital adequacy ratio	**13.60%**	12.04%

The Bank has complied with externally imposed capital requirements through the period.

The Central Bank of Armenia has set the minimal required total capital at AMD 5,000,000 thousand from January 1 2009.

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Financial Statements and Independent Auditor's Report

UNIBANK closed joint stock company

31 December 2014

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Independent auditor's report

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To the Shareholder and Board of Directors of Closed Joint Stock Company "UNIBANK":

We have audited the accompanying financial statements of "UNIBANK" closed joint stock company (the "Bank"), which comprise the statement of financial position as at December 31, 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the "UNIBANK" closed joint stock company as of December 31, 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gagik Gyulbudaghyan
Managing partner

Zaruhi Gharibyan
Audit Manager

Grant Thornton CJSC
April 10, 2015
Yerevan

Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	Year ended December 31, 2014	Year ended December 31, 2013
Interest and similar income	6	**19,316,864**	16,828,969
Interest and similar expense	6	**(12,025,942)**	(11,220,783)
Net interest income		**7,290,922**	5,608,186
Fee and commission income	7	**1,455,759**	1,354,979
Fee and commission expense	7	**(287,433)**	(271,931)
Net fee and commission income		**1,168,326**	1,083,048
Net trading income	8	**746,151**	1,272,318
Net loss from investments available-for-sale		**(855)**	(1,783)
Other income	9	**1,645,630**	1,067,729
Impairment charge	10	**(4,106,633)**	(1,017,935)
Staff costs	11	**(3,272,711)**	(3,751,192)
Depreciation of property and equipment	18	**(377,221)**	(469,237)
Amortization of intangible assets	19	**(73,084)**	(47,633)
Other expenses	12	**(2,393,969)**	(2,848,982)
Profit before income tax		**626,556**	894,519
Income tax expense	13	**(94,081)**	(410,929)
Profit for the year		**532,475**	483,590
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of PPE		**-**	(52,148)
Income tax relating to items not reclassified		**-**	10,430
		-	(41,718)
Items that will be reclassified subsequently to profit or loss			
Net unrealized gains/(loss) from changes in fair value from available-for-sale financial assets		**(578,132)**	689,965
Net loss realized to statement of profit or loss on disposal of available-for-sale instruments		**871**	1,863
Income tax relating to items that will be reclassified		**115,452**	(138,366)
		(461,809)	553,462
Other comprehensive income for the year, net of tax		**(461,809)**	511,744
Total comprehensive income for the year		**70,666**	995,334

The accompanying notes on pages 7 to 52 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2014	As of December 31, 2013
ASSETS			
Cash and cash equivalents	14	**34,036,384**	21,118,118
Amounts due from other financial institutions	15	**882,221**	1,256,997
Loans and advances to customers	16	**118,960,394**	116,795,259
Investments available for sale	17	**31,923**	5,418,344
Securities pledged under repurchase agreements	25	**4,984,447**	-
Property, plant and equipment	18	**5,142,456**	4,296,555
Intangible assets	19	**1,254,782**	945,216
Prepaid income taxes		**382,262**	414,628
Other assets	20	**4,583,677**	3,244,617
TOTAL ASSETS		**170,258,546**	153,489,734
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to financial institutions	21	**32,567,529**	1,311,989
Amounts due to customers	22	**102,069,829**	105,118,523
Borrowings	23	**13,341,038**	24,768,761
Deferred income tax liabilities	13	**725,839**	875,632
Other liabilities	24	**1,117,462**	664,526
Total liabilities		**149,821,697**	132,739,431
Equity			
Share capital	26	**13,100,700**	13,100,700
Statutory general reserve		**370,137**	370,137
Other reserves		**(154,775)**	307,034
Retained earnings		**7,120,787**	6,972,432
Total equity		**20,436,849**	20,750,303
TOTAL LIABILITIES AND EQUITY		**170,258,546**	153,489,734

The financial statements from pages 3 to 52 were signed by the Bank's Chairman of Executive Board and Chief Accountant on 10 April, 2015.

The accompanying notes on pages 7 to 52 are an integral part of these financial statements.

Vardan ATAYAN
Chairman of Executive Board

Gohar GRIGORYAN
Chief accountant

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Balance as of January 1, 2013	11,400,700	257,939	(630,839)	426,129	6,941,500	18,395,429
Increase in share capital	1,700,000	-	- -		-	1,700,000
Distribution to reserve	-	112,198	-	-	(112,198)	-
Dividends to shareholders	-	-	-	-	(340,460)	(340,460)
Transactions with owners	1,700,000	112,198	-	-	(452,658)	1,359,540
Profit for the year	-	-	- -		483,590	483,590
Other comprehensive income:						
Revaluation of PPE	-	-	-	(52,148)	-	(52,148)
Net unrealized gain from changes in fair value	-	-	689,965	-	-	689,965
Net loss realized to statement of profit or loss on disposal of available-for-sale instruments	-		1,863	-	-	1,863
Income tax relating to components of other comprehensive income	-	-	(138,366)	10,430	-	(127,936)
Total comprehensive income for the year	-	-	553,462	(41,718)	483,590	995,334
Balance as of December 31, 2013	**13,100,700**	**370,137**	**(77,377)**	**384,411**	**6,972,432**	**20,750,303**
Dividends to shareholders	**-**	**-**	**-**	**-**	**(384,120)**	**(384,120)**
Transactions with owners	**-**	**-**	**-**	**-**	**(384,120)**	**(384,120)**
Profit for the year	-	-	**-**	**-**	**532,475**	**532,475**
Other comprehensive income:						
Net unrealized loss from changes in fair value	**-**	**-**	**(578,132)**	**-**	**-**	**(578,132)**
Net loss realized to statement of profit or loss on disposal of available-for-sale instruments	**-**	**-**	**871**	**-**	**-**	**871**
Income tax relating to components of other comprehensive income	**-**	**-**	**115,452**	**-**	**-**	**115,452**
Total comprehensive income for the year	**-**	**-**	**(461,809)**	**-**	**532,475**	**70,666**
Balance as of December 31, 2014	**13,100,700**	**370,137**	**(539,186)**	**384,411**	**7,120,787**	**20,436,849**

The accompanying notes on pages 7 to 52 are an integral part of these financial statements.

Statement of cash flows

In thousand Armenian drams

	Year ended December 31, 2014	Year ended December 31, 2013
Cash flows from operating activities		
Profit before tax	**626,556**	894,519
Adjustments for		
Impairment charge	**4,106,633**	1,017,935
Impairment and loss on sale of repossessed assets	**30,643**	273,475
Impairment of PPE	**-**	120,003
Amortization and depreciation allowances	**450,305**	516,870
Loss from sale of PPE	**15,763**	-
Interest receivable	**1,252,651**	(2,151,568)
Interest payable	**(118,376)**	1,779,853
Foreign currency translation net loss/(gain) of non-trading assets and liabilities	**(790,847)**	31,619
Cash flows from operating activities before changes in operating assets and liabilities	**5,573,328**	2,482,706
(Increase)/decrease in operating assets		
Amounts due from other financial institutions	**490,042**	(509,986)
Loans and advances to customers	**3,741,696**	(18,718,819)
Other assets	**(713,108)**	(242,680)
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	**912,909**	(838,782)
Amounts due to customers	**(10,366,793)**	(6,612,165)
Other liabilities	**115,695**	136,903
Net cash flow used in operating activities before income tax	**(246,231)**	(24,302,823)
Income tax paid	**(96,056)**	(700,896)
Net cash used in operating activities	**(342,287)**	(25,003,719)
Cash flows from investing activities		
(Purchase)/Redemption of investment securities	**(175,093)**	265,710
Purchase of property and equipment	**(1,284,858)**	(521,157)
Proceeds from sale of property and equipment	**45,973**	17,260
Purchase of intangible assets	**(382,650)**	(528,000)
Net cash used in investing activities	**(1,796,628)**	(766,187)
Cash flow from financing activities		
Proceeds from issue of share capital	**-**	1,700,000
Dividends paid	**(47,621)**	(488,909)
Loans received from/(repaid to) financial institutions	**27,344,275**	(1,123,901)
Other long-term loans and advances	**(14,240,248)**	18,748,868
Net cash from financing activities	**13,056,406**	18,836,058
Net increase/(decrease) in cash and cash equivalents	**10,917,491**	(6,933,848)
Cash and cash equivalents at the beginning of the year	**21,118,118**	27,844,755
Exchange differences on cash and cash equivalents	**2,000,775**	207,211
Cash and cash equivalents at the end of the year (Note 14)	**34,036,384**	21,118,118

Supplementary information:

Interest received	**20,569,515**	14,677,979
Interest paid	**(12,144,318)**	(9,471,304)

Accompanying notes to the financial statements

1 Principal activities

"Unibank" CJSC (the "Bank") is a closed joint-stock bank, which was incorporated in the Republic of Armenia on 9 October 2001. The Bank is regulated by the legislation of RA and conducts its business under license number N81, granted on 10 October 2001, by the Central Bank of Armenia (the "CBA").

The Bank accepts deposits from the public and extends credit, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

Its main office is in Yerevan and it has 24 branches in Yerevan, 20 branches in different regions of RA, 2 branches in the Republic of Nagorno Karabakh and one representative office in Moscow, the Russian Federation. The registered office of the Bank is located at: 12/53 Charents street, #1-5, Yerevan.

The international rating agency Moody's Investors Service issued "Unibank" E+ standalone bank financial strength rating (BFSR) with stable outlook, and Ba3/NP deposit attraction rating with negative outlook which was changed to B1/NP in September 2014.

2 Armenian business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base.

Deterioration of economic situation of countries collaborating with the RA led to the shortage of money transfers from abroad, upon which the economy of Armenia is significantly dependant. Further decline in international prices of mining products, uncertainties due to possibilities of attraction of direct capital investments, inflation, may lead to deterioration of the situation of Armenian economy and of the Bank. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Bank may be affected.

Management of the Bank believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Bank .

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as developed and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost, with the exception of buildings, which are stated at revalued amount.

3.3 Functional and presentation currency

Functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's functional currency and the Bank's presentation currency is Armenian Drams ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Bank. The Bank prepares statements for regulatory purposes in accordance with legislative requirements of the Republic of Armenia. These financial statements are based on the Bank's books and records as adjusted and reclassified in order to comply with IFRS. The financial statements are presented in thousands of AMD, which is not convertible outside Armenia.

3.4 Changes in accounting policies

In the current year the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2014.

IAS 32* (Amendment) *Offsetting Financial Assets and Financial Liabilities

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

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

The amendments have been applied retrospectively in accordance with their transitional provisions. As the Bank does not currently present any of its financial assets and financial liabilities on a net basis using the provisions of IAS 32, these amendments had no material effect on the financial statements for any period presented.

IAS 39* (Amendment) *Novation of Derivatives and Continuation of Hedge Accounting

The Amendments to IAS 39 will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met.

IAS 36* (Amendment) *Recoverable Amount Disclosure for Non-Financial Assets

These amendments clarify that the entity is required to disclose the recoverable amount of an asset (or cash generating unit) wherever an impairment loss has been recognized or reversed in the period. In addition, they introduce several new disclosures required to be made when the recoverable amount of impaired asset is based on fair value less costs of disposal, including:

- additional information about fair value measurement including the applicable level of the fair value hierarchy, and a description of any valuation techniques used and key assumptions made
- the discount rates used if fair value less costs of disposal is measured using a present value technique.

The amendments have been applied retrospectively in accordance with their transitional provisions.

3.5 Standards and interpretations not yet applied by the Bank

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

Management anticipates that all of the pronouncements will be adopted in the Bank's accounting policy for the first period beginning after the effective date of the pronouncement.

Management does not anticipate a material impact on the Bank's financial statements from these Amendments, they are presented below.

IFRS 9 Financial Instruments **(2014)**

The IASB recently released IFRS 9 *Financial Instruments* (2014), representing the completion of its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Bank's management have yet to assess the impact of IFRS 9 on these financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

The following new or amended standards are not expected to have a significant impact of the Bank's financial statements.

- IFRS 14 *Regulatory Deferral Accounts.*
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).*
- *Annual Improvements to IFRSs 2010–2012 Cycle.*
- *Annual Improvements to IFRSs 2011–2013 Cycle.*

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Bank and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within "interest income" and "interest expense" in the income statement using the effective interest method.

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

Fee and commission income

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences related to trading assets and liabilities. Net trading income also includes gains less losses from trading in foreign currencies and is recognized in profit or loss when the corresponding service is provided.

4.2 Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of profit or loss and other comprehensive income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in net trading income.

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

	December 31, 2014	December 31, 2013
AMD/1 US Dollar	**474.97**	405.64
AMD/1 Euro	**577.47**	559.54
AMD/1 Rub	**8.15**	12.44

4.3 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks, which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value.

4.5 Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Changes in the bid prices are recorded in net gain/loss on operations with precious metals in other income/expense.

4.6 Amounts due from other financial institutions

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.7 Financial instruments

The Bank recognizes financial assets and liabilities on its statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

When financial assets and liabilities are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

After initial recognition all financial liabilities, other than liabilities at fair value through profit or loss (including held for trading) are measured at amortized cost using effective interest method. After initial recognition financial liabilities at fair value through profit or loss are measured at fair value.

The Bank classified its financial assets into the following categories: loans and receivables, financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Bank determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss. A financial asset is classified in this category if acquired for the purpose of selling in the short-term or if so designated by management from the initial acquisition of that asset.

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments, which arise when the Bank provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Bank with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

Available-for-sale financial instruments

Investments available for sale represent debt and equity investments that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of income. However, interest calculated using the effective interest method is recognised in the statement of income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis. Otherwise the investments are stated at cost less any allowance for impairment.

4.8 Impairment of financial assets

The Bank assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Criteria used to determine that there is objective evidence of an impairment loss may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty (for example, equity ratio, net income percentage of sales), default or delinquency in interest or principal payments, breach of loan covenants or conditions, deterioration in the value of collateral, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of profit or loss and other comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If future write-off is later recovered, the recovery is credited to the allowance account.

Renegotiated loans

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement on income, is transferred from equity to the statement of income. Reversals of impairment in respect of equity instruments classified as available-for-sale are not recognised in the statement of profit or loss and other comprehensive income but accounted for in other comprehensive income in a separate component of equity. Reversals of impairment losses on debt instruments are reversed through the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4.9 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

4.10 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate statement of financial position item. The corresponding liability is presented within amounts due to financial institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized on the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

4.11 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized on the statement of financial position, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in "Net trading income".

4.12 Leases

Operating - Bank as leasee

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

4.13 Property, plant and equipment

Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation. The Bank's buildings are stated at fair value less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

		2014		2013
	Useful life (years)	**Rate (%)**	Useful life (years)	Rate (%)
Buildings	**50**	**2**	30	3.3
Computers	**3**	**33,33**	3	33,33
Communication	**5**	**20**	5	20
Vehicles	**7**	**20**	7	20
ATM	**10**	**10**	10	10
Other fixed assets	**5**	**20**	5	20

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses.

Repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

When revalued assets are sold, the amounts attributed to disposed item of assets and included in the revaluation reserve are transferred to retained earnings.

4.14 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 3 to 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

4.15 Repossessed assets

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

4.16 Borrowings

Borrowings, which include amounts due to the Central Bank and Government, amounts due to financial institutions, amounts due to customers, debt securities issued and subordinated debt are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

4.17 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value, in "Other liabilities", being the premium received. Following initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

4.18 Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Retained earnings

Include retained earnings of current and previous periods.

Dividends

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

Property revaluation reserve

The property revaluation reserve is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Revaluation reserve for available-for-sale securities

This reserve records fair value changes in available-for-sale-investments.

4.19 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The most significant areas of judgements and estimates with regards to these financial statements are presented below:

Measurement of fair values

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see note 29).

Classification of investment securities

Securities owned by the Bank comprise of CBA, Armenian state and corporate bonds. Upon initial recognition, the Bank designates securities as available-for-sale financials assets recognition of changes in fair value through equity.

Related party transactions

In the normal course of business the Bank enters into transactions with its related parties. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Impairment of loans and receivables

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 27.

The Management of the Bank has not reviewed its previous estimations, i.e. has not derecognized previously estimated deferred tax liability related to the fixed assets and continues its tax accounting as before.

Impairment of available-for-sale equity investments

The Bank determined that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged required judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.

6 Interest and similar income and expense

In thousand Armenian drams	2014	2013
Loans and advances to customers	**17,645,652**	15,423,407
Debt investment securities available-for-sale	**744,265**	630,156
Amounts due to financial institutions	**126,281**	44,584
Interest accrued on impaired financial assets	**800,666**	730,822
Total interest and similar income	**19,316,864**	16,828,969
Amounts due to customers	**8,504,548**	8,106,806
Amounts due to financial institutions	**1,142,623**	736,307
Government loans	**144,622**	368,632
Repurchase transactions	**60,419**	103,293
Borrowings	**2,155,651**	1,905,745
Other interest expenses	**18,079**	-
Total interest and similar expense	**12,025,942**	11,220,783

7 Fee and commission income and expense

In thousand Armenian drams	2014	2013
Cash collection	**991,500**	905,847
Plastic cards operations	**217,349**	237,505
Guarantees and letters of credit	**16,455**	39,615
Foreign currency translation operations	**133,279**	87,674
Other fees and commissions	**97,176**	84,338
Total fee and commission income	**1,455,759**	1,354,979
Wire transfer fees	**54,257**	80,922
Plastic cards operations	**171,516**	169,737
Foreign currency translation operations	**13,014**	15,633
Stock exchange services	**10,333**	4,118
Other expenses	**38,313**	1,521
Total fee and commission expense	**287,433**	271,931

8 Net trading income

In thousand Armenian drams	2014	2013
Gains less losses from transactions in foreign currencies	**(406,486)**	1,272,318
Gains less losses from derivatives	**1,152,637**	-
Total net trading income	**746,151**	1,272,318

9 Other income

In thousand Armenian drams	2014	2013
Fines and penalties received	**826,476**	1,050,565
Foreign currency translation net gains of non-trading assets and liabilities	**790,847**	-
Gains from operations of precious metals	**10,069**	-
Other income	**18,238**	17,164
Total other income	**1,645,630**	1,067,729

10 Impairment charge

In thousand Armenian drams	2014	2013
Loans and advances to customers (Note 16)	**4,103,318**	685,665
Other assets (Note 20)	**3,315**	332,270
Total impairment charge	**4,106,633**	1,017,935

11 Staff costs

In thousand Armenian drams	2014	2013
Compensations of employees, related taxes included	**3,269,189**	3,749,148
Staff training and other costs	**3,522**	2,044
Total staff costs	**3,272,711**	3,751,192

12 Other expenses

In thousand Armenian drams	2014	2013
Fixed assets maintenance	**266,970**	275,774
Advertising costs	**186,863**	150,419
Business trip expenses	**15,344**	10,996
Communications	**126,442**	131,548
Operating lease	**768,363**	824,776
Taxes, other than income tax, duties	**300,399**	321,635
Consulting and other services	**60,467**	45,517
Security	**113,827**	118,986
Representative expenses	**37,773**	68,805
Office supplies	**80,476**	53,561
Penalties paid	**1,740**	746
Operations with precious metals	**-**	23,716
Deposit insurance	**175,151**	161,271
Foreign currency translation net losses of non-trading assets and liabilities	**-**	31,619
Computer software maintenance	**35,200**	34,026
Cash collection services	**71,807**	24,640
Loss on impairment and disposal of PPE	**15,763**	120,003
Impairment and loss on disposal of repossessed collaterals	**30,643**	273,475
Other expenses	**106,741**	177,469
Total other expense	**2,393,969**	2,848,982

13 Income tax expense

In thousand Armenian drams	2014	2013
Current tax expense	**128,422**	-
Deferred tax	**(34,341)**	410,929
Total income tax expense	**94,081**	410,929

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2013: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

Numerical reconciliation between the tax expenses and accounting profit is provided below:

In thousand Armenian drams	2014	Effective rate (%)	2013	Effective rate (%)
Profit before tax	**626,556**		894,519	
Income tax at the rate of 20%	**125,311**	**20**	178,904	20
Non-taxable income	**(22,530)**	**(4)**	-	-
Other taxable income	**21,073**	**3**	99,488	11
Non-deductible expenses	**49,113**	**8**	126,213	14
Gains less losses from derivatives	**81,297**	**13**	-	-
Foreign exchange losses	**(160,183)**	**(26)**	6,324	1
Income tax expense	**94,081**	**14**	410,929	46

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of December 31, 2013	Recognized in profit or loss	Recognized in equity	As of December 31, 2014
Other liabilities	**56,306**	**7,082**	**-**	**63,388**
Securities available for sale	**20,480**	**-**	**115,452**	**135,932**
Carried forward tax losses	**145,221**	**(145,221)**	**-**	**-**
Total deferred tax assets	**222,007**	**(138,139)**	**115,452**	**199,320**
Contingent liabilities	**(24,913)**	**4,248**	**-**	**(20,665)**
Amounts due from other financial institutions	**(8,450)**	**90**	**-**	**(8,360)**
Loans and advances to customers	**(972,483)**	**165,739**	**-**	**(806,744)**
PPE	**(91,793)**	**2,403**	**-**	**(89,390)**
Total deferred tax liability	**(1,097,639)**	**172,480**	**-**	**(925,159)**
Net deferred tax liability	**(875,632)**	**34,341**	**115,452**	**(725,839)**

In thousand Armenian drams	As of December 31, 2012	Recognized in profit or loss	Recognized in equity	As of December 31, 2013
Other liabilities	43,808	12,498	-	56,306
Securities available for sale	158,554	292	(138,366)	20,480
Carried forward tax losses	-	145,221	-	145,221
Total deferred tax assets	202,362	158,011	(138,366)	222,007
Contingent liabilities	(21,357)	(3,556)	-	(24,913)
Amounts due from other financial institutions	(7,980)	(470)	-	(8,450)
Loans and advances to customers	(404,018)	(568,465)	-	(972,483)
PPE	(105,774)	3,551	10,430	(91,793)
Total deferred tax liability	(539,129)	(568,940)	10,430	(1,097,639)
Net deferred tax liability	(336,767)	(410,929)	(127,936)	(875,632)

14 Cash and cash equivalents

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Cash on hand	**6,775,432**	8,814,349
Correspondent account with the CBA	**23,802,559**	9,025,569
Placements with other banks	**3,458,393**	3,278,200
Total cash and cash equivalents	**34,036,384**	21,118,118

As at 31 December 2014 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 2% of certain obligations of the Bank denominated in Armenian drams and 20% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 15,084,982 thousand (2013: 4% and 12% respectively, AMD 3,957,471 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Cash on hand, other money market placements, correspondent account, deposited funds with CBA and mandatory reserve deposits are non-interest bearing.

As at 31 December 2014 the accounts in amount of AMD 2,435,946 thousand (70%) (2013: AMD 2,666,069 thousand (81%)) were due from two commercial banks.

Non-cash transactions performed by the Bank during 2014 are represented by:

- repayment of AMD 658,906 thousand loan by transfer of property rights on pledge (2013: AMD 1,978,943 thousand).

15 Amounts due from other financial institutions

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Deposits in banks	**-**	330,490
Deposits in financial institutions	**722,221**	616,507
Deposited funds with the CBA	**160,000**	310,000
Total amounts due from other financial institutions	**882,221**	1,256,997

Deposited funds with CBA include a guaranteed deposit for settlements via ArCa payment system.

16 Loans and advances to customers

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Loans to customers	**120,321,417**	117,879,239
Overdraft	**3,155,094**	1,396,638
	123,476,511	119,275,877
Less allowances for impairment of loans and advances	**(4,516,117)**	(2,480,618)
Total loans and advances to customers	**118,960,394**	116,795,259

As of 31 December 2014 accrued interest included in loans and advances to customers amounted to AMD 4,044,558 thousand (2013: AMD 5,318,397 thousand).

As of 31 December 2014 the average effective interest rates on loans and advances to corporate customers were 14.41% for loans in AMD, 12.76% for loans in USD, 11.85% for loans in EUR, 13.91% for loans in RUB. And the average effective interest rates on loans and advances to individuals were 21.43% for loans in AMD, 13.84% for loans in USD, 11.67% for loans in EUR (2013: on loans and advances to corporate customers 21.6% for loans in AMD, 15.71% for loans in USD, 15.37% for loans in EUR, 18.72% for loans in RUB and to individuals 23.05%for loans in AMD, 15.9% for loans in USD, 16.22% for loans in EUR).

As of December 31, 2014, the Bank had a concentration of loans represented by AMD 21,823,052 thousand due from the 15 largest third party entities and parties related with them (18% of gross loan portfolio) (2013: AMD 25,178,363 thousand or 21.11% due from the 15 largest third party entities and parties related with them). An allowance of AMD thousand (2013: AMD 1,306,000 thousand) was made against these loans.

Reconciliation of allowance account for losses on loans and advances by economic sectors is as follows:

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Manufacture	**12,282,590**	12,458,143
Agriculture	**778,610**	770,002
Construction	**4,773,010**	4,950,361
Transportation	**4,210,254**	3,683,759
Trade	**25,346,631**	27,231,673
Services	**8,196,147**	10,433,890
Consumer	**44,456,163**	37,330,268
Mortgage	**16,169,952**	13,906,498
Other	**7,263,154**	8,511,283
	123,476,511	119,275,877
Less allowances for impairment of loans and advances	**(4,516,117)**	(2,480,618)
Total loans and advances	**118,960,394**	116,795,259

Reconciliation of allowance account for losses on loans and advances by class is as follows:

2014

In thousand Armenian drams	Manu-facture	Agri-culture	Const-ruction	Transport	Trading	Services	Con-sumer	Mort-gage	Other	Total
At 1 January 2014	433,052	42,062	99,007	53,670	904,801	337,715	283,710	105,689	220,912	2,480,618
Charge/(reversal) for the year	490,291	(37,926)	(13,580)	338,081	1,714,008	605,690	1,357,734	(242,256)	(108,724)	4,103,318
Amounts written off	(169,232)	(3,761)	(83,381)	(73,634)	(1,846,069)	(88,663)	(1,380,380)	(85,547)	(54,882)	(3,785,549)
Recoveries	258,747	7,411	45,684	92,548	307,046	147,115	421,326	422,527	15,326	1,717,730
At 31 December 2014	1,012,858	7,786	47,730	410,665	1,079,786	1,001,857	682,390	200,413	72,632	4,516,117
Individual impairment	904,297	-	-	398,866	856,743	982,763	244,401	39,493	-	3,426,563
Collective impairment	108,561	7,786	47,730	11,799	223,043	19,094	437,989	160,920	72,632	1,089,554
	1,012,858	7,786	47,730	410,665	1,079,786	1,001,857	682,390	200,413	72,632	4,516,117
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	1,426,499	-	-	3,030,347	3,042,363	6,286,720	657,261	77,966	-	14,521,156

2013

In thousand Armenian drams	Manu-facture	Agri-culture	Const-ruction	Transport	Trading	Services	Con-sumer	Mort-gage	Other	Total
At 1 January 2013	1,093,836	5,224	42,274	303,723	293,768	77,178	219,502	131,014	100,990	2,267,509
Charge/(reversal) for the year	(570,459)	62,013	103,373	(279,691)	580,700	260,130	301,526	(50,419)	278,492	685,665
Amounts written off	(163,543)	(25,658)	(58,784)	(89,727)	(467,774)	(33,517)	(933,566)	(253,729)	(233,814)	(2,260,112)
Recoveries	73,218	483	12,144	119,365	498,107	33,924	696,248	278,823	75,244	1,787,556
At 31 December 2013	433,052	42,062	99,007	53,670	904,801	337,715	283,710	105,689	220,912	2,480,618
Individual impairment	313,330	-	-	35,803	651,023	245,012	-	-	143,661	1,388,829
Collective impairment	119,722	42,062	99,007	17,867	253,778	92,703	283,710	105,689	77,251	1,091,789
	433,052	42,062	99,007	53,670	904,801	337,715	283,710	105,689	220,912	2,480,618
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	485,924	-	-	114,283	1,853,911	2,352,819	-	-	786,041	5,592,978

Loans and advances by customer profile may be specified as follows:

In thousand Armenian drams	As of December 31, 2014	As of December 31, 2013
State owned enterprises	**685,906**	2,399,504
Privately held companies	**49,998,452**	52,417,734
Individuals	**61,496,082**	51,906,440
Sole proprietors	**11,296,071**	12,552,199
	123,476,511	119,275,877
Less allowance for impairment of loans and advances	**(4,516,117)**	(2,480,618)
Total loans and advances to customers	**118,960,394**	116,795,259

Loans to individuals comprise the following products:

In thousand Armenian drams	As of December 31, 2014	As of December 31, 2013
Mortgage loans	**16,169,952**	13,906,498
Consumer loans	**40,827,021**	32,722,646
Car loans	**2,581,885**	2,627,749
Trading	**1,047,257**	1,980,041
Other	**869,967**	669,506
Total loans and advances to individuals	**61,496,082**	51,906,440

As at 31 December 2014 and 2013 the estimated fair value of loans and advances to customers approximates it carrying value. Refer to Note 29.

Maturity analysis of loan portfolio is disclosed in Note 31. Credit, currency and interest rate analyses of loans and advances to customers are disclosed in Note 32. The information on related party balances is disclosed in Note 28.

17 Available-for-sale investments

In thousand Armenian drams	As of December 31, 2014	As of December 31, 2013
Unquoted investments		
Shares of Armenian companies	**12,690**	12,690
Securities issued by RA Government	**19,233**	5,405,654
Total investments	**31,923**	5,418,344

All debt securities have fixed coupons.

The fair value of unquoted available-for-sale debt securities is measured using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

Available for sale debt securities by efficient interest rates and maturity date comprise:

In thousand Armenian drams	%	2014 Maturity	%	2013 Maturity
Securities issued the RA Government	**8.4-14.23%**	**2015-2028**	8.62-10.84%	2014-2028

Available-for-sale investments at fair value of AMD 4,984,447 thousand (2013: nil) were pledged to third parties in sale and repurchase agreements for periods not exceeding six months. These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet (Note 25).

All unquoted available-for-sale shares are recorded at cost less impairment losses, as the fair value cannot be reliably estimated. There is no quoted market for these investments and the Bank intends to keep them for a long time.

18 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Leasehold improve-ments	Computer and communi-cation technologies	Vehicles	Fixtures and fittings	Total
COST AND REVALUED AMOUNT						
At January 1, 2013	2,729,931	377,570	831,259	278,815	1,946,915	6,164,490
Additions	134,286	1,561	123,645	81,047	180,618	521,157
Disposals		(4,734)	(11,577)	-	(31,547)	(47,858)
Revaluation of PPE	(52,148)	-	-	-	-	(52,148)
Revaluation adjustments	(211,901)	-	-	-	-	(211,901)
Reclassification	-	-	157	-	(157)	-
At December 31, 2013	**2,600,168**	**374,397**	**943,484**	**359,862**	**2,095,829**	**6,373,740**
Additions	**800,232**	**13,429**	**142,929**	**1,927**	**326,341**	**1,284,858**
Disposals	**-**	**(2,609)**	**(65,547)**	**(64,608)**	**(35,213)**	**(167,977)**
Reclassification	**-**	**-**	**76**	**-**	**(76)**	**-**
At December 31, 2014	**3,400,400**	**385,217**	**1,020,942**	**297,181**	**2,386,881**	**7,490,621**
ACCUMULATED DEPRECIATION						
At January 1, 2013	127,512	75,972	479,868	78,263	968,828	1,730,443
Depreciation charge	92,820	11,076	136,889	37,235	191,217	469,237
Disposals	-	(4,734)	(11,532)	-	(14,331)	(30,597)
Revaluation adjustments	(211,901)	-	-	-	-	(211,901)
Impairment losses	120,003	-	-	-	-	120,003
At December 31, 2013	**128,434**	**82,314**	**605,225**	**115,498**	**1,145,714**	**2,077,185**
Depreciation charge	**56,879**	**7,652**	**70,273**	**40,552**	**201,865**	**377,221**
Disposals	**-**	**(2,609)**	**(38,609)**	**(37,345)**	**(27,678)**	**(106,241)**
At December 31, 2014	**185,313**	**87,357**	**636,889**	**118,705**	**1,319,901**	**2,348,165**
CARRYING VALUE						
At December 31, 2014	**3,215,087**	**297,860**	**384,053**	**178,476**	**1,066,980**	**5,142,456**
At December 31, 2013	**2,471,734**	**292,083**	**338,259**	**244,364**	**950,115**	**4,296,555**
At January 1, 2013	2,602,419	301,598	351,391	200,552	978,087	4,434,047

Revaluation of assets

The buildings owned by the Bank were evaluated by an independent appraiser in December 2013 using the comparative sales methods resulting in a net decrease in amount of AMD 52,148 thousand and impairment in amount of AMD 120,003 thousand. Management has based their estimate of the fair value of the buildings on the results of the independent appraisal.

The net book value of buildings that would have been recognized under the historic cost method is AMD 2,897,446 thousand, as at 31 December 2014 (2013: AMD 2,144,483 thousand).

Fully depreciated items

As at 31 December 2014 fixed assets included fully depreciated and amortized assets in cost of AMD 889,394 thousand (2013: AMD 818,262 thousand).

Fixed assets in the phase of installation

As at 31 December 2014 fixed assets included assets in the phase of installation amounting AMD 349,895 thousand, containing buildings in amount of AMD 17,830 thousand (2013: AMD 472,046 thousand, containing buildings in amount of AMD 150,470 thousand), which are not amortized and are classified in accordance with their type.

Restrictions on title of fixed assets

As at 31 December 2014, the Bank did not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

Contractual commitments

As at 31 December 2014, the Bank had no contractual commitment in respect of investments in fixed assets (2013: nil).

19 Intangible assets

In thousand Armenian drams	Licenses	Acquired software licenses	Other	Total
COST				
At January 1, 2013	284,233	263,200	100,433	647,866
Additions	449,972	78,028	-	528,000
At December 31, 2013	**734,205**	**341,228**	**100,433**	**1,175,866**
Additions	**188,606**	**194,044**	**-**	**382,650**
At December 31, 2014	**922,811**	**535,272**	**100,433**	**1,558,516**
AMORTISATION				
At January 1, 2013	42,581	89,919	50,517	183,017
Amortisation charge	20,636	22,818	4,179	47,633
At December 31, 2013	**63,217**	**112,737**	**54,696**	**230,650**
Amortisation charge	**49,869**	**20,827**	**2,388**	**73,084**
At December 31, 2014	**113,086**	**133,564**	**57,084**	**303,734**
CARRYING VALUE				
At December 31, 2014	**809,725**	**401,708**	**43,349**	**1,254,782**
At December 31, 2013	670,988	228,491	45,737	945,216
At January 1, 2013	241,652	173,281	49,916	464,849

Contractual commitments

As at 31 December 2014, the Bank did not have contractual commitments in respect of investments in intangible assets.

As at 31 December 2014, the Bank did not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

As at 31 December 2014, the licenses included the software license for clearing operations with plastic cards at the carrying amount of AMD 478,253 thousand (2013: AMD 488,041 thousand).

20 Other assets

In thousand Armenian drams	As of December 31, 2014	As of December 31, 2013
Prepayments and other debtors	**670,145**	430,940
Accounts receivable	**34,714**	50,004
Other assets	**287,514**	221,934
	992,373	702,878
Less allowance for impairment	**(9,844)**	(6,529)
	982,529	696,349
Repossessed assets	**3,409,764**	2,377,987
Other prepaid taxes	**27,143**	-
Materials	**107,306**	105,309
Precious metals	**56,935**	64,972
Total other assets	**4,583,677**	3,244,617

Repossessed assets serving as security for loans extended by the Bank are real estate. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

Reconciliation of allowance account for losses on other assets is as follows:

In thousand Armenian drams	Total
At January 1, 2013	3,090
Charge for the year	332,270
Amounts written off	(333,459)
Recoveries	4,628
At December 31, 2013	**6,529**
Charge for the year	**3,315**
At December 31, 2014	**9,844**

21 Amounts due to financial institutions

In thousand Armenian drams	As of December 31, 2014	As of December 31, 2013
Correspondent accounts of other banks	**982,086**	9,694
Current accounts of other financial institutions	**51,871**	58,072
Loans from financial institutions	**25,314,479**	699,001
Loans under repurchase agreements	**4,855,326**	-
Deposits from financial institutions	**1,359,504**	541,340
Other	**4,263**	3,882
Total amounts due to financial institutions	**32,567,529**	1,311,989

As of 31 December 2014 the average effective interest rates on amounts due to financial institutions was 9.89% for borrowings in AMD (2013: 8.5%) and 6.49% for borrowings in USD (2013: nil).

All deposits from financial institutions have fixed interest rates. Loans have variable and fixed interest rates.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2013: nil).

22 Amounts due to customers

In thousand Armenian drams	As of December 31, 2014	As of December 31, 2013
Government of the RA		
Loans	**877,594**	3,648,327
	877,594	3,648,327
Corporate customers		
Current/Settlement accounts	**9,283,847**	7,758,995
Time deposits	**5,780,854**	6,826,377
	15,064,701	14,585,372
Retail customers		
Current/Demand accounts	**5,195,852**	7,024,351
Time deposits	**80,931,682**	79,860,473
	86,127,534	86,884,824
Total amounts due to customers	**102,069,829**	105,118,523

The amounts due to Government of the RA represent loans received from the International Fund for Agricultural Development within the scope of "Rural Areas Development Programme" and "Economy stabilization lending programme". Loans carry fixed interest rates.

Deposits from corporate and retail customers carry fixed interest rates.

As of 31 December 2014 the average effective interest rate on amounts due to Government of the RA was 6.75% for liabilities in AMD, 4.06% for liabilities in USD (2013: the average effective interest rate was 6.19% for liabilities in AMD, 4.05% for liabilities in USD).

As at 31 December 2014 included in current and time deposit accounts of retail and corporate customers are deposits amounting to AMD 6,494,537 thousand (2013: AMD 8,503,505 thousand), held as security against loans provided and guarantees issued. The fair value of those deposits approximates the carrying amount.

At 31 December 2014 the aggregate balance of top ten retail and corporate customers of the Bank amounts to AMD 14,614,719 thousand (2013: AMD 14,749,046 thousand) or 14% of total retail and corporate customer accounts (2013: 15%).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2013: nil).

As of 31 December 2014 the average effective interest rates on amounts due to corporate customers were 12.88% for liabilities in AMD, 9.05% for liabilities in USD, 3.56% for liabilities in EUR. The average effective interest rates on amounts due to individuals were 13.64% for liabilities in AMD, 7.49% for liabilities in USD, 5.01% for liabilities in EUR (2013: for corporate customers 13.03% for liabilities in AMD, 9.87% for liabilities in USD, 6.69% for liabilities in EUR, and for individuals 13.6% for liabilities in AMD, 8.04% for liabilities in USD, 6.3% for liabilities in EUR).

23 Borrowings

In thousand Armenian drams	As of December 31, 2014	As of December 31, 2013
Subordinated debt provided by non-financial organizations	**7,126,893**	4,057,734
Subordinated debt provided by the CBA	**1,874,145**	2,810,448
Other borrowing	**4,340,000**	17,900,579
Total subordinated debt	**13,341,038**	24,768,761

The subordinate debt was provided by the Central Bank of RA on 06 April, 2010, the maturity term of which is determined till 06 April, 2015. The interest rate comprises 7.5%.

In the current year the Bank has borrowed long-term subordinated debt and short-term revolving borrowing from the party related to Bank (see note 28).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2013: nil).

As of 31 December 2014 average weighted interest rate of borrowings was 10.25% (2013: 9.97%).

24 Other liabilities

In thousand Armenian drams	As of December 31, 2014	As of December 31, 2013
Accounts payables	**121,323**	85,102
Dividends payable	**384,120**	47,621
Due to personnel	**222,472**	213,475
Total other financial liabilities	**727,915**	346,198
Tax payable, other than income tax	**300,630**	290,236
Revenues of future periods	**43,143**	28,092
Prepayments received	**45,774**	-
	389,547	318,328
Total other liabilities	**1,117,462**	664,526

25 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	2014	2013	**2014**	2013
Investment securities (Note 17, 21)	**4,984,447**	-	**4,855,326**	-
	4,984,447	-	**4,855,326**	-

26 Equity

As at 31 December 2014 and 2013 the Bank's registered and paid-in share capital was AMD 13,100,700 thousand. In accordance with the Bank's statute, the share capital consists of 10,000 ordinary shares, all of which have a par value of AMD 989,970 each and 10 preference shares, all of which have a par value of AMD 320,100,000 each.

The respective shareholdings as at 31 December 2014 and 2013 may be specified as follow:

In thousand Armenian drams	2014		2013	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Ripatonso Holdings Ltd	**13,100,700**	**100**	13,100,700	100
	13,100,700	**100**	13,100,700	100

As at 31 December 2014 and 2013, the Bank did not possess any of its own shares.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank. The holders of preference shares are entitled to one vote only at reorganization and liquidation of the Bank and when decisions of the statute limit their rights, as well as they have guaranteed annual dividend.

As at 31 December 2014 the dividends for preference shareholders recognized in the financial statements amounted to AMD 384,120 thousand (2013: AMD 340,456 thousand).

Distributable among shareholders reserves equal the amount of retained earnings. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Bank's share capital reported in statutory books.

27 Contingent liabilities and commitments

Tax and legal matters

The taxation system in Armenia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

These circumstances may create tax risks in Armenia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant. Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.

Loan commitment, guarantee and other financial facilities

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Undrawn loan commitments	**4,935,703**	6,285,302
Guarantees	**1,772,728**	1,820,658
Total commitments and contingent liabilities	**6,708,431**	8,105,960

Operating lease commitments – Bank as a lessee

In the normal course of business the Bank enters into commercial lease agreements for its buildings and premises.

The future aggregate minimum lease payments under operating leases are as follows:

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Not later than 1 year	**692,809**	741,277
Later than 1 year and not later than 5 years	**2,072,266**	553,584
Later than 5 years	**409,314**	-
Total operating lease commitments	**3,174,389**	1,294,861

The aggregated minimum lease payments have increased mainly due to the prolongation of the head office lease contract term.

Capital commitments

Information on the Bank's capital commitments is disclosed in notes 18 and 19.

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank anticipates partially coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

Starting 2005 the Bank is member of the obligatory deposit insurance system. The system operates under the Armenian laws and regulations and is governed by the Law on Guarantee of Physical Persons Deposits. Insurance covers Bank's liabilities to individual depositors for the amount up to AMD 4,000 thousand (up to AMD 2,000 thousand for deposits in foreign currency) for each individual in case of business failure and revocation of the banking license.

28 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively.

The shareholder company is controlled by Russian businessmen G. Zaqaryan and G. Piskov with equal voting shares.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	As of December 31, 2014		As of December 31, 2013	
	Shareholders	**Key management personnel**	Shareholders	Key management personnel
Statement of financial position				
Assets				
Loans and advances to customers				
Loans outstanding at January 1, gross	**299,140**	**521,614**	302,250	135,380
Loans issued during the year	**20,423**	**252,733**	5,747	880,083
Loan repayments during the year	**(72,601)**	**(195,638)**	(8,857)	(493,849)
Loans outstanding at December 31, gross	**246,962**	**578,709**	299,140	521,614
Less: allowance for loan impairment	**(2,470)**	**(5,787)**	(2,991)	(5,216)
Loans outstanding at December 31	**244,492**	**572,922**	296,149	516,398
Amounts due from other financial institutions				
At January 1	**235,656**	-	1,573,161	-
Increase	**135,671,503**	-	228,382,874	-
Decrease	**(135,366,921)**	-	(229,720,379)	-
At December 31	**540,238**	-	235,656	-
Liabilities				
Amounts due to financial institutions				
At January 1	**314,612**	-	380,142	-
Increase	**7,222,032**	-	8,656,586	-
Decrease	**(6,646,109)**	-	(8,722,116)	-
At December 31	**890,535**	-	314,612	-
Amounts due to customers				
Deposits at January 1	**491,016**	**719,840**	81,292	2,293,861
Deposits received during the year	**88,628,735**	**6,778,086**	281,328,674	10,071,663
Deposits repaid during the year	**(88,757,737)**	**(6,873,700)**	(280,918,950)	(11,645,684)
Deposits at December 31	**362,014**	**624,226**	491,016	719,840
Borrowings				
At January 1	**21,951,228**	-	-	-
Received during the year	**47,351,479**	-	65,718,166	-
Repaid during the year	**(57,835,814)**	-	(43,766,938)	-
Borrowings at December 31	**11,466,893**	-	21,951,228	-
Statement of profit or loss and other comprehensive income				
Interest and similar income	**110,380**	**63,554**	6,440	48,406
Interest and similar expenses	**2,018,181**	**45,187**	1,786,481	130,217
Charge/(recovery) of credit losses	**(522)**	**571**	(32)	3,862
Operating lease expenses	**312,000**	**-**	376,800	-
Insurance payments	**84,685**	**-**	38,997	-

The loans issued to the Bank's related parties during the year are repayable from 1 to 15 years and have interest rates of 12-21%.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Compensations of employees, related taxes included	**611,649**	786,483
Total key management compensation	**611,649**	786,483

29 Fair value measurement

The Bank's Management determines the policies and procedures for both recurring fair value measurement, such as unquoted trading and available-for-sale securities, buildings and for non-recurring measurement, such as assets held for sale.

External valuers are involved for valuation of significant assets, such as properties, trading and available-for-sale securities and derivatives. Involvement of external valuers is decided upon annually by the Bank's management.

At each reporting date, the Bank's Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, are verified the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Bank's Management, in conjunction with the Bank's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Financial and non-financial assets and liabilities measured at fair value in the statement of financial position are presented below. This hierarchy groups financial and non-financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

29.1 Financial instruments that are not measured at fair value

The table below presents the fair value of financial assets and liabilities not measured at their fair value in the statement of financial position and analyses them by the level in the fair value hierarchy into which teach fair value measurement is categorised.

In thousand Armenian drams	As of 31 December 2014				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
FINANCIAL ASSETS					
Cash and cash equivalents	**-**	**34,036,384**	**-**	**34,036,384**	**34,036,384**
Amounts due from financial institutions	**-**	**882,221**	**-**	**882,221**	**882,221**
Loans and advances to customers	**-**	**118,960,394**	**-**	**118,960,394**	**118,960,394**
FINANCIAL LIABILITIES					
Amounts due to financial institutions	**-**	**32,567,529**	**-**	**32,567,529**	**32,567,529**
Amounts due to customers	**-**	**102,069,829**	**-**	**102,069,829**	**102,069,829**
Borrowings	**-**	**13,341,038**	**-**	**13,341,038**	**13,341,038**
Other financial liabilities	**-**	**727,915**	**-**	**727,915**	**727,915**

In thousand Armenian drams	As of 31 December 2013				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	21,118,118	-	21,118,118	21,118,118
Amounts due from financial institutions	-	1,256,997	-	1,256,997	1,256,997
Loans and advances to customers	-	116,795,259	-	116,795,259	116,795,259
FINANCIAL LIABILITIES					
Amounts due to financial institutions	-	1,311,989	-	1,311,989	1,311,989
Amounts due to customers	-	105,118,523	-	105,118,523	105,118,523
Borrowings	-	24,768,761	-	24,768,761	24,768,761
Other financial liabilities	-	346,198	-	346,198	346,198

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 9% to 24% per annum.

The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by independent, professionally-qualified property valuers.

Borrowings

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

29.2 Financial instruments that are measured at fair value

In thousand Armenian drams				**As of 31 December 2014**
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Unlisted securities and bonds	**-**	**5,003,680**	**-**	**5,003,680**
Total	**-**	**5,003,680**	**-**	**5,003,680**

In thousand Armenian drams				As of 31 December 2013
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Unlisted securities and bonds	-	5,405,654	-	5,405,654
Total	-	5,405,654	-	5,405,654

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

Unlisted equity investments.

The fair value of Bank's investments in unlisted equity investments cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 17 for further information about this equity investment.

29.3 Fair value measurement of non-financial assets and liabilities

In thousand Armenian drams				**As of 31 December 2014**
	Level 1	**Level 2**	**Level 3**	**Total**
NON FINANCIAL ASSETS				
Property plant and equipment				
Buildings	-	-	**3,277,254**	**3,277,254**
Repossessed assets			**3,409,764**	**3,409,764**
Total non-financial assets	-	-	**6,687,018**	**6,687,018**
NET FAIR VALUE	**-**	**-**	**6,687,018**	**6,687,018**

In thousand Armenian drams				As of 31 December 2013
	Level 1	Level 2	Level 3	Total
NON FINANCIAL ASSETS				
Property plant and equipment				
Buildings	-	-	2,477,022	2,477,022
Repossessed assets			2,377,987	2,377,987
Total non-financial assets	-	-	4,855,009	4,855,009
NET FAIR VALUE	-	-	4,855,009	4,855,009

Fair value measurements in Level 3

The Bank's non financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial assets and financial liabilities within this level can be reconciled from beginning to ending balance as follows:

In thousand Armenian drams			**2014**
	Property plant equipment	**Repossessed assets**	**Total**
NON FINANCIAL ASSETS			
Balance as at 1 January 2014	**2,477,022**	**2,377,987**	**4,855,009**
Purchases	**800,232**	**1,131,061**	**1,931,293**
Sales	**-**	**(99,284)**	**(99,284)**
Balance as at 31 December, 2014	**3,277,254**	**3,409,764**	**6,687,018**
NET FAIR VALUE	**3,277,254**	**3,409,764**	**6,687,018**

In thousand Armenian drams			2013
	Property plant equipment	Repossessed assets	Total
NON FINANCIAL ASSETS			
Balance as at 1 January 2013	2,726,788	1,116,588	3,843,376
Impairment losses recognised in profit or loss	(120,003)	(242,742)	(362,745)
Revaluation adjustment of PPE	(211,901)	-	(211,901)
Losses recognised in other comprehensive income	(52,148)	-	(52,148)
Purchases	134,286	1,978,943	2,113,229
Sales	-	(474,802)	(474,802)
Balance as at 31 December, 2013	2,477,022	2,377,987	4,855,009
NET FAIR VALUE	2,477,022	2,377,987	4,855,009

Fair value of the Bank's main property assets is estimated based on appraisals performed by independent, professionally-qualified property valuers. The significant inputs and assumptions are developed in close consultation with Management. The valuation processes and fair value changes are reviewed by the board of directors and audit committee at each reporting date.

The appraisal was carried out using a comparative approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use and other.

30 Offsetting of financial assets and financial liabilities

In the ordinary course of business, the Bank performs different operations with financial instruments which may be presented in net amounts when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

The table below presents financial assets and financial liabilities that are offset in the statement of financial position or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

In thousand Armenian drams	As of December 31, 2014					
				Amounts not offset		
	Gross liabilities	Gross assets offset	Net amounts presented	Financial instruments	Cash collateral received	Net
FINANCIAL LIABILITIES						
Securities pledged under repurchase agreements (Note 25)	(4,855,326)	-	(4,855,326)	4,984,447	-	129,121
	(4,855,326)	-	(4,855,326)	4,984,447	-	129,121

31 Maturity analysis of assets and liabilities

The table below shows an analysis of main financial assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 32.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams	As of December 31, 2014							
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Cash and cash equivalents	34,036,384	-	-	34,036,384	-	-	-	34,036,384
Amounts due from other financial institutions	722,221	-	-	722,221	-	160,000	160,000	882,221
Loans and advances to customers	10,757,731	5,665,360	28,658,077	45,081,168	62,568,199	11,311,027	73,879,226	118,960,394
Investments available for sale	-	19,233	-	19,233	-	12,690	12,690	31,923
Securities pledged under repurchase agreements	-	207,839		207,839	3,972,281	804,327	4,776,608	4,984,447
	45,516,336	5,892,432	28,658,077	80,066,845	66,540,480	12,288,044	78,828,524	158,895,369
LIABILITIES								
Amounts due to financial institutions	9,784,971	5,494,405	11,535,685	26,815,061	4,891,199	861,269	5,752,468	32,567,529
Amounts due to customers	28,850,543	25,072,995	43,093,975	97,017,513	2,648,285	2,404,031	5,052,316	102,069,829
Borrowings	9,159	4,037,704	2,169,625	6,216,488	4,749,700	2,374,850	7,124,550	13,341,038
Other liabilities	505,443	-	222,472	727,915	-	-	-	727,915
	39,150,116	34,605,104	57,021,757	130,776,977	12,289,184	5,640,150	17,929,334	148,706,311
Net position	6,366,220	(28,712,672)	(28,363,680)	(50,710,132)	54,251,296	6,647,894	60,899,190	10,189,058
Accumulated gap	6,366,220	(22,346,452)	(50,710,132)		3,541,164	10,189,058		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total As of December 31, 2013
ASSETS								
Cash and cash equivalents	21,118,118	-	-	*21,118,118*	-	-	-	21,118,118
Amounts due from other financial institutions	616,507	-	330,490	*946,997*	-	310,000	*310,000*	1,256,997
Loans and advances to customers	13,214,987	18,443,103	25,287,194	56,945,284	45,991,905	13,858,070	59,849,975	116,795,259
Investments available for sale	-	43,618	205,673	249,291	4,152,278	1,016,775	5,169,053	5,418,344
	34,949,612	18,486,721	25,823,357	*79,259,690*	50,144,183	15,184,845	*65,329,028*	144,588,718
LIABILITIES								
Amounts due to financial institutions	150,269	342,696	155,740	648,705	224,517	438,767	663,284	1,311,989
Amounts due to customers	26,673,957	27,652,152	49,677,975	104,004,084	1,038,262	76,177	1,114,439	105,118,523
Borrowings	9,209	17,900,579	1,334	17,911,122	6,857,639	-	6,857,639	24,768,761
Other liabilities	346,198	-	-	346,198	-	-	-	346,198
	27,179,633	45,895,427	49,835,049	*122,910,109*	8,120,418	514,944	*8,635,362*	131,545,471
Net position	7,769,979	(27,408,706)	(24,011,692)	(43,650,419)	42,023,765	14,669,901	56,693,666	13,043,247
Accumulated gap	7,769,979	(19,638,727)	(43,650,419)		(1,626,654)	13,043,247		

32 Risk management

The Bank’s activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

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

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

Board of Bank

The Board is responsible for monitoring the overall risk management, approval of strategy and risk management principles.

Executive board

The Executive board of the Bank is responsible for investment and control over the risk management procedures.

Risk Management Directorate

The Risk Management Directorate is responsible for implementation of risk procedures and control over risk management principles, policy and the Bank's risk limits, as well as providing risk valuation and collection of overall information within the financial system.

Financial Directorate

The Financial Directorate of the Bank is responsible for management of assets and liabilities of the Bank. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

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

Risk measurement and reporting systems

The Bank also runs worst case scenarios that would arise in the event that extreme events which are to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are managed accordingly.

32.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Bank's Strategy and Risk Management Department and the Credit subdivision and are reported to the Board of Bank and the Executive board.

The carrying amounts of the Bank's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

32.1.1 Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December.

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Cash and cash equivalents	**30,599,081**	**2,864,402**	**572,901**	**34,036,384**
Amounts due from other financial institutions	**231,246**	**650,975**	**-**	**882,221**
Loans and advances to customers	**116,445,317**	**-**	**2,515,077**	**118,960,394**
Investments available for sale	**31,923**	**-**	**-**	**31,923**
Securities pledged under repurchase agreements	**4,984,447**	**-**	**-**	**4,984,447**
As at 31 December 2014	**152,292,014**	**3,515,377**	**3,087,978**	**158,895,369**
As at 31 December 2013	138,683,779	3,580,312	2,324,627	144,588,718

Assets have been classified based on the country in which the counterparty is located.

Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December.

In thousand Armenian drams	Financial institu-tions	Manufac-turing	Agricul-ture	Const-ruction	Trans-port	Trading	Services	Consumer sector	Mortgage	Other	Total
Cash and cash equivalents	**34,036,384**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**34,036,384**
Amounts due from other financial institutions	**882,221**	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**882,221**
Loans and advances to customers	**-**	**11,269,732**	**770,824**	**4,725,280**	**3,799,589**	**24,266,845**	**7,194,290**	**43,773,773**	**15,969,539**	**7,190,522**	**118,960,394**
Investments available for sale	**31,923**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**31,923**
Securities pledged under repurchase agreements	**4,984,447**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,984,447**
As at 31 December 2014	**39,934,975**	**11,269,732**	**770,824**	**4,725,280**	**3,799,589**	**24,266,845**	**7,194,290**	**43,773,773**	**15,969,539**	**7,190,522**	**158,895,369**
As at 31 December 2013	27,793,459	11,739,290	770,145	5,004,116	3,683,173	25,947,360	9,384,733	37,645,679	13,991,638	8,629,125	144,588,718

32.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of Bank.

The exposure to any one borrower including banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Movable properties of individuals;
- Charges over business assets such as premises, inventory;
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

The analysis of loan portfolio by collateral is represented as follows:

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Loans collateralized by real estate	**74,410,239**	80,680,096
Loans collateralized by movable property	**2,876,351**	4,234,573
Loans collateralized by goods in circulation	**658,866**	1,023,981
Loans collateralized by guarantees	**11,126,497**	7,904,284
Loans collateralized by cash	**3,022,890**	5,516,603
Loans collateralized by household appliances	**13,000,124**	7,650,503
Unsecured loans	**18,381,544**	12,265,837
Total loans and advances to customers (gross)	**123,476,511**	119,275,877

The amounts presented in the table above are carrying values of the loans, and do not necessarily represent the fair value of the collaterals. Estimates of market values of collaterals are based on valuation of the collateral at the date when loans were provided. Generally they are not updated unless loans are assessed as individually impaired.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

32.1.3 Impairment and provisioning policies

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

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

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

Loans and advances neither past due or impaired

The table below shows the credit quality by class of asset for loans and advances neither past due or impaired, based on the historical counterparty default rates.

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Loans and advances to customers		
Manufacture	**1%**	1%
Agriculture	**1%**	3%
Construction	**1%**	2%
Transportation	**1%**	1%
Trade	**1%**	-
Service	**1%**	1%
Consumer	**1%**	1%
Mortgage	**1%**	1%

As of 31 December 2014 and 2013 the Bank has not had any losses on other financial assets bearing credit risk.

Past due but not impaired loans

Past due loans and advances include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired. Analysis of past due loans by age and by class is provided below.

In thousand Armenian drams					**As of December 31, 2014**
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Manufacture	**-**	**-**	**-**	**66,178**	**66,178**
Agriculture	**-**	**-**	**-**	**-**	**-**
Construction	**-**	**-**	**-**	**162,000**	**162,000**
Transportation	**-**	**-**	**-**	**-**	**-**
Trade	**714,087**	**-**	**-**	**-**	**714,087**
Service			**-**	**82,891**	**82,891**
Consumer	**4,130**	**865**	**-**	**2,938**	**7,933**
Mortgage	**-**	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**	**-**
Total	**718,217**	**865**	**-**	**314,007**	**1,033,089**

In thousand Armenian drams				As of December 31, 2013	
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacture	71,569	10,492	1,934	4,989,310	5,073,305
Agriculture	6,166	1,100	14,240	12,888	34,394
Construction	40,261	6,480	-	131,231	177,972
Transportation	122,698	16,905	-	2,413,081	2,552,684
Trade	515,069	77,062	179,032	449,344	1,220,507
Service	68,688	2,929,230	27,018	1,100	3,026,036
Consumer	312,856	239,606	60,873	395,606	1,008,941
Mortgage	176,437	335,009	72,434	132,282	716,162
Other	117,683	6,766	8,670	32,107	165,226
Total	1,431,427	3,622,650	364,201	8,556,949	13,975,227

32.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

31.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Bank has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2014. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, at 31 December 2014 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

In thousand Armenian drams							**As of December 31, 2014**
			Sensitivity of equity				
Currency	**Change in basis points**	**Sensitivity of net interest income**	**Up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
AMD	**+1**	**-**	**40**	**-**	**104,476**	**52,059**	**156,575**
USD	**+1**	**(72,576)**	**-**	**-**	**-**	**-**	**(72,576)**
AMD	**(1)**	**-**	**(40)**	**-**	**(101,128)**	**(47,325)**	**(148,493)**
USD	**(1)**	**72,576**	**-**	**-**	**-**	**-**	**72,576**

In thousand Armenian drams							As of December 31, 2013
			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	+ 1	-	-	(354)	(134,083)	(67,934)	(202,371)
AMD	(1)	-	-	359	139,732	75,559	215,650

Currency risk

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2014 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	**As of December 31, 2014**		As of December 31, 2013	
Currency	**Change in currency rate in %**	**Effect on profit before tax**	Change in currency rate in %	Effect on profit before tax
USD	**+5**	**(203,705)**	+3	(17,371)
EUR	**+5**	**15,446**	+1	(477)
USD	**(5)**	**203,705**	(3)	17,371
EUR	**(5)**	**(15,446)**	(1)	477

The Bank's exposure to foreign currency exchange risk is as follow:

In thousand Armenian drams	Armenian Dram	Freely convertible currencies/ precious metals	Non-freely convertible currencies	Total
ASSETS				
Cash and cash equivalents	**17,462,743**	**16,077,671**	**495,970**	**34,036,384**
Amounts due from other financial institutions	**160,000**	**722,221**		**882,221**
Loans and advances to customers	**41,446,323**	**77,403,876**	**110,195**	**118,960,394**
Investments available for sale	**31,923**	**-**	**-**	**31,923**
Securities pledged under repurchase agreements	**4,984,447**	**-**	**-**	**4,984,447**
	64,085,436	**94,203,768**	**606,165**	**158,895,369**
LIABILITIES				
Amounts due to financial institutions	**6,967,114**	**25,598,097**	**2,318**	**32,567,529**
Amounts due to customers	**40,534,497**	**60,882,604**	**652,728**	**102,069,829**
Borrowings	**1,874,145**	**11,466,893**	**-**	**13,341,038**
Other liabilities	**706,561**	**21,354**	**-**	**727,915**
	50,082,317	**97,968,948**	**655,046**	**148,706,311**
Net position as at 31 December 2014	**14,003,119**	**(3,765,180)**	**(48,881)**	**10,189,058**
Commitments and contingent liabilities as at 31 December 2014	**2,936,336**	**3,772,095**	**-**	**6,708,431**
Total financial assets	59,691,781	83,974,137	922,800	144,588,718
Total financial liabilities	43,646,459	87,045,149	853,863	131,545,471
Net position as at 31 December 2013	16,045,322	(3,071,012)	68,937	13,043,247
Commitments and contingent liabilities as at 31 December 2013	3,877,347	4,228,613	-	8,105,960

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

32.3 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily bases. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Bank denominated in Armenian drams and 20% on certain obligations of the Bank denominated in foreign currency. See note 14. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios in accordance with the requirement of the Central Bank of Armenia.

	Not audited	
As at 31 December, these ratios were as follows:	**2014, %**	2013, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	**21.76**	20.12
N22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	**266.63**	249.77

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2014 based on contractual undiscounted repayment obligations. See note 31 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams	**As of December 31, 2014**					
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
FINANCIAL LIABILITIES						
Amounts due to financial institutions	**10,229,808**	**6,912,034**	**12,706,264**	**6,633,164**	**1,020,169**	**37,501,439**
Amounts due to customers	**32,954,178**	**27,752,288**	**50,849,689**	**2,694,502**	**2,804,031**	**117,054,688**
Borrowings	**122,071**	**4,281,843**	**2,935,042**	**8,169,484**	**2,398,599**	**17,907,039**
Other liabilities	**505,443**	**-**	**222,472**	**-**	**-**	**727,915**
Total undiscounted financial liabilities	**43,811,500**	**38,946,165**	**66,713,467**	**17,497,150**	**6,222,799**	**173,191,081**
Commitments and contingent liabilities	**5,111,559**	**288,730**	**801,809**	**506,333**	**-**	**6,708,431**

In thousand Armenian drams	As of December 31, 2013					
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
FINANCIAL LIABILITIES						
Amounts due to financial institutions	151,485	356,619	184,494	363,234	659,648	1,715,480
Amounts due to customers	27,145,744	48,362,755	54,847,306	5,327,536	1,561,460	137,244,801
Borrowings	17,842	17,934,537	645,044	8,731,571		27,328,994
Other liabilities	346,198	-	-	-	-	346,198
Total undiscounted financial liabilities	27,661,269	66,653,911	55,676,844	14,422,341	2,221,108	166,635,473
Commitments and contingent liabilities	591,744	404,343	3,673,917	1,879,857	1,556,099	8,105,960

The Bank has a significant cumulative maturity mismatch of the assets and liabilities up to one year. Refer to note 31. This liquidity mismatch arises due to the fact that the major source of finance for the Bank as at 31 December 2014 was customer deposits maturing in up to one year. Management believes that in spite of a substantial portion of customer accounts with maturity up to one year, the past experience of the Bank indicates that these deposits provide a long-term and stable source of finance for the Bank.

33 Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established in 1988 by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Armenia in supervising the Bank.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, police and processes from the previous years.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 12%.

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

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

As of 31 December 2014 and 2013 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Not audited	
In thousand Armenian drams	**2014**	2013
Tier 1 capital	**16,208,646**	16,399,848
Tier 2 capital	**5,792,800**	5,004,527
Total regulatory capital	**22,001,446**	21,404,375
Risk-weighted assets	**164,928,381**	157,361,223
Capital adequacy ratio	**13.34%**	13.60%

The Bank has complied with all externally imposed capital requirements through the period.

With the aim to enhance the efficiency of the banking system activity, strengthening the ability to resist the shocks in different economic situations, as well as providing more efficient and available banking services, in 2004 the Board of RA Central Bank decided to determine the minimum size of total capital:

1) 5.000.000 thousand Armenian drams, till 1 January 2017,
2) 30.000.000 thousand Armenian drams for new banks, till 1 January 2017,
3) 30.000.000 thousand Armenian drams for the Bank and new banks, as of 1 January 2017 and after that period.

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