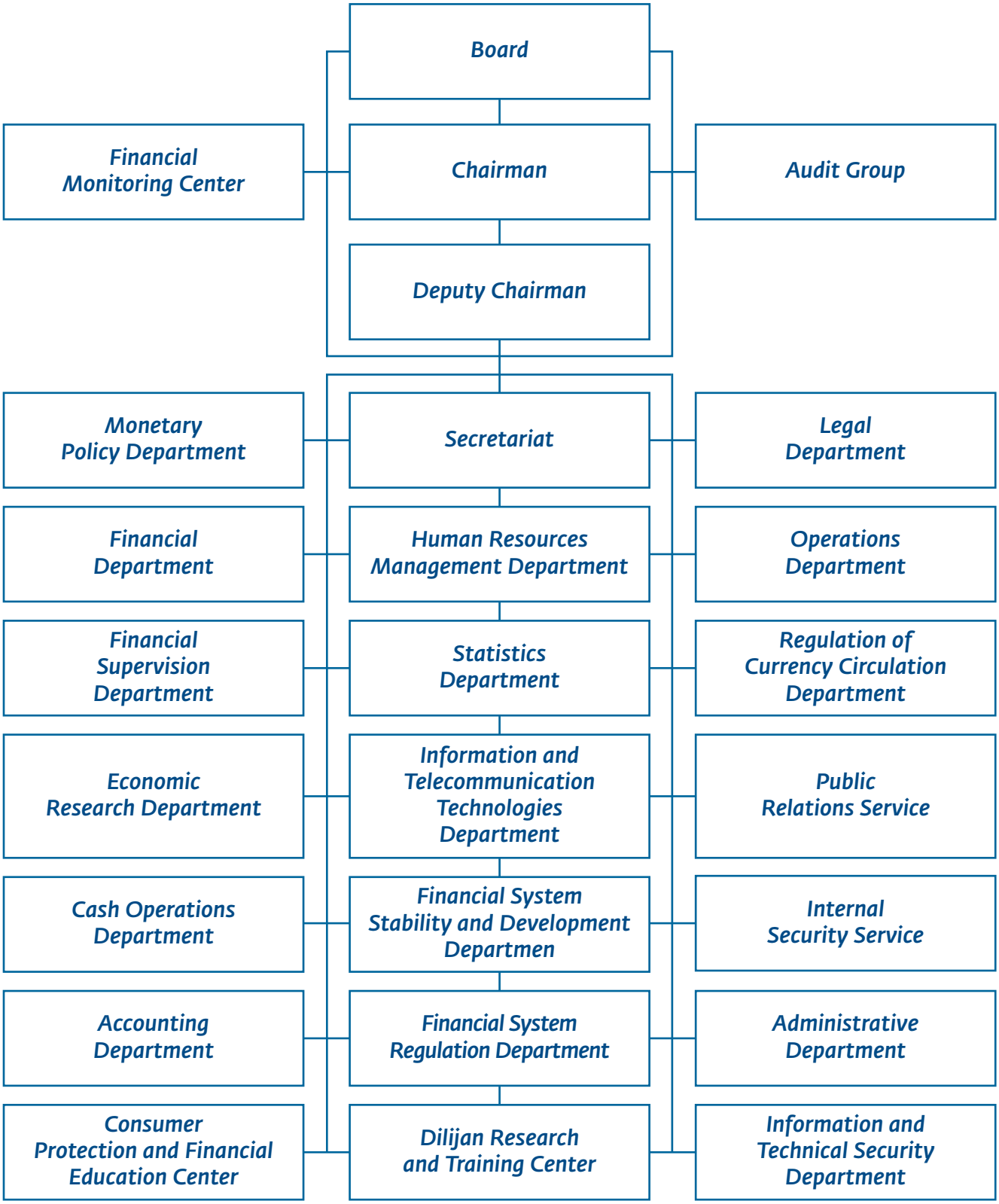
CENTRAL BANK
OF ARMENIA

Annual Report
2014

The Central Bank Organizational Structure



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Dear reader

This annual report for 2014 provides an inclusive account of the activities and results of the Central Bank of the Republic of Armenia for the period under review.

During 2014, the Bank pursued a policy of cutting the refinancing rate, which was aimed at achieving a long-term economic growth and maintaining stable prices — an important precondition for the growth. However, the developments with external shocks later the year necessitated revision of the directions of the monetary policy, requiring prompt situational solutions in order to alleviate the effects of concussions in the short run. We can state that the tools we used were both well-timed and appropriate, which made it possible to reduce the tension in the financial market and ease the inflationary pressures to some extent. In achieving this, we collaborated with other government departments and international financial institutions. As a result, it became possible to effectively manage the inflation: at the end of the year it was near the target, 4.6 percent.

The shocks of 2014 were a challenge to the domestic financial system as it incurred the main burden of costs arising from external vulnerabilities. However, demonstrating ability to withstand shocks, the financial system posted good results thus contributing to the economic growth. Real and financial sectors of the economy further tended to integrate during the year. The ratio of assets and loans of the financial system to gross domestic product has grown by 5.7 percent and 6.1 percent, respectively. At the end of the year, the financial system assets-to-GDP ratio was 82.8 percent and the credit-to-GDP ratio, 48.9 percent, exceeding the relevant indicators in a number of countries in the region.

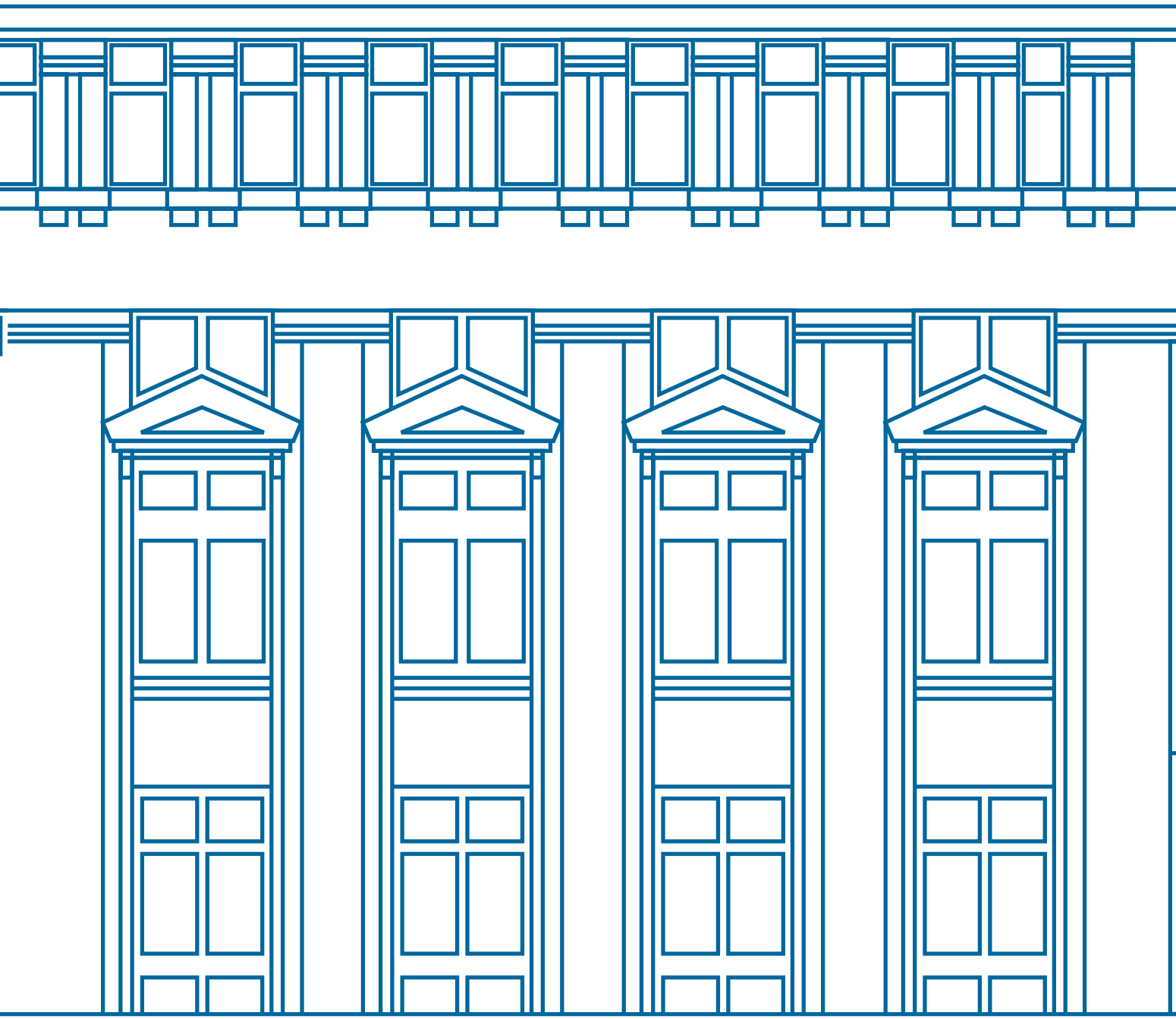
The Bank continued supporting the implementation of social credit programs, such as mortgage lending and loans to farmers, servicemen, students and young specialists, in cooperation with the Government.

An important development in the area of insurance in 2014 was that we started activities for the Armenian Single Window for Automotive, ASWA. This is a multi-lingual web platform with public and private accessibility, which offers a single electronic environment where the users can conclude motor third party liability insurance contracts and manage insurance accident and indemnification process.

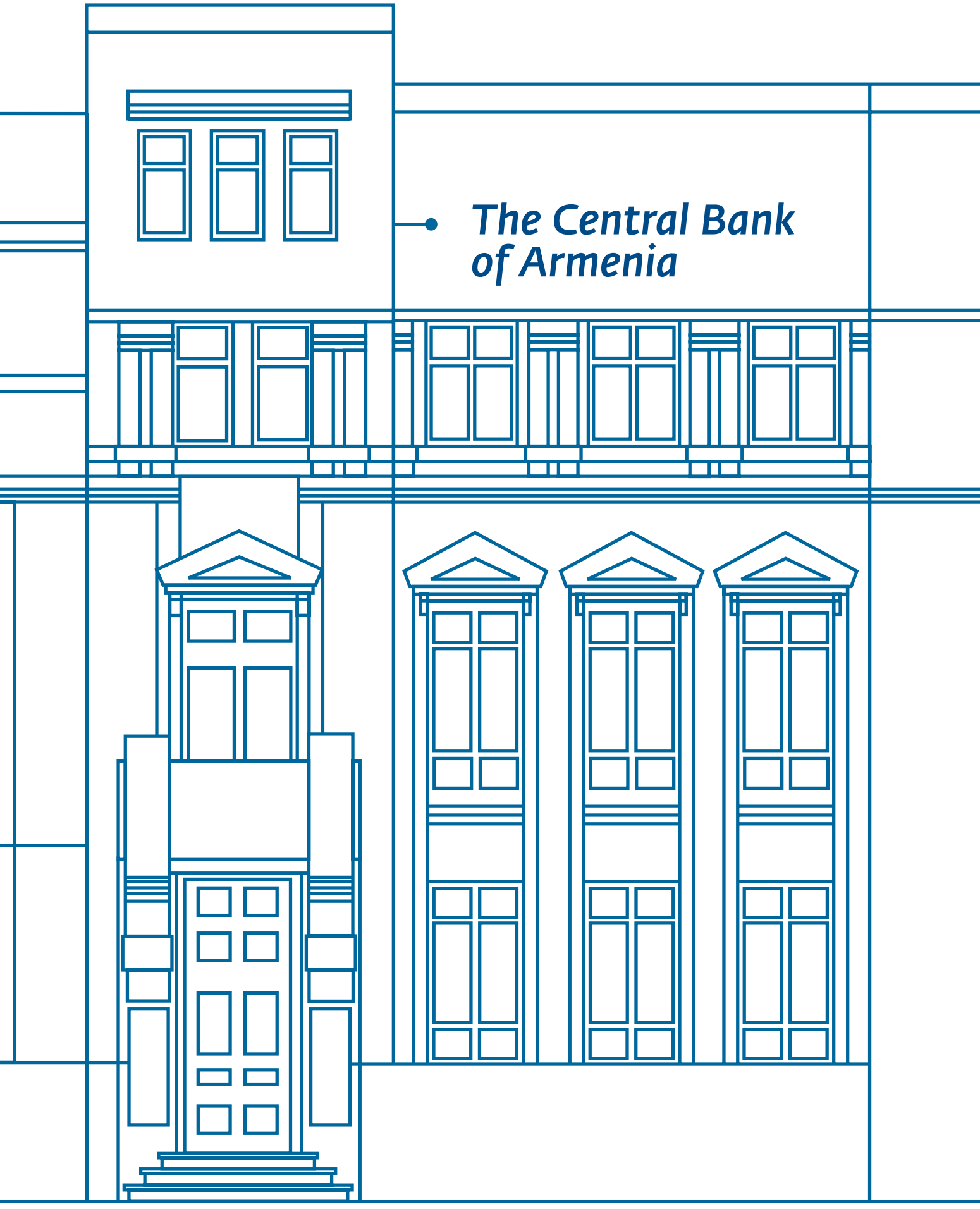
I would like to conclude that high professionalism of the personnel and high level of teamwork served unquestionably well for the Bank in facing the challenges during 2014.

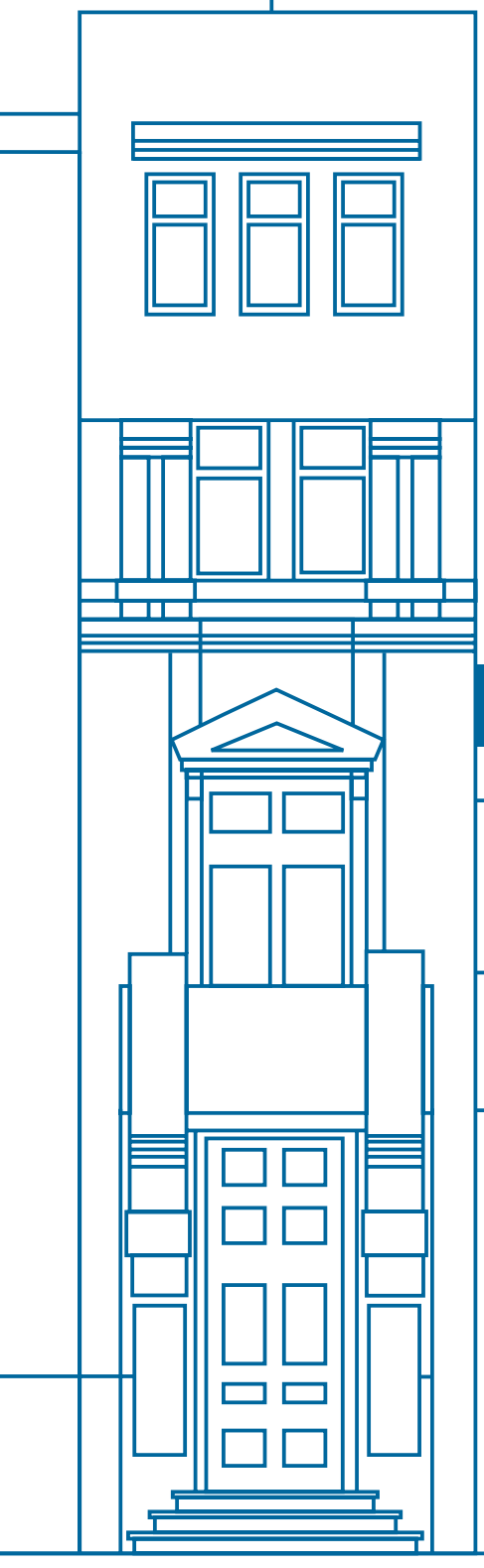
Chairman

Arthur Javadyan



The Central Bank of Armenia





About the Central Bank

The primary goal of the Bank is to maintain price stability in the Republic of Armenia, according to the Republic of Armenia Law on the Central Bank. To achieve this goal, the Bank has a function of taking measures to attain price stability while formulating, approving and implementing monetary policy programs.

Mission of the Central Bank

- be an internationally recognized effective institution that is independent, dynamic, prestigious, transparent, knowledge-based and onlooker of development trends in global financial system,
- maintain institutional capacity to timely respond to the change in economic environment and effectively influence economic processes,
- support on an ongoing basis the sustainable macro-economic development of the country, while being an important partner to the Government of Armenia in facing economic challenges.

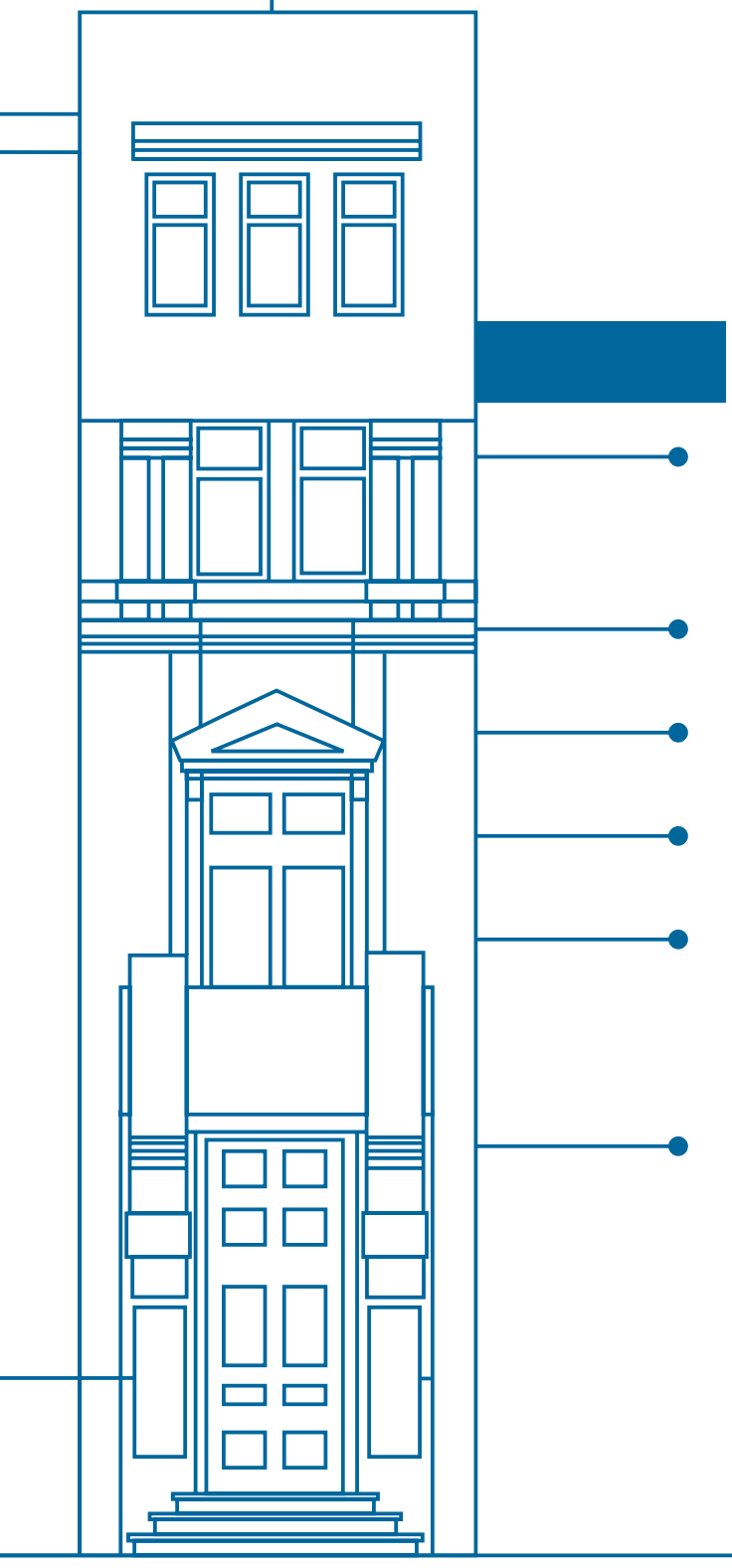


The Board of the Bank

In the center: Chairman of the Central Bank
Arthur Javadyan

Sitting (left to right):
Nerses Yeritsyan
Ashot Mkrtchyan

Standing (left to right):
Arthur Stepanyan
Oleg Aghasyan
Armenak Darbinyan
Vakhtang Abrahamyan



Objectives of the Bank:

Ensure stability and normal activity of the financial system of the Republic of Armenia, including ensuring conditions necessary for stability, liquidity, solvency and organic growth of the domestic banking system,

create and develop an effective payment and settlement system,

issue domestic currency of the Republic of Armenia, and organize and regulate money circulation thereof,

arrange and regulate a framework for combating legalization of criminal proceeds and financing of terrorism,

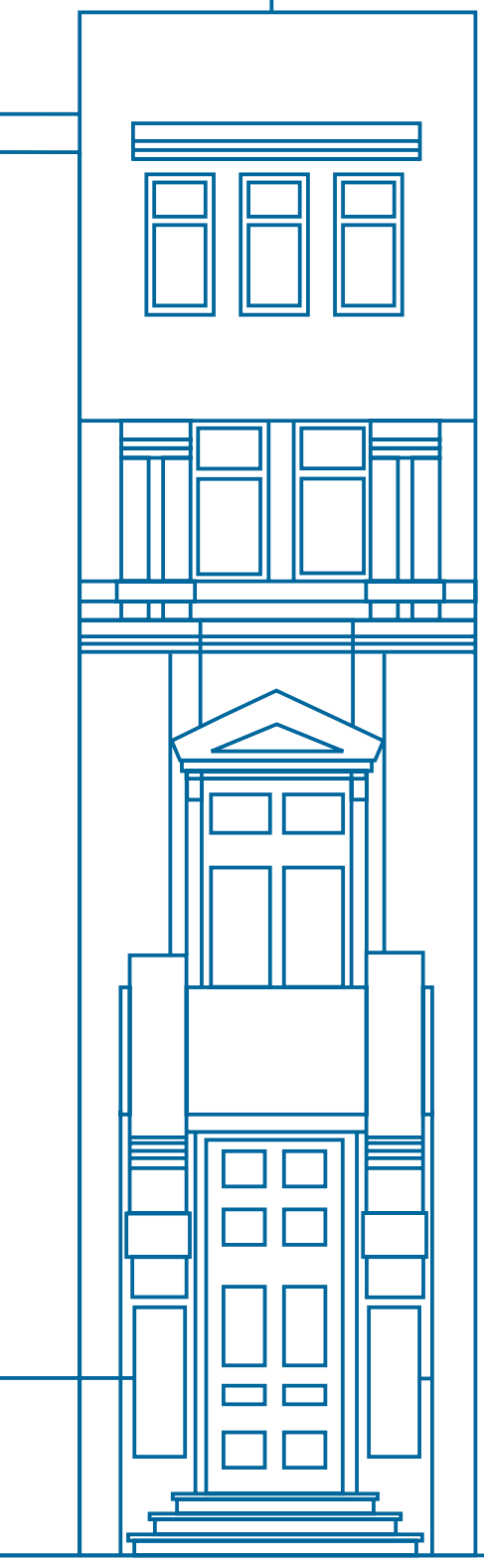
ensure essential conditions for protection of investors in securities, formation and retention of equitable quotation at securities market, regulation of normal fair, transparent, trustworthy activities of securities market and its development, and

provide essential conditions for protection of rights and lawful interests of consumers of financial services.



To Achieve its Objectives, the Bank Shall:

- implement bank servicing of the Government,
- act as fiscal agent and advisor to the Government,
- license banks, as well as other entities, as and when provided for by law, and regulate and supervise activities thereof,
- provide loans to the banks as a lender of last resort,
- regulate and supervise activities of payment and settlement system, including those of non-bank organizations, which provide such services,
- own, use, and dispose of international reserves of the Republic of Armenia,
- collect, finalize and promulgate monetary and financial system statistics,
- collect, coordinate and analyze information concerning legalization of criminal proceeds and financing of terrorism, exchange and deliver such information to competent intra-governmental authorities and international organizations, and competent authorities of other countries, if stipulated by international agreements of Armenia,
- regulate and administer activities aimed at improving market conduct and financial literacy of society.



Review of Strategic Directions

According to the 2012-2014 strategy, as an independent institution as well as guarantor of price and financial stability in the medium and long run, the Bank will ensure its prestige in fulfilling the primary objective by further looking to maintain sustainable economic development, integrate to international markets and play an important role in providing financial services at the regional level. In 2013-2014, the Bank spent efforts to further introduce best international experience to the financial sector to pursue diversity and sustainable development in the sector.

In 2014, the Bank prioritized the following objectives:

Maintaining Price Stability:

The monetary policy implemented under the inflation targeting strategy was steered to maintaining price stability and anchoring public expectations within the target range, while creating important preconditions for sustainable growth in the long run. The inflation environment in 2014 remained low due to ***sluggish economic growth rates and a significant decrease in prices of some food products*** amid a low level of investment and slower private consumption growth rates during the year. The expectations were exceeded to some extend at the end of the year when escalated geopolitical issues at the global and regional level had repercussions in Armenia. The monetary policy implemented on the back of a floating currency policy and high transparency has contributed to the fulfillment of the inflation target in the end of the year. As a result, 12-month inflation rate at the end of 2014 was 4.6%, which is within the confidence band.



Maintaining Financial Stability:

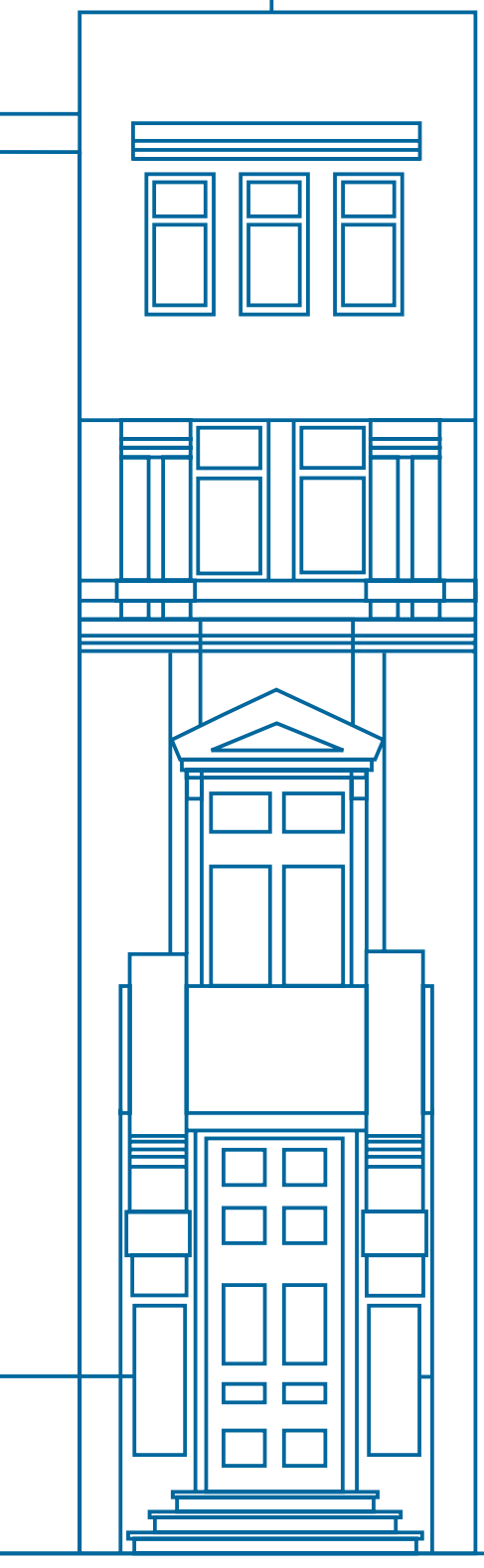
In 2014 the Bank continued its efforts to strengthen financial stability and further improved regulatory and supervisory frameworks as part of the financial stability strategy. Financial intermediation was further enhanced. The financial sector assets-to-GDP ratio has grown by 5.7 pp and the credit-to-GDP ratio by 6.1 pp, to make up 82.8 percent and 48.9 percent, respectively.

Regulating Circulation of Local Currency:

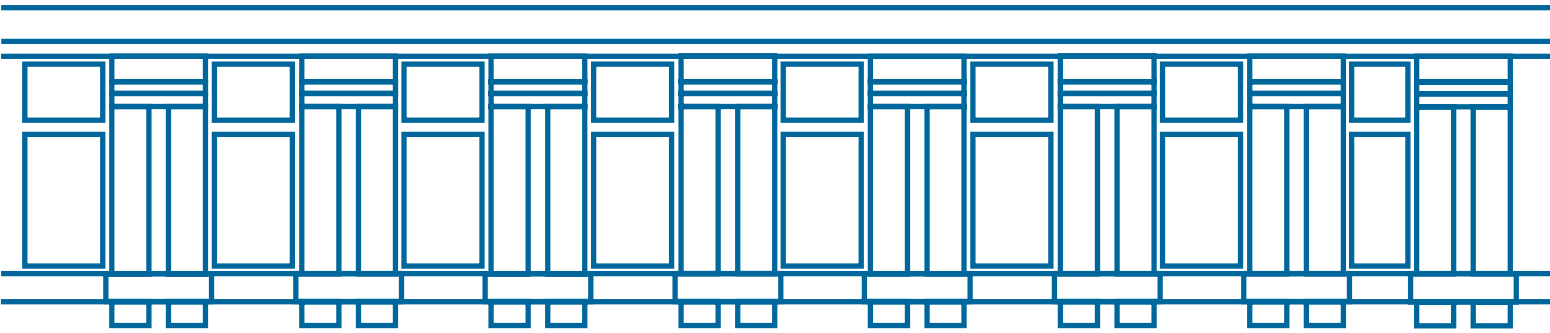
In 2014 further work was done to design a single information system for cash operations management within the Bank. During the year, the Vanadzor regional cash center terminated its activities while two other regional cash centers — the Dilijan and Syuniq RCCs — equipped with up-to-date facilities were set up. More commemorative coins to celebrate the jubilees of famous Armenians were issued with the aim of proliferating national, historic, cultural and spiritual values. The Bank took part in the international numismatic program "FIFA World Cup 2014" and continued issuing commemorative coins from "Treasures of Etchmiadzin" series. The Bank issued and put into circulation a new set of collector coins, with nominal value 200 drams, dedicated to wild trees growing in Armenia.

Institutional Development:

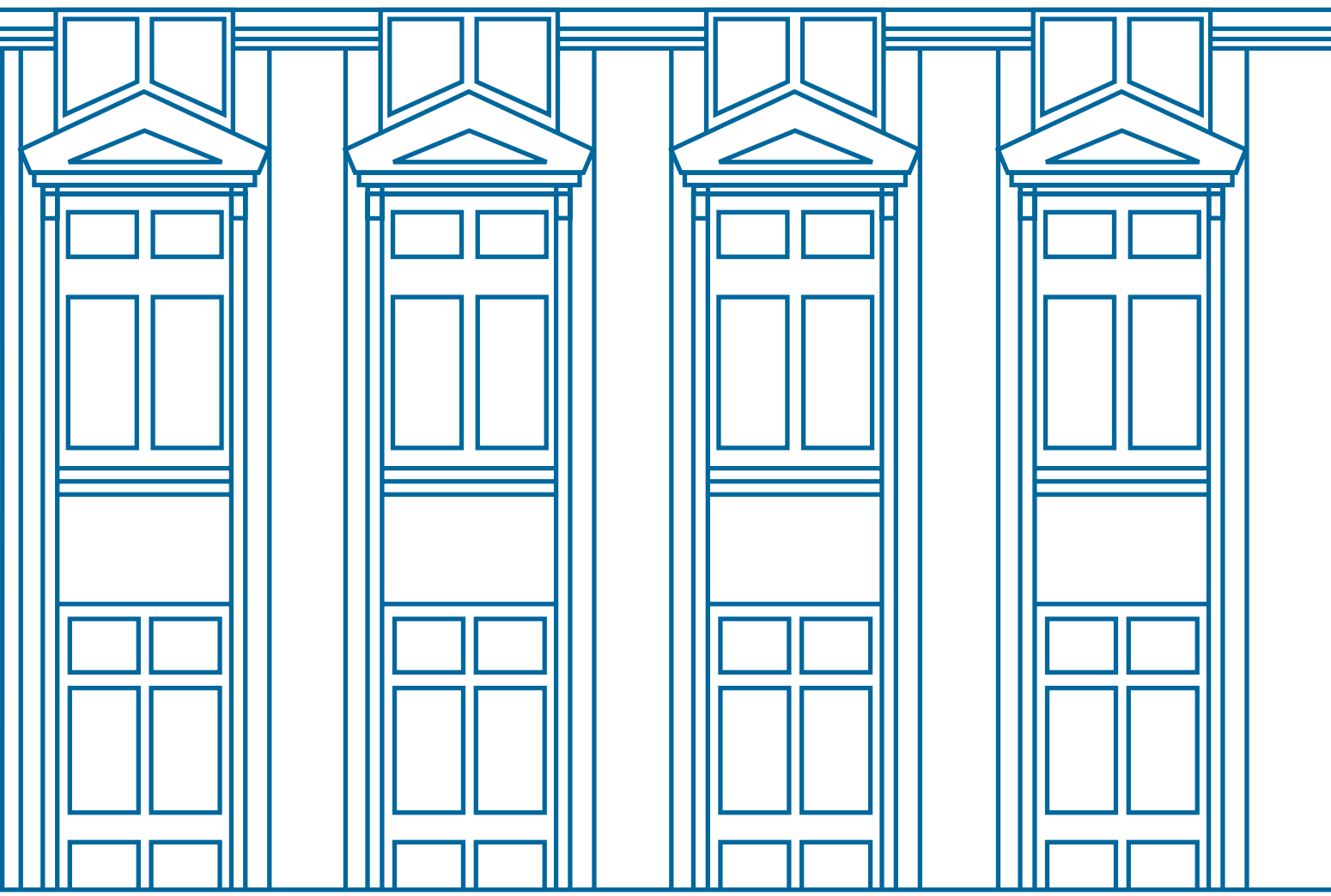
In 2014 the Bank continued its capacity building for the Dilijan Training and Research Center. The Center now houses relevant structural units of the Bank. The Center has been created to strengthen scientific and research arm of the Bank. Extended courses on advanced economics tailored for Economic Research Department of the Bank is now finalized at the Center.

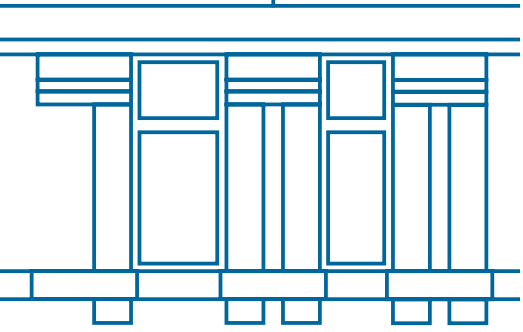


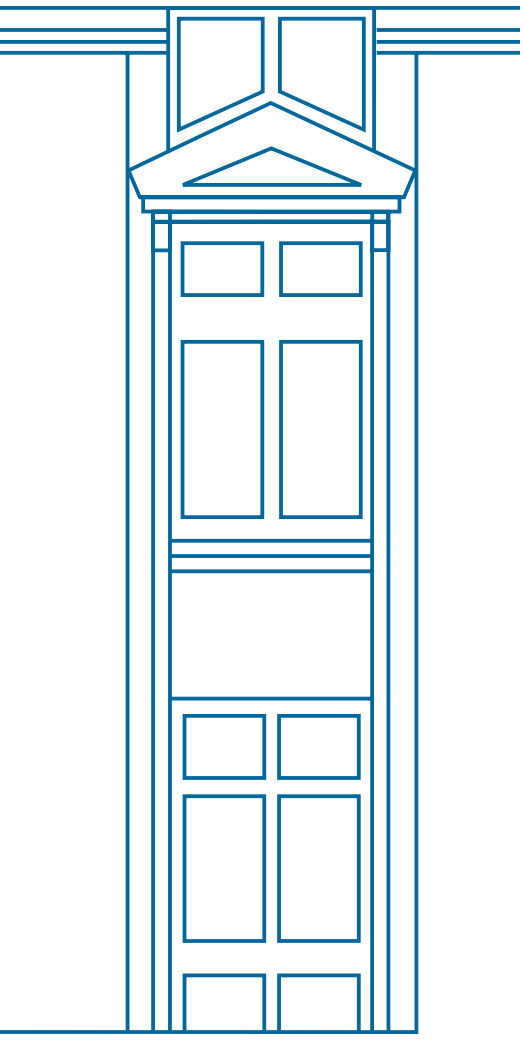
In 2014, the Bank continued professional and research capacity building. The information security management system was further improved and aligned with internationally accepted standards, with information risks categorized and made manageable. Most banks have been certified or are in the final stage of certification by the ISO/IEC 27001:2013 standard.



Maintaining Price Stability







Monetary Policy

Primary Goal of the Bank

According to Article 4 of the Republic of Armenia Law on the Central Bank, ***the primary goal of the Bank is maintaining price stability,*** whereby the Bank contributes to the implementation of economic policy for a long-term sustainable economic growth. Price stability means a certain level of inflation which the Bank accepts as a target level of inflation or inflation target. In Armenia, the inflation target is set in the Central Bank monetary policy programs, medium-term expenditures frameworks of the Armenian Government, the Republic of Armenia law on state budget as well as Republic of Armenia 2014-2025 Strategic Program of Prospective Development. The Bank is independent in deciding on a strategy for conducting monetary policy, intermediate and operational targets as well as monetary instruments.

Since January 1, 2006, the Central Bank has moved to an inflation targeting strategy, whereby a projected level of inflation serves an intermediate target and short-term interest rate serves an operational target. Interest rate (Refinancing Rate) of repurchase operations is the main instrument of monetary policy in the Republic of Armenia. The Board of the Bank determines the Refinancing Rate according to a pre-announced annual timetable. Interest rates of the monetary policy instruments take effect the day following its setting.

Inflation targeting strategy strongly highlights the Bank's communication to the public, one of the main ways of which is through publication of inflation reports on a quarterly basis [1]. The first part of the inflation report contains the next quarter's monetary policy program and the second part presents the status implementation of

[1] See the Inflation Report of the Central Bank, which is available at the Bank's website: www.cba.am.

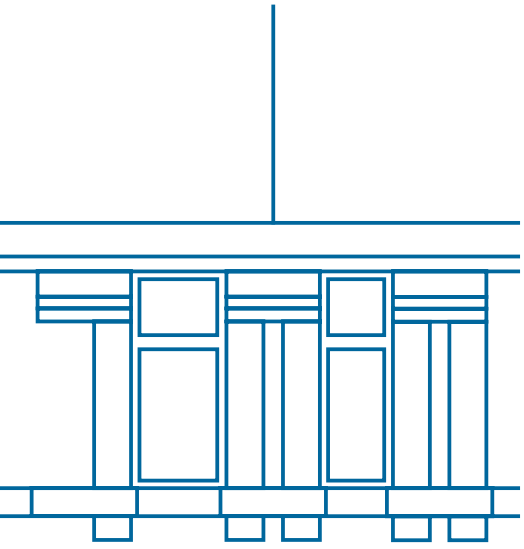


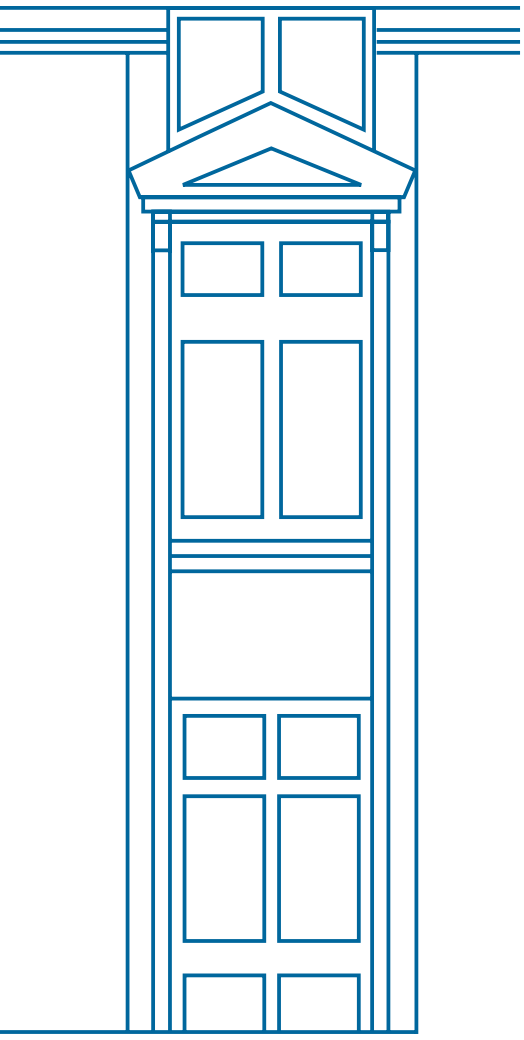
the previous quarter's monetary policy program steered to attain the inflation target.

Fulfilling the Primary Goal

The first quarter 2014 monetary policy program envisaged that ***the 12-month inflation would continue reducing over the year*** to approach the lower bound of the confidence band in the third quarter of the year, attributable to the phased out effect of energy price increase in July 2013. At the end of the year, the 12-month inflation rate would have to stabilize around the target due to a lagged influence from loosened monetary conditions and an expansionary fiscal policy to be implemented and in the forecast horizon it would hover around the confidence band. Under such developments, the Bank would carry on loosening the monetary conditions during the first quarter of 2014 in response to an expected sluggishness in economic activity, while further policy directions would have to be also determined by the pace of the fiscal policy implementation.

According to actual developments, based on the past 11 months of 2014, the inflation amounted to 1.5 percent compared to ***4.4 percent*** recorded in the same reference period last year, under which circumstance the 12-month inflation rate has reduced gradually to ***2.6 percent*** in late November of 2014, staying within the lower bound of the confidence band. It should be noted that in the same period ***the 12-month inflation rate has reduced at a faster-than-expected pace,*** driven primarily by sluggish economic growth rates and a considerable falling of prices of some food products in the light of low investment and slower private consumption growth rates. On the back of these developments, the Bank continued to loosen the monetary conditions by cutting the Refinancing Rate ***over 11 months of 2014*** a total of 1.0 pp to ***6.75 percent*** in late November. The reserve requirement ratio for local currency lowered from 4 percent to 2 percent in February was another measure of monetary policy easing by the Bank.





The inflationary developments varied significantly and topped the expectations at the end of 2014 as geopolitical and economic issues came in even more complicated at the global and regional level. On the other hand though, during 2014 the U.S. economy saw its economic growth rates accelerating and the dollar strengthening in contrast to depreciating currencies and high inflationary environment in other developed and developing countries. All these developments had repercussions on the Armenian currency market in late 2014 when the local currency depreciated sharply in expectation of a substantial downsizing of transfers from the rest of the world and particularly Russia, a principal trading partner, as well as slowing economic growth rates. The depreciation of the dram reflected the product market straightaway, expanding the inflation environment and creating inflationary expectations. This resulted in 3.0 percent inflation in December against 1.1 percent inflation recorded in the same reference period last year, under which circumstance ***the 12-month inflation rate reached 4.6 percent instead of an expected 3.2 percent at the yearend,*** while still being near the confidence band (Figure 1).

The aforementioned developments later the year contained risks to price and financial stability disruption, and the Bank responded to the situation rigorously by raising in late November the ***Lombard Repo Facility Rate from 8.25 percent to 21. percent,*** followed by a mid-December increase of the ***Reserve Requirement Ratio for funds attracted in foreign currency from 12 percent to 24 percent.*** Following these actions, the currency and product markets were able to see some signs of stabilization in late December, which is why the Bank lowered the Reserve Requirement Ratio for funds attracted in foreign currency ***from 24 percent to 20 percent*** and the Lombard Repo Facility Rate ***from 21 percent to 20 percent.***

At the same time, to moderate future inflationary pressures and have the inflationary expectations anchored around the target the Bank raised the Refinancing Rate to ***8.5 percent*** in late December, reflecting

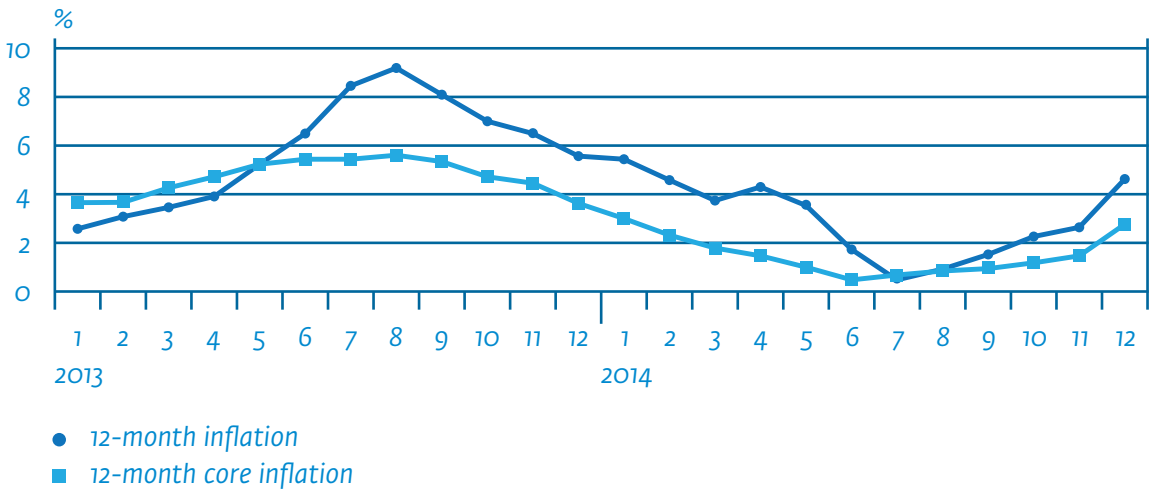
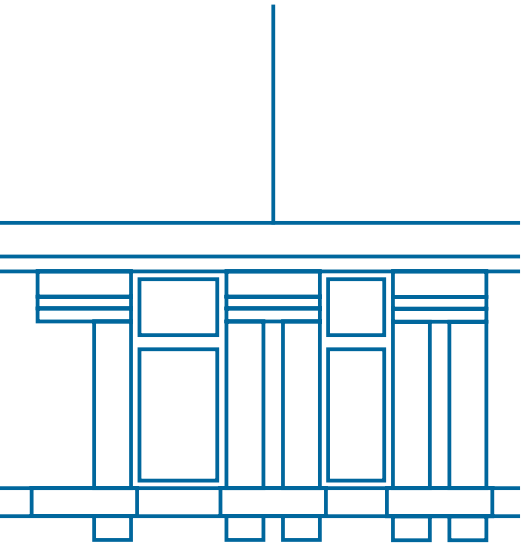
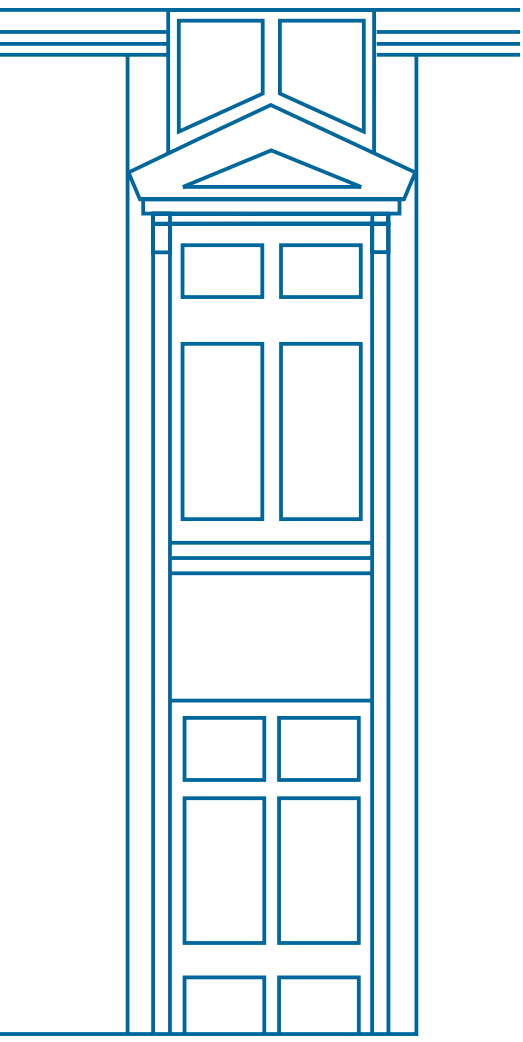


Figure 1. Until July 2014, the inflation environment has loosened faster than expected but expanded later; at the end of the year the 12-month inflation rate stood at 4.6%, close to the target.

upward trends of investment risk and interest rates in developing countries over a longer term.

Interest rates in the financial market demonstrated trends in line with changing patterns from the Bank's Refinancing Rate and up until end-November they sloped down. Beginning late November, when the Bank tightened the financial market conditions in order to mitigate high inflation environment and anchor existing inflationary expectations, the short-term dram market rates reacted through a steep rise, ***shaping temporarily around the Bank's Lombard Repo Facility Rate.*** As a result, the Lombard Repo Facility Rate has taken, since the yearend, the role of leading interest rate in financial market's local currency sector.





As the economy returns to normal conditions, the policy actions will reduce the spread between the Bank's policy and short-term dram market rates, ***recovering the leading role of the Refinancing Rate in the market*** and contributing to the financial market stabilization and fulfillment of the inflation target in the medium term (Figure 2).

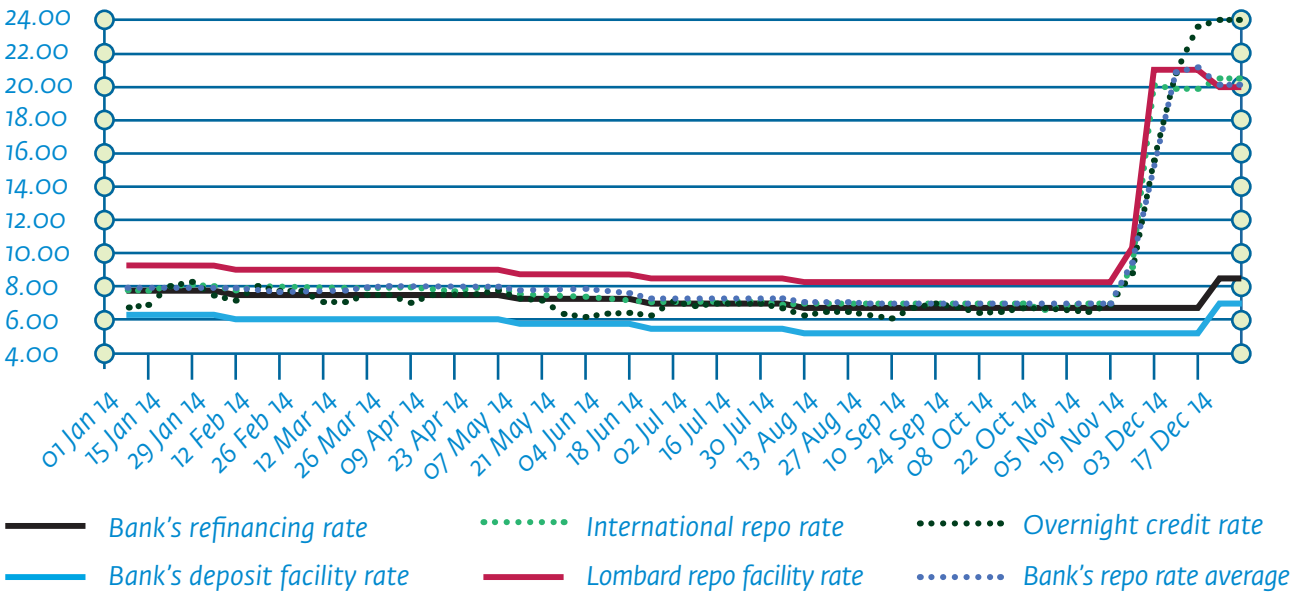
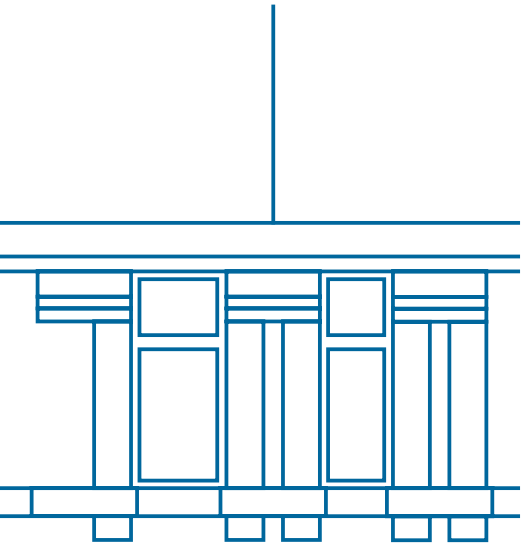


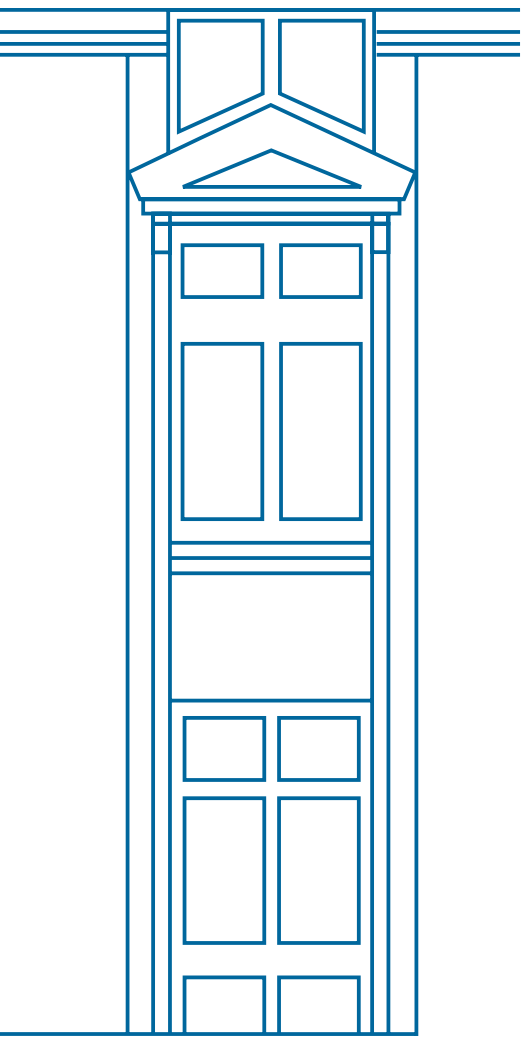
Figure 2. Interest rates of the Bank instruments and short-term market rates in 2014

Improvement and Advancement

The Bank continuously works on advancing its Forecast and Policy Analysis System (FPAS) in order to produce improved quantitative and qualitative features. These enable the Board of the Bank to have a clearer understanding of the macroeconomic situation and make more informed decisions about future directions of the monetary policy.

In the period under review, ***the Bank improved its core Quarterly Projection Macromodel,*** which has a number of advantages and which





more accurately describes the specificities of the Armenian economy. The new model reconsiders the inflation disaggregation by individual commodity groups, taking into account relative volatility of components in the consumer basket and the factors that describe their behavior. At the same time, further efforts were spent to offering more precise equations for some segments of the model, the real GDP gap and real interest rate, in particular.

The Bank continued working on designing and improving ***short-term forecasting, support and satellite models*** for various sectors of the economy. In particular, ***a new short-term inflation forecasting model*** on the basis of much broader commodity groups ***in the consumer basket*** was designed during 2014 in pursuit of an improved quality of inflation forecasting. The new model conforms to the inflation disaggregation principles in the core model.

In 2014, the Bank developed and improved the short-term forecast segment of the model framework on world economy forecasting through inclusion of auxiliary models which are built on the basis of new methodology for predicting time series.

In the period under review, a ***model for estimating the GDP gap*** was designed and introduced. In the model, the agriculture sector as a factor influencing the aggregate demand was disintegrated from the GDP. This method estimates supply and demand shocks as well as inflationary pressures they create in the economy more precisely.

A new approach to estimating real equilibrium exchange rate and getting prior conditions for the real exchange rate was developed and put into practice. The approach is based on the description of correlations between trend and cyclic developments with the current account and real exchange rate movement.

In 2014, the Bank developed and introduced ***a forecast comparison, analysis and effectiveness evaluation system*** of the core quarterly projections model. The system separates the error of former forecasts according to contribution to model modification, previous expert



judgment and data update. The system allows comparing the results of forecasts made in two different quarters, evaluating existing deviations, identifying the causes as well as the results of different scenario-based forecasts made for the same quarter and the main contributing factors.

During the year, the Bank designed and applied ***the Dynamic Stochastic General Equilibrium Model for the labor market;*** in it the labor market is divided into formal and non-formal segments. The model makes it possible to have a clearer understanding the inflationary effect of the labor market developments and evaluate the transmission mechanism of monetary policy in the context of labor market.

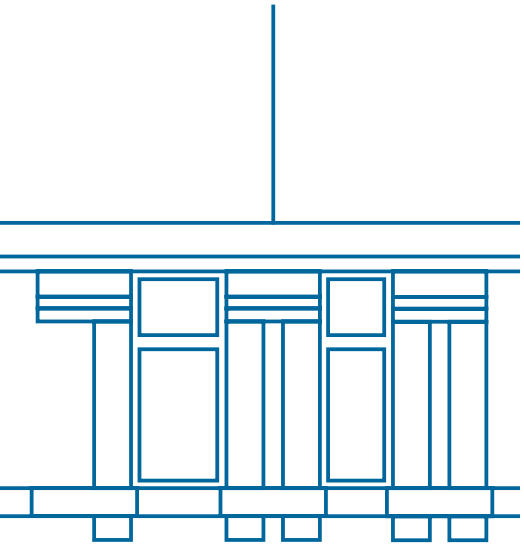
In 2014, the Bank prepared for ***designing a new version of database for the FPAS model framework*** which would enable to aggregate data of an entire process in a single base thus increasing the effectiveness of its management.

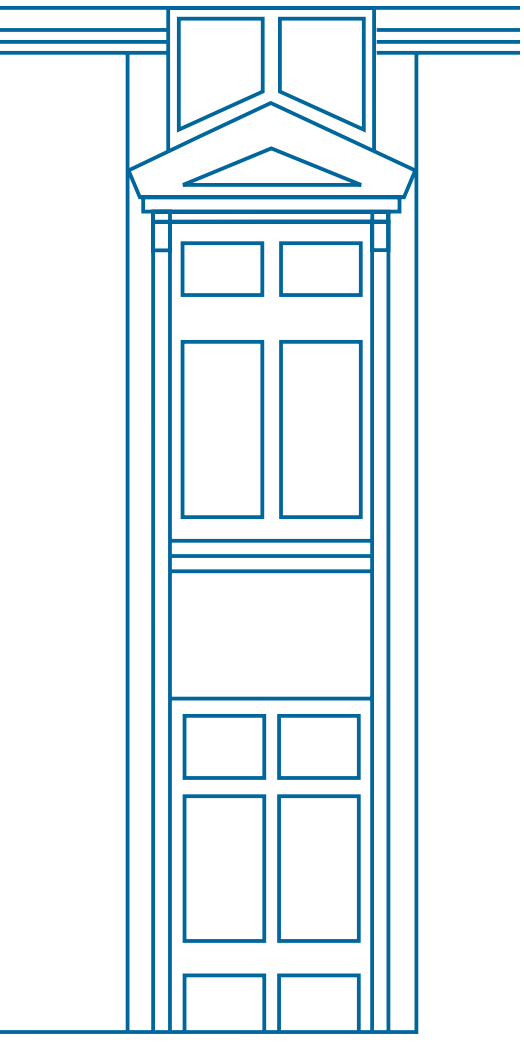
Statistics

The Bank collects, compiles and publishes monetary and financial statistics in pursuit of the objectives laid down in the Republic of Armenia Law on the Central Bank. The Bank uses the statistics internally in implementation of its mandate for formulating a monetary policy, maintaining price stability, developing payment and settlement system and such other functions on the one hand and publishes it for external users as government departments, financial market participants as well as international institutions on the other.

In 2014, the Bank further worked on collecting, publishing and improving timely and accurate statistical data. According to the work plan of the Statistics block, efforts were spent to broaden the statistical coverage and publishing frequency as well as to improve the methodology for data collecting [2].

[2] The Bank publishes the statistical data in the "Central Bank Bulletin" (a monthly periodical), the "Statistical Bulletin of the Central Bank" (an annual periodical) and the Bank's Internet website, at the following links:
https://www.cba.am/am/SitePages/statspmonthlybulletin.aspx
https://www.cba.am/am/SitePages/statspannualbulletin.aspx
https://www.cba.am/am/SitePages/statdatabank1.aspx





New Data Collecting and Calculation

In the period under review, the Bank took part in a pilot program on collecting data that describe financial stability indicator concentration and distribution, which was organized by the International Monetary Fund. A handful of statistical indicators describing financial stability of the Armenian banking system in 2010-2013 were calculated as part of the program. These indicators denote the situation in the banking system more accurately so their usage in assessing the financial stability in the banking system is more advisable.

Work was done to encompass new data on the Armenian economy through improved methodology of sample research and surveys. Specifically, a series of thematic and target surveys were developed to cover, among others, aspects such as "The description of the situation in individual sectors of the economy or scope of activity" and "The disclosure of development perspectives". The results of surveys were used mostly in the context of implementation of monetary policy at the Bank.

Improving the Statistics Methodology

In 2014, the Bank started work to introducing the manual "System of National Accounts 2008", a new international standard for preparing the statistics of national accounts, in cooperation with the National Statistical Service and the Ministry of Finance. To this effect, the aforementioned authorities have set up an intergovernmental committee. A joint action plan and an implementation timetable were drawn up and approved for introducing the said manual and new (revised) standards of "Government Finances Statistics Manual 2014".

In the period under review, the external accounts statistics principles of the "Balance of Payments Manual, 6th edition" were introduced as well. Historical time series of external accounts' statistics since 1994 were revised.

International Reserves Management

In 2014, Armenia's international reserves decreased by nearly USD 762.1 million to USD 1,489.5 million at the end of the year (Figure 3).

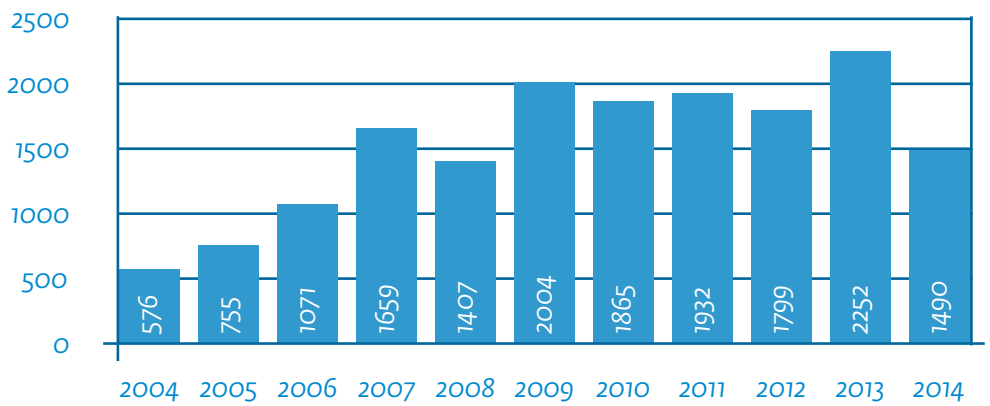
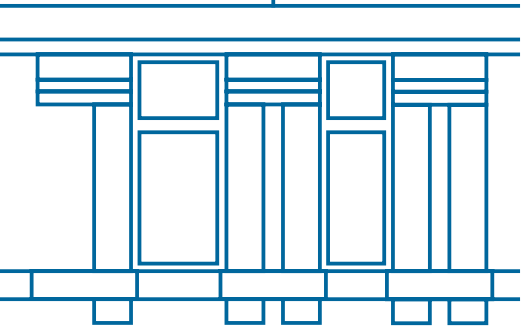
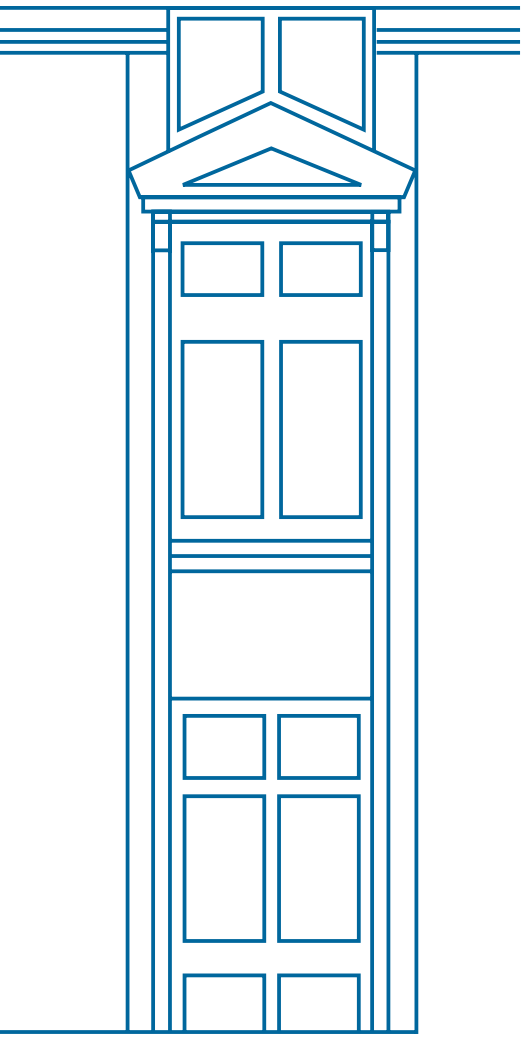


Figure 3. International reserves of the Republic of Armenia (million US dollar)





In the period under review, major factors for the changed volume of international reserves included an unprecedented slash in balance on foreign currency correspondent accounts of commercial banks with the Central Bank at the end of the year due to activities of banks and their customers (representing a decrease equivalent to roughly USD 305 million as opposed to the previous year's increase of USD 377 million) and net sale of foreign currency equivalent to about USD 310 million in Armenia's interbank market, which was aimed at curbing the inflation in pursuit of the monetary policy objective. The servicing of public debt of the Republic of Armenia (nearly USD 256 million) and disbursement of credit and grants from international institutions at the amount equivalent to USD 176 million were major fund flows during the year.

In the period under review, net foreign assets amounted to roughly USD 1,250.2 million.

In 2014, Armenia's international reserves were further in line with all requirements to international reserves applied in world practice. This is true especially in terms of the Armenian economy's ability to absorb possible external shocks. In 2014, international reserves of the Republic of Armenia provided for more than 4 months' import coverage and more than 5 years' coverage of servicing short-term (up to a year) liabilities.

In the period under review, gross international reserves of the Republic of Armenia were managed amid a variety of economic and political developments in international financial market, which can be summed up by splitting the leading countries into two groups.

In the first group of countries, i.e. the U.S.A. and the United Kingdom, the central banks began paving way for lifting the interest rates on the back of relatively faster economic growth rates, considerable reduction in the unemployment rate and moderate inflation rate.

Specifically, the U.S. Federal Reserve System terminated its program of asset purchasing and became more coherent in its messages about the expected timing for raising the policy rate.



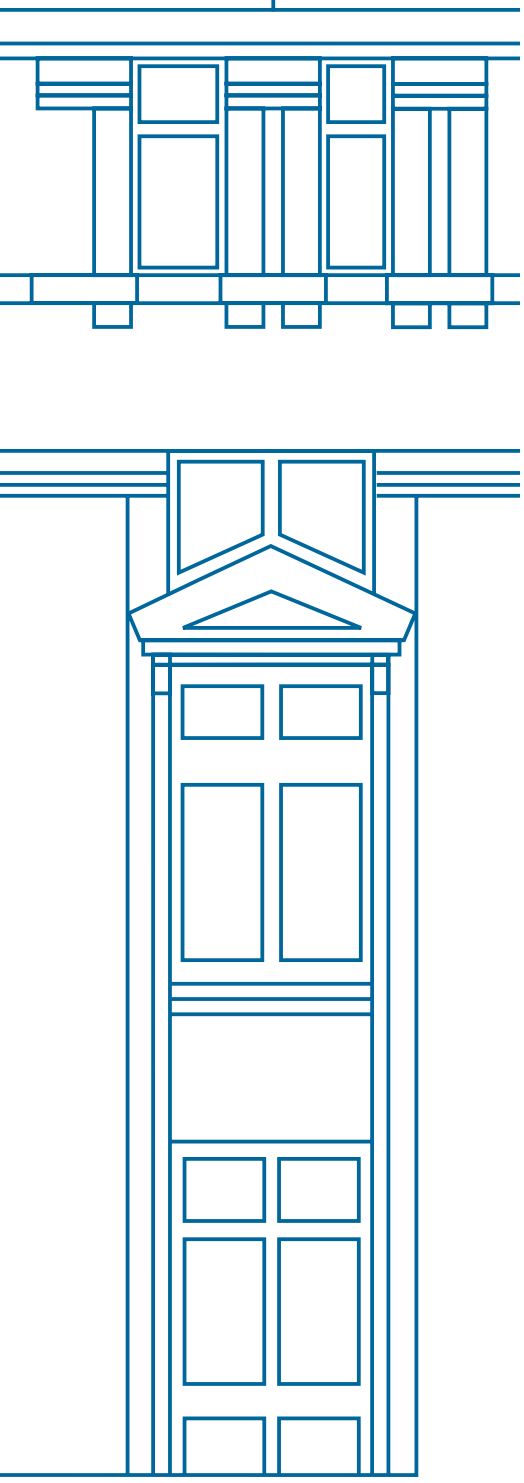
In the second group of countries covering the Eurozone and Japan, the economic activity remained sluggish while their central banks carried on stimulating the monetary policy with the view to attain the inflation target.

Over 2014, the European Central Bank has twice lowered the monetary policy rates. As a result, the Standing Deposit Facility Rate was set to be negative, -0.2 percent, which was unprecedented for the Eurozone countries. As well as the negative rate, the ECB intends to purchase government, agency and asset-backed securities for a pre-estimated amount of EUR 1.1 trillion in order to attain the inflation target and stimulate the economy.

As for the monetary policy carried out by the Central Bank of Japan, one may certainly characterize it as aggressively stimulating.

In addition to the aforementioned economic developments, the second half of 2014 saw a dramatic slump (as much as 50 percent) in oil prices, which lowered the medium-term inflationary expectations in developed countries.

In the period under review, short-term interest rates in the U.S.A. have not changed much whereas long-term interest rates plummeted by more than 100 basis points. In Germany, up to 5-year interest rates settled down on negative levels, with 2-year treasury bills' yield amounting to -0.1 percent at the end of the year or, which is the same, investors pay this interest to the German government if they purchase bonds (Figure 4).



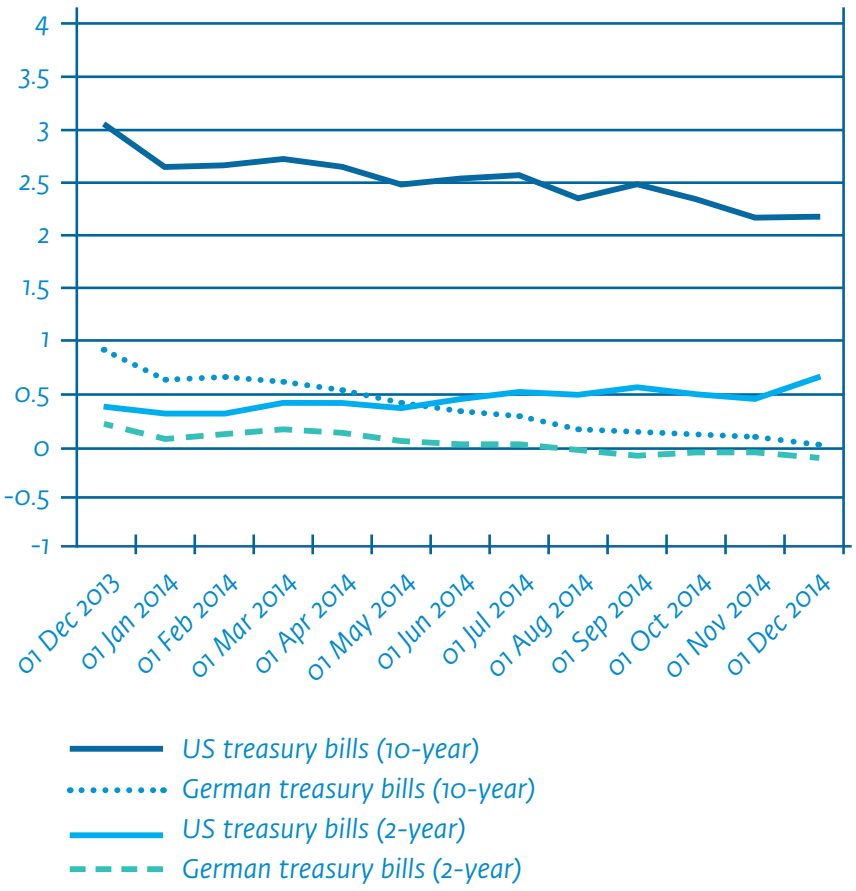
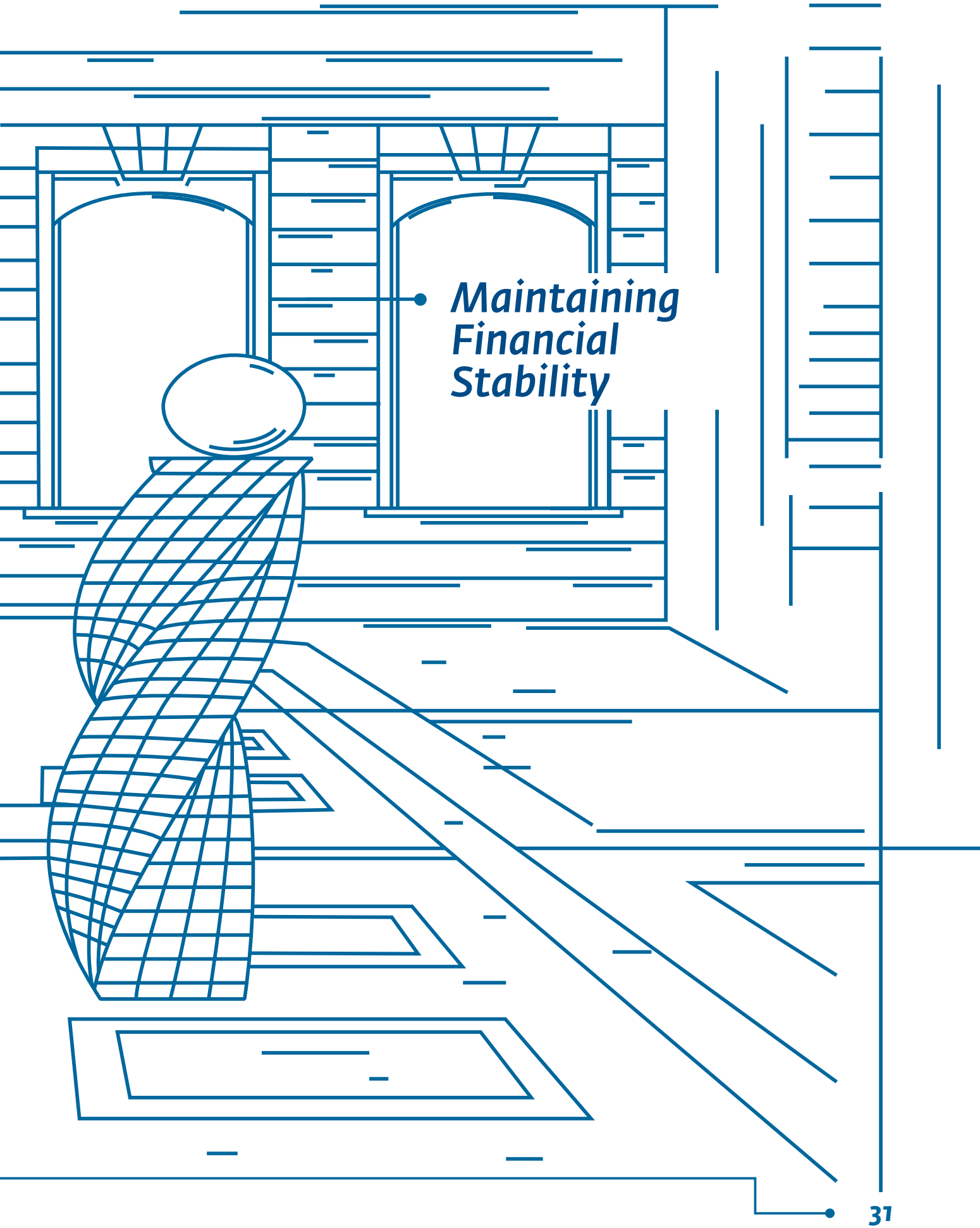
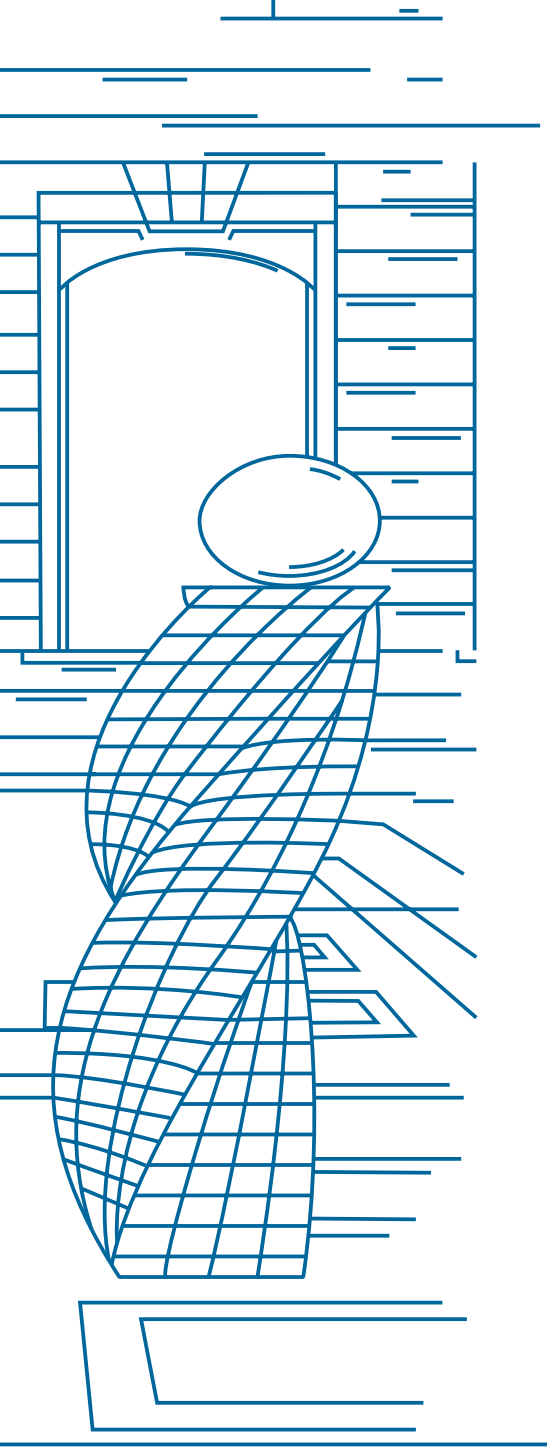


Figure 4. US and German treasury bills' yield

To sum up, in the face of the aforementioned uncertainties and developments in international financial markets, the Bank remained committed to a strategy of reserve management under as low risk exposures as possible, while making sure international reserves of the Republic of Armenia are managed effectively and securely, in accordance with liquidity and profitability principles.



Maintaining Financial Stability



Financial System Stability, Regulation and Supervision

In 2014, Armenia's financial sector further reported trends of dynamic growth of main balance sheet indicators and an increased level of financial intermediation.

The banking system is the largest player in the financial sector; it accounts for 90 percent of assets of overall financial sector (Figure 5).

In 2014, the banking system posted 15.9 percent growth of total assets to AMD 3,410.9 trillion; 2.9 percent increase of total capital to AMD 469.1 billion; and 18.3 percent increase in total liabilities to AMD 2,941.8 trillion.

Taking on the bulk of the losses due to currency volatility resulting from vulnerabilities in the external sector, the banking system posted a considerable decrease in profitability in 2014. The relevant indicators were as follows: the return on assets (RoA) ratio fell by 0.7 pp compared to the previous year to 0.8 percent and the return on equity (RoE) ratio dropped by 4.6 pp to 4.5 percent. However, credit to the economy has grown by 21.3 percent. The implementation of a number of financial programs with affordable conditions, including social programs (housing for young families, student loans, consumer loans for servicemen, etc.), as well as private ones (support to SMEs, agriculture, renewable energy, housing loans, etc.) were underway[3]. This was also backed by active implementation of social loan programs.

With the nominal GDP growth in 2014, the banking system posted a surpassing increment in the main balance sheet indicators thus contributing to the financial intermediation in the banking system. The

[3] The list of international financial institutions which evolve their activity in the Republic of Armenia through the Bank included another institution, namely the European Investment Bank, in 2014. A loan agreement entered into between the Bank and the EIB on December 4, 2014 is for the SME lending in the agriculture and tourism.



- Banks 89.5%
- Credit organizations 6.4%
- Insurance companies 1.5%
- Investment companies 0.8%
- Other financial institutions 1.8%

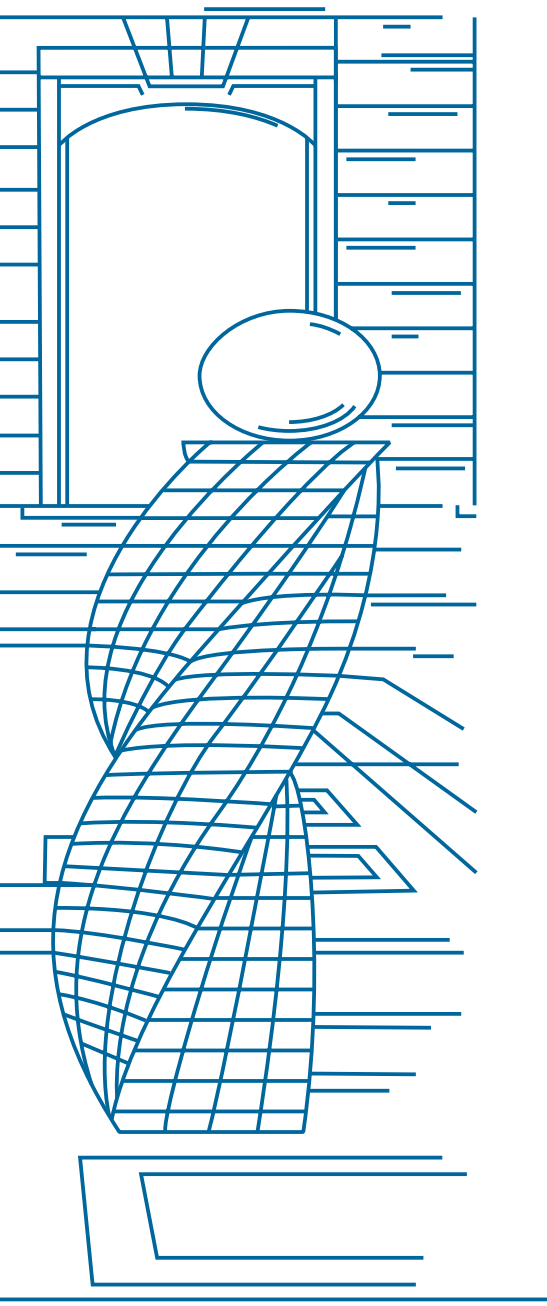
31.12.2013



- Banks 90.0%
- Credit organizations 7.1%
- Insurance companies 1.1%
- Investment companies 0.7%
- Other financial institutions 1.0%

31.12.2014

Figure 5. Assets of the financial sector by financial institution

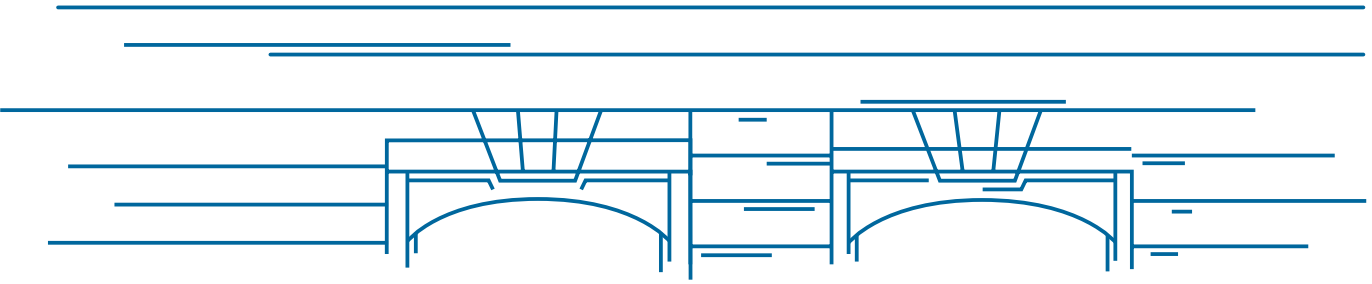


bank assets-to-GDP ratio grew by 7.0 pp to 75.4 percent and the bank loans-to-GDP ratio rose by 6.1 pp to 45.8 percent (Figure 6).

In the period under review, the Bank continued supervision through off-site and on-site inspection over the activities of financial institutions with the aim to further maintain financial system stability, evaluate financial market participants' exposure to risks, ensure compliance of legal framework, an effective fight against money laundering and terrorism financing and protection of consumer interests in the financial market.

The main task of off-site supervision is to monitor day-to-day activities and performance of financial institutions on the basis of reports received from them, make analysis of their financial condition, identify unacceptable risks, check compliance of their activity with the legal framework and quickly react, if necessary.

On-site inspections are provided for both comprehensive (all-purpose) and target examinations. In 2014, the supervisory arm of the Bank spent further efforts to identify and evaluate the financial institutions' exposure to risks, business conduct, accuracy of reportable information and so on. During 2014, the Bank carried out 369 on-site inspections, of which:



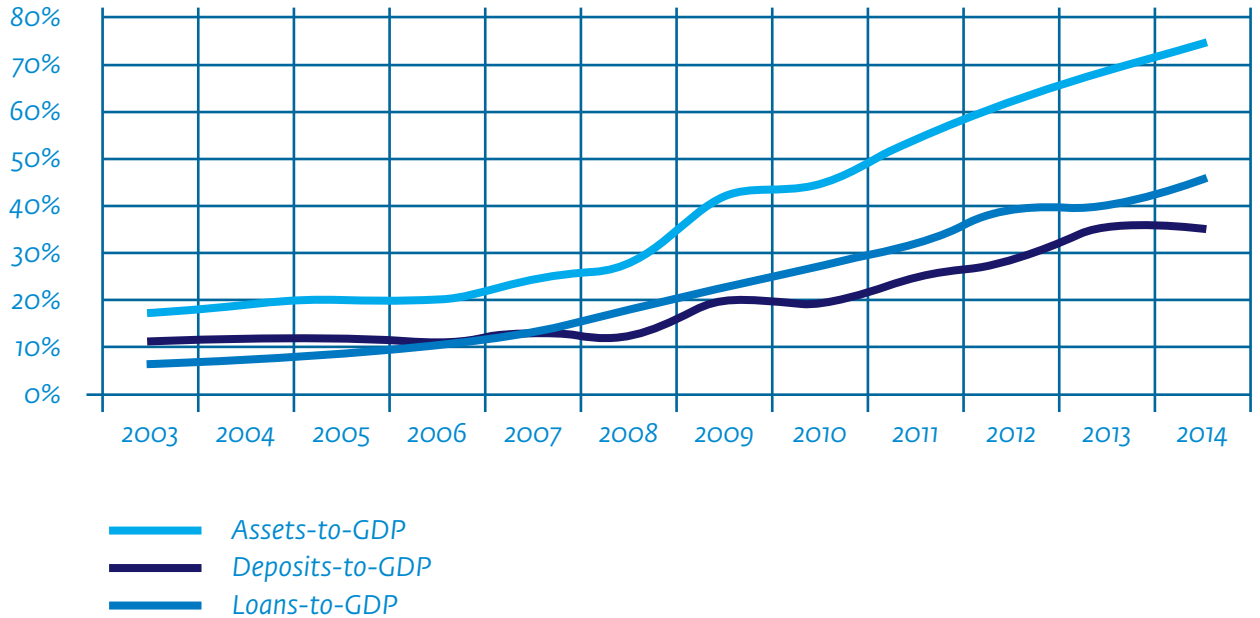
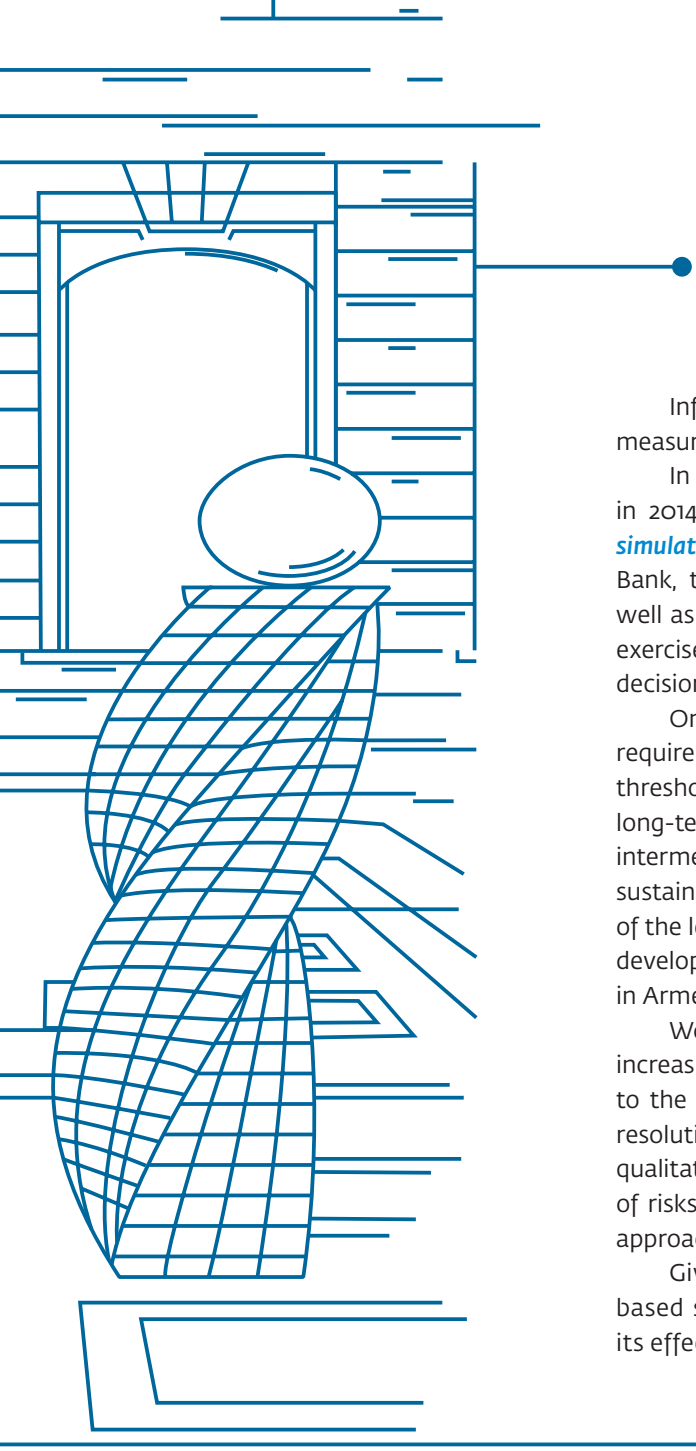


Figure 6. Financial intermediation indicators in Armenia

- 4 all-purpose inspections and 36 targeted inspections at banks
- 5 all-purpose inspections at credit organizations
- 2 all-purpose inspections and 19 targeted inspections at insurance companies
- 4 all-purpose inspections at investment companies



a total of 299 inspections at other financial system participants (exchange offices, pawnshops, payment and settlement organizations and etc.).

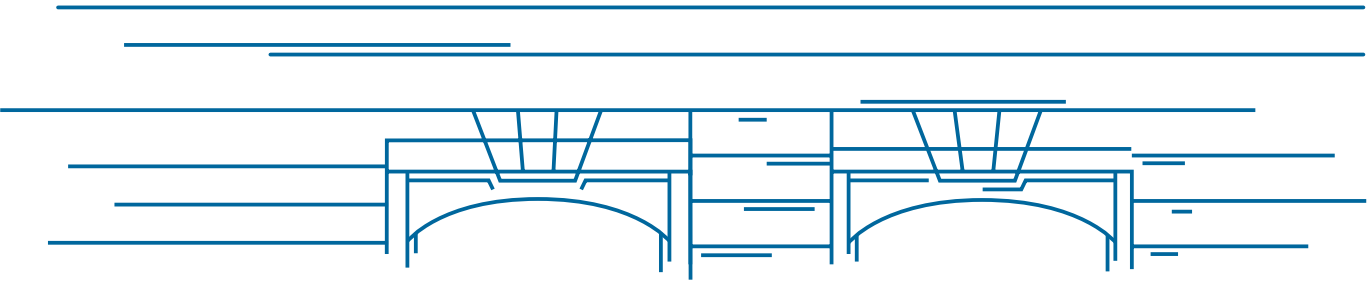
Infringements revealed through supervision were remedied and measures were taken to prevent similar breaches in the future.

In the context of maintaining financial stability and development, in 2014 the Bank carried on organizing ***financial crisis management simulation exercises*** with an involvement of managerial staff of the Bank, the Ministry of Finance and the Deposit Guarantee Fund as well as other personnel of the Bank concerned. The purpose of these exercises is to help participants become prepared for emergency decision-making and taking on timely measures.

On December 30, 2014, the Bank raised the minimum total capital requirement to the commercial banks, setting an AMD 30 billion threshold for them [effective January of 2017]. Looking forward to long-term stability, this adjustment is expected to boost up financial intermediation of the banking system, provide more guaranties for sustainable growth and an effective shelter for depositors. The raising of the level of capital will enhance the role the banking system plays in developing the economy thus increasing international profile of banks in Armenia in terms of competitiveness.

Work was further done to implement the ***Basel 3*** in pursuit of increasing the effectiveness in risk management at banks. New criteria to the composition and structure of regulatory capital under a 2014 resolution of the Board of the Bank was aimed at improving the qualitative elements of capital which is a principal source for absorption of risks. Work has been done to assess the possibility to taking new approaches to liquidity risk management.

Given the measures which the Bank took for drafting a risk-based supervision manual and guidelines, testing and determining its effectiveness during 2014, the final introduction of the risk-based



supervision will enable to increase the effectiveness of supervision over financial institutions through an optimal allocation of limited resources.

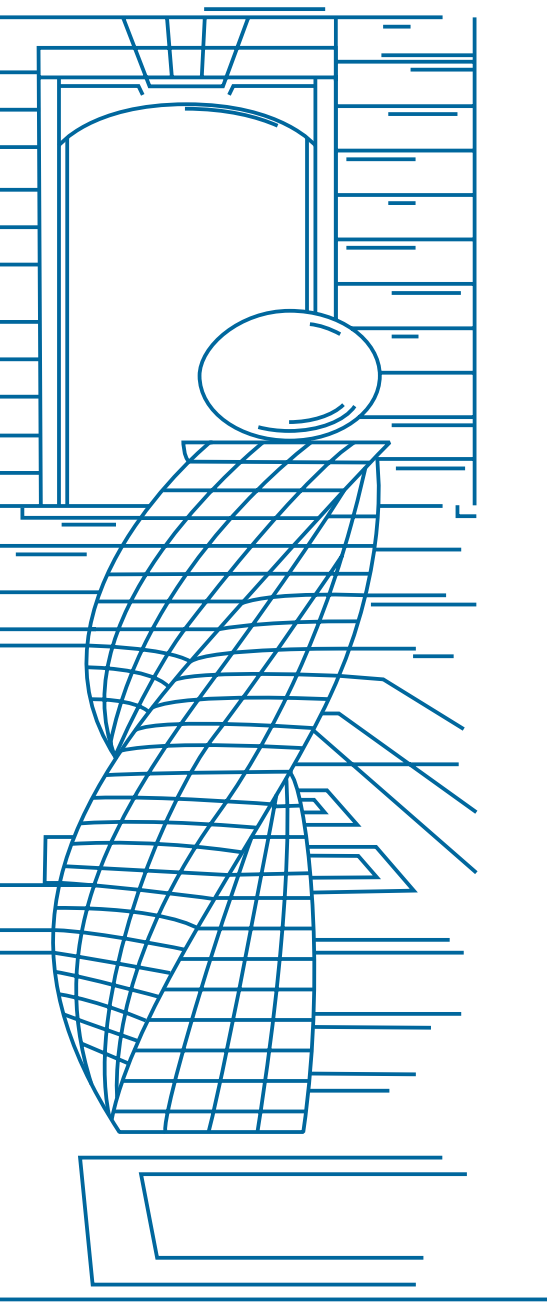
In the period under review, activities to introduce the Armenian Single Window for Automotive were an important development in the area of insurance. This represents a multi-lingual web platform with public and private accessibility, which offers a single electronic environment where the users can, among others, conclude motor third party liability insurance contracts and manage an entire insurance accident and indemnification process.

Payment and Settlement System

Emphasizing the importance of the payment and settlement system for financial stability, the Bank spent further efforts to maintaining a developed and reliable payment and settlement system in the Republic of Armenia, improving the framework for non-cash payments and regulatory field for payment and settlement relations.

Electronic Payment System

In the period under review, the value of average daily money transfers executed through the Electronic Payment System of the Bank grew by 31 percent to AMD 43.9 billion but the number reduced by 35 percent to 14 thousand transactions, in comparison with respective indicators reported for the same reference period last year. This was attributable to the streamlined application of EPS message types the local commercial banks use. As a result, the average value per electronic transfer amounted to nearly AMD 3.2 million, which represents more than a two-fold increase.



Securities Accounting Systems

In 2014, the government securities accounting and settlement system (GSASS) of the Bank was used to carry out primary placement of securities with a total value of around AMD 80 billion. This represented some 27 percent decrement in relation to the previous year.

In the period under review, a total of 26777 over-the-counter transactions on the secondary market (purchase and sale, pledging, removal of pledge, repurchase agreements, reverse repurchase agreements) carried out through the GSASS amounted to AMD 5,682 billion and a total of 14854 transactions for stock exchange depositing were carried out through the GSASS with the total value amounting to AMD 2,660 billion.

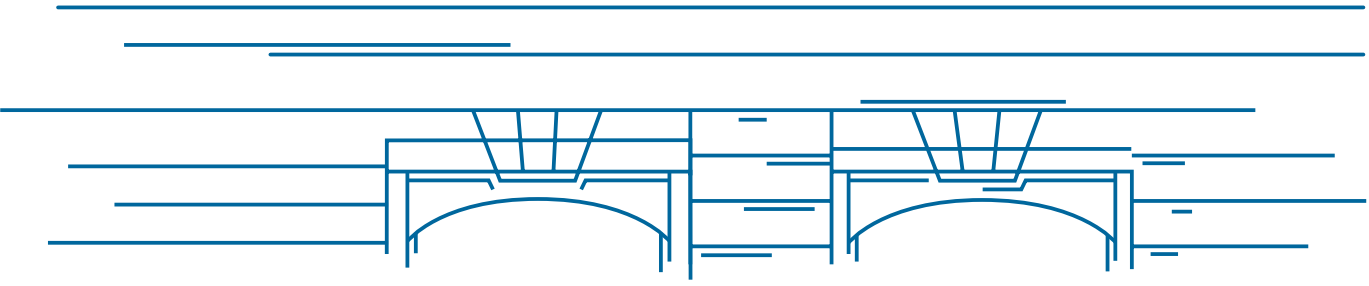
The Bank pursued modification in legal and software applications that would allow granting government securities of the Republic of Armenia their international securities identification number in order to make them internationally recognizable.

Measures were taken to develop the primary placement of treasury bills of the Republic of Armenia. Specifically, work was done to improve the procedures for final settlement by the Bank, design of software and drafting of regulatory papers.

The "Repo/Reverse Repo" system now makes it possible to carry out repo transactions through intraday netting in order for the system participants to manage the resources optimally.

International Money Transfer Systems

International payment systems were quite active in the Republic of Armenia in the period under review. As of 2014, local banks and payment and settlement organizations were members to a total of 13 foreign money transfer systems.



In the period under review, work was done to improve the legal framework for payment and settlement systems. In particular, the procedure on permitting participation in foreign payment and settlement systems has been simplified and the list of information provided to the Bank for granting permission to participate made clearer.

In November 2014, the Board of the Bank approved the concept "Creation of Armenia Remittances Unified System (ARUS) in the Republic of Armenia and Basic Principles of Operations". The functioning of this system will definitely contribute to the progress in the area of retail transfers in terms of financial stability in general and oversight of activities of foreign payment and settlement systems in Armenia for increased transparency in particular. The ARUS project will also contribute to an improved payment risk management, a better framework for combatting money laundering and terrorism financing as well as effective resolution of problems arising in connection with integration of payment systems in the context of Eurasia economic cooperation.

Payment Instruments

As of the end of 2014, a total of 19 commercial banks in Armenia had payment cards issued and offered servicing of cards to their customers. All these banks are members to ArCa, a unified cards payment platform.

The total number of cards in circulation grew by 5 percent against the previous year and amounted to 1.6 million (Figure 7).

In 2014, operations with payments cards in the Republic of Armenia totaled AMD 1,278.4 million. The value of non-cash payments has increased by 25 percent and amounted to AMD 132.7 billion, of which the value of internet transactions amounted to AMD 25.1 billion (including e-commerce, AMD 5.4 billion, card-to-

card transfers, AMD 19.6 billion). The share of non-cash payments by cards (transactions via the Internet included) in total operations with payment cards has grown by 0.3 pp against 2013 and reached 10.4 percent (Figure 8).

In the period under review, more efforts were aimed at improving the regulatory framework for payment instruments. Specifically, types and scope of usage of payment cards issued by local banks was clarified and the form of statement of the previous month's card transaction reportable to the cardholder improved.

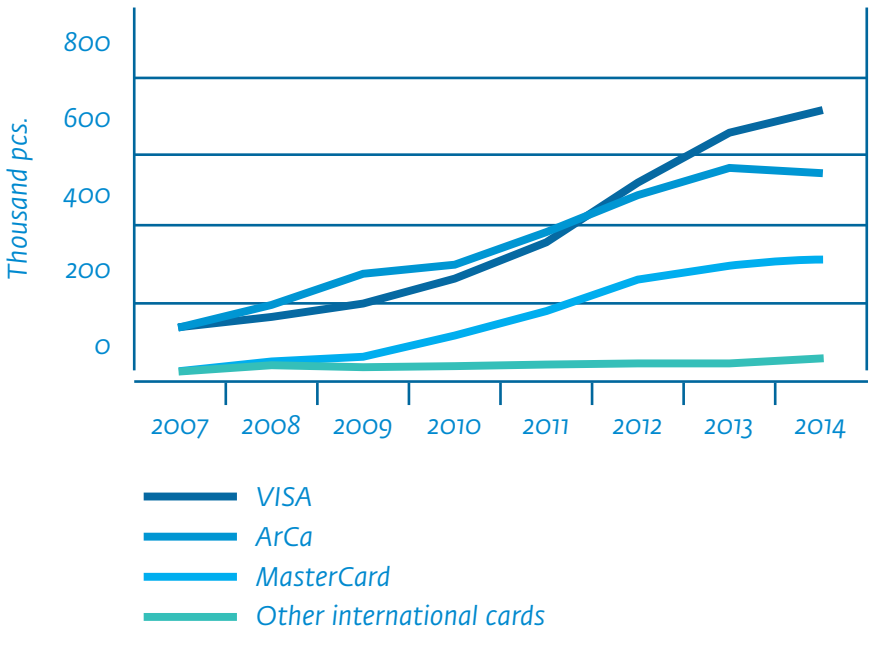


Figure 7. Dynamics of payment cards issued by Armenian banks

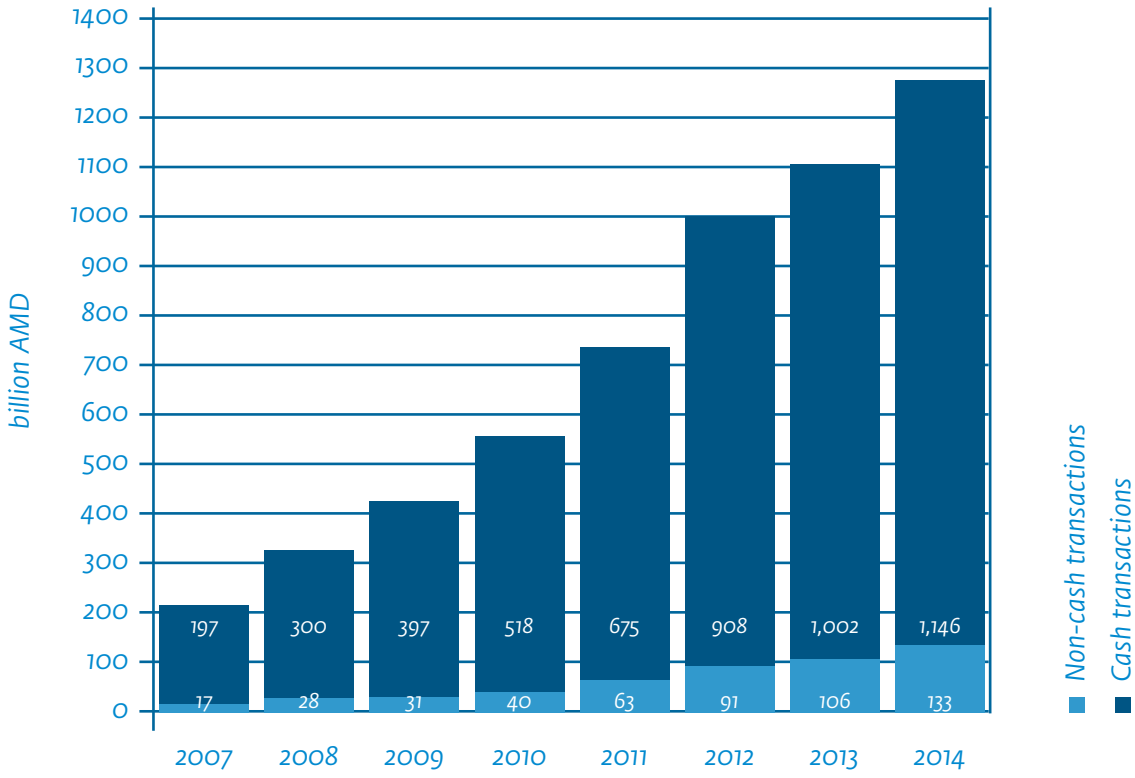
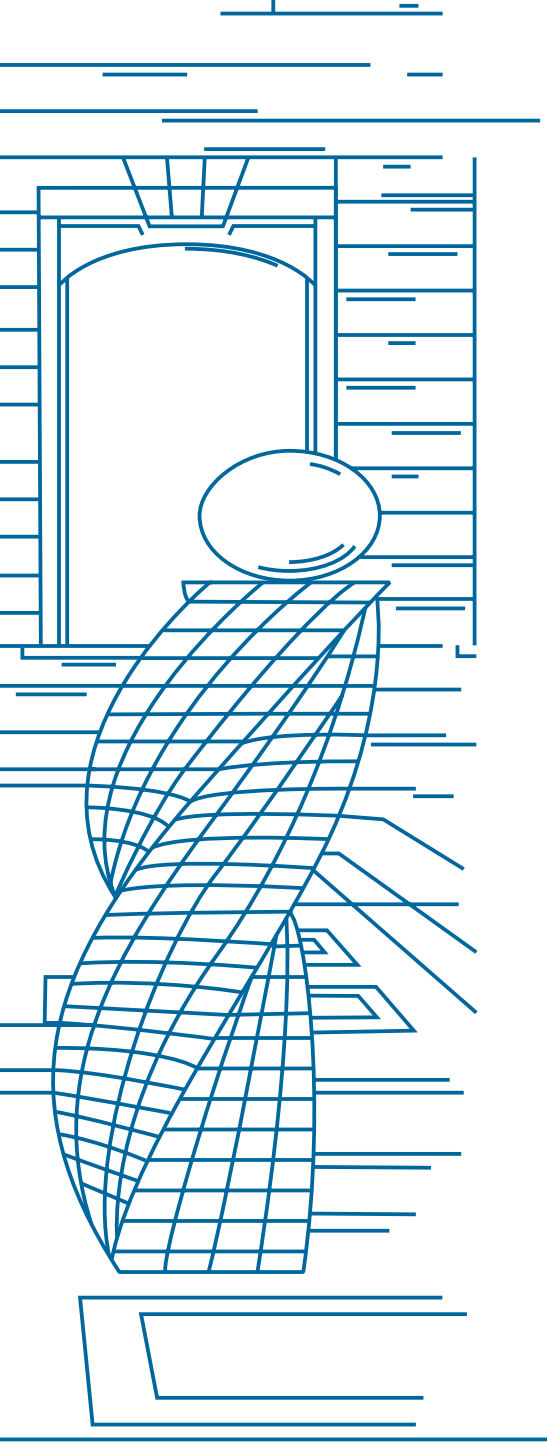


Figure 8. Operations with payment cards in Armenia

Protection of Consumer Rights

The protection of consumer rights and interests in the financial market by the Bank has been achieved through fair conduct of organizations providing financial services, provision of appropriate institutional environment and financial education.



The Consumer Protection and Financial Education Center, a separate structural unit at the Bank, has a function to protect consumers in the financial market.

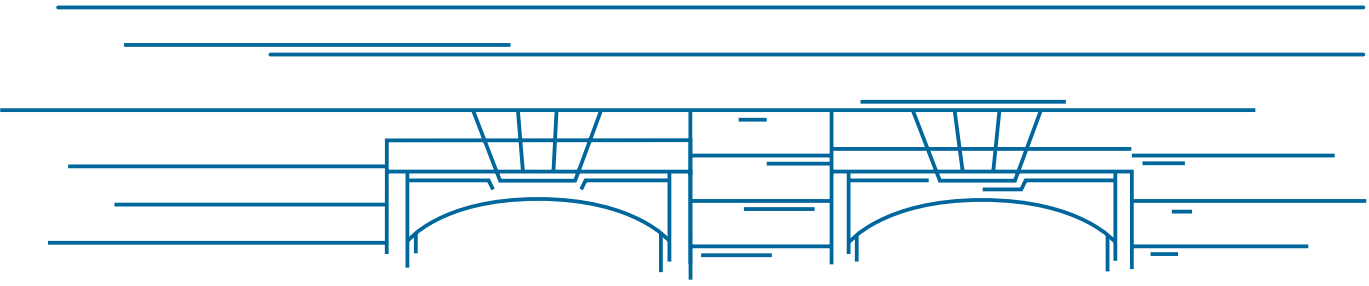
A sub-regulatory framework for consumer loans developed by the Center designed general and individualized key facts statements; this is to improve financial market transparency, boost up competition and allow consumers to choose consumer credits that best suit their needs and requirements.

As replacement for the existing informative bulletin, the standardized general key facts statement will introduce the consumer to the essential conditions of consumer credits.

The individualized key facts statement will be provided to the consumer after approval of the relevant loan application and will exhibit in a standard way all those conditions under which the customer wishes to sign a credit agreement.

The Center developed ***a policy for responses to consumer complaints received via a hotline service*** as well as defined rules, principles and procedures with a view to providing more quality services to customers through increased efficiency. In 2014, the hotline service received approximately 1,000 inquiries and complaints.

The draft laws offering amendment to ***the Republic of Armenia laws on "Financial System Mediator", "Circulation of Credit Information and Activities of Credit Bureaus", "Credit Organizations" and "Banks and Banking"*** as part of the program *Development Policy Operation*



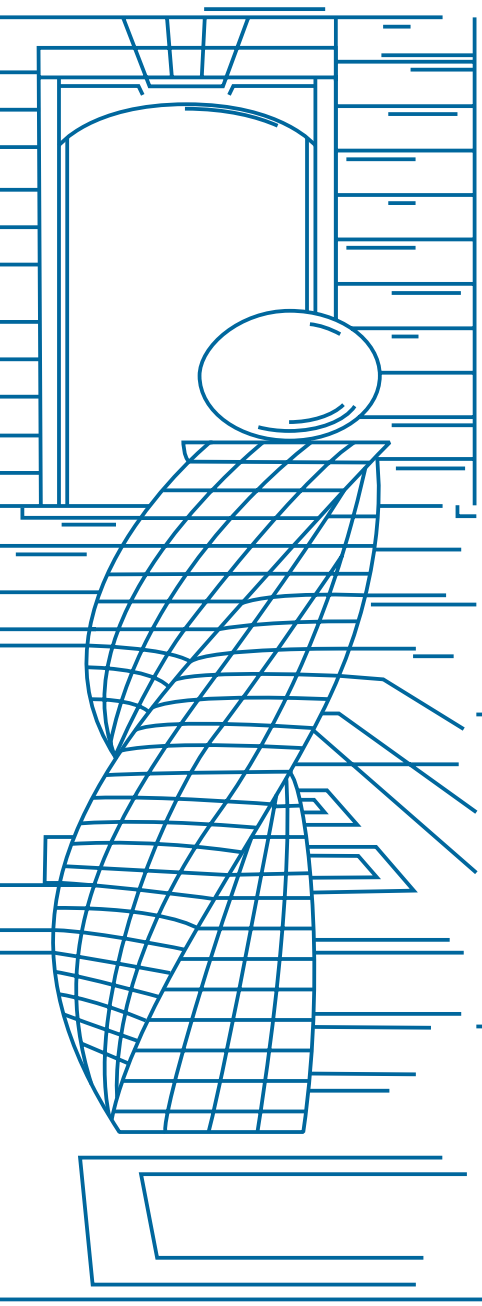
proposed by the World Bank for the development of Armenia were approved by the Government and sent to the National Assembly for further consideration.

The said bills are meant to maintain coherent mechanisms for protection of consumer interest in the financial market, making it possible for the consumers to also apply to the Financial System Mediator with their complaints against credit bureaus while entitling the Central Bank to require banks and credit organizations to have rules on business conduct in place.

The framework of on-site inspections of business conduct of financial undertakings was updated in view of monitoring the business conduct. As part of monitoring the market conduct, the Bank developed a "Mystery Shopping Manual" which is important in terms of studying and evaluating the behavior financial undertakings demonstrate toward consumers. From now on, according to the manual, the Bank will be able to carry out mystery shopping in order to explore the market, identify a customary business practice and evaluate the customer service.

On-site and off-site surveillance of business conduct of financial undertakings continued. The on-site inspection covered aspects such as provision of financial services, customer servicing, complaint handling and investigation, advertisements and public disclosure of information. The off-site examinations were conducted to check up TV advertising of financial undertakings on a monthly basis whereas the information published by these undertakings on the websites was scrutinized once in every quarter.

The change in the monitoring of business conduct of financial undertakings will increase the effectiveness of supervisory function of the Bank which, in turn, will facilitate the provision of financial services and boost the quality of customer service.



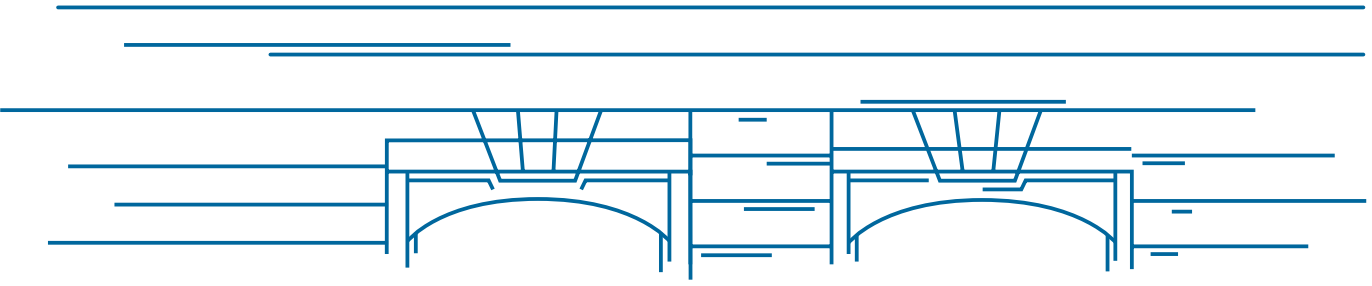
Increasing the Level of Financial Literacy of Consumers in Armenia

On its November 13 meeting, the Government of Armenia approved the National Strategy of Financial Education in the Republic of Armenia and its Action Plan 2014-2019. This a founding document which calls for consolidating efforts of private and public sectors and overall society to raise financial literacy of consumers in the Republic of Armenia and take further effective steps in that direction.

Campaigns towards the increase of awareness on personal finances continued this year, too. In the period October 1-31, 2014, a regular project in the series "My Finance Month" took place, which was aimed to bring institutional and public attention to the importance of personal finances management. As part of the project financial institutions, international donors and other dedicated stakeholders took joint measures, as follows:

- Visits to banks and insurance companies: *Yerevan City Tour*, a bus tour, took a total of nearly 400 participants to the Central Bank, the Deposit Guarantee Fund, the Armenian Bureau of Motor Vehicle Insurers, the Office of Financial System Mediator, the NASDAQ OMX Armenia and other private financial institutions, where they had an opportunity to learn much about the activities and operations of these institutions.

- Photos, videos, hand-paintings and essays portraying financial themes: these came with cash prizes and gifts.



A tournament *What? Where? When?* of the Bank and the Armenian Association of Connoisseurs covering financial topics, which included 3 games, as follows "What? Where? When?", "Brain-Ring" and "Individual Game". The event was held in the Bank's Dilijan Research and Training Center. Teams from a total of 11 universities attended the event.

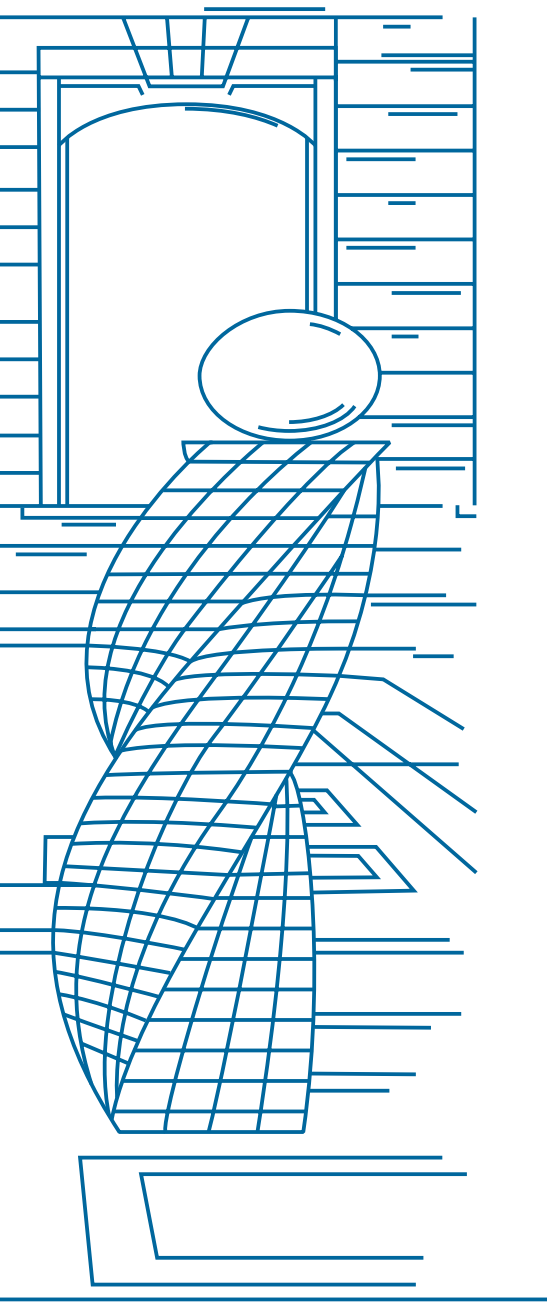
A series of inter-university debate on financial matters, organized by the Bank in cooperation with other financial institutions, government agencies and private financial undertakings. A total of 6 state universities attended.

Building a *Tree of Dreams* in different parts of Yerevan: the purpose of the event was to draw, once more, the people's attention to their savings. Passers-by took part in building the Tree of Dreams by putting their insurance and savings plans on tree branches. Educational booklets were distributed to passers-by.

Seminars conducted at a variety of universities and schools. Public and private sector organizations participated in the project.

Outdoor exhibition on North Avenue, c. Yerevan, dedicated to the World Savings Day.

Financial EXPO events took place in all regional centers of the Republic of Armenia and five more towns. These events were organized by the German Saving Banks Foundation for International Cooperation and funded by the KfW and the German Government.



A dedicated educational website *Finance for All* (www.abcfinance.am)[4] was further updated to contain new sections and subsections.

There was a further coverage for pension system reform. New campaigns to advise consumers to avoid signing false motor third party liability insurance contracts were arranged.

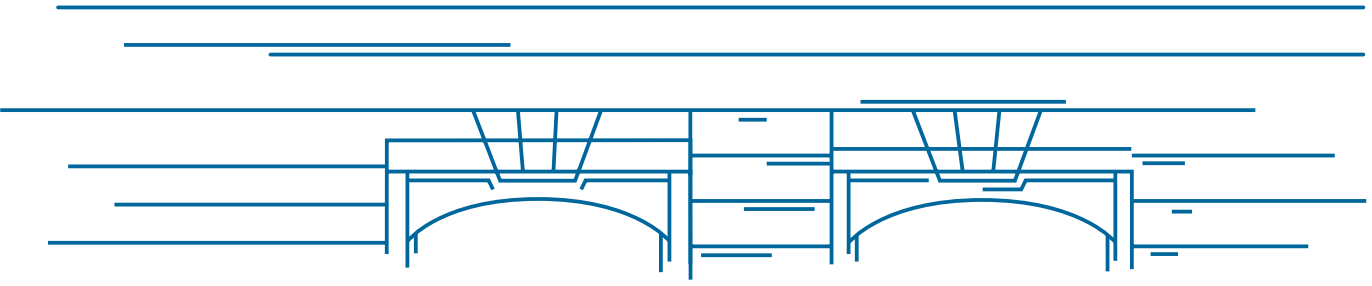
More measures toward increasing the awareness of state-subsidized student and servicemen loans were taken. Educational seminars on personal finance management were organized for various target groups, such as servicemen and population in rural areas.

In 2014, the Center continued cooperating with non-governmental organizations, such as Junior Achievement, AIESEC Armenia and Armenian Center for Democratic Education-CIVITAS; joint events on financial education of schoolchildren and students were organized.

Financial education of people and financial literacy of consumers seeks to highlight the importance of managing personal finances and encourages learning more in financial matters. Events organized during 2014 gave participants an opportunity to get familiarized with personal finance management, including the tools for budget planning, effective shopping and savings, debt management and so on. These events were organized to also describe the benefits and risks formal financial services can have, the main ways to avoid financial fraud, the rights and duties of consumers of financial services, as well as more relevant topics on personal finances pursuant to subject areas as established in the National Strategy of Financial Education in the Republic of Armenia.

The aforementioned measures are implemented under the document *National Strategy of Financial Education in the Republic of Armenia* which sets out a strategy for increasing the level of financial education and literacy for a 20-year period. An increased level of financial knowledge and prudent and conscious management of personal finances contribute to long-term financial well-being of individuals and their trust in the financial system on the one hand and to the maintaining of financial stability on the other.

[4] See details on the website https://www.abcfinance.am.



Combating Money Laundering and Terrorism Financing

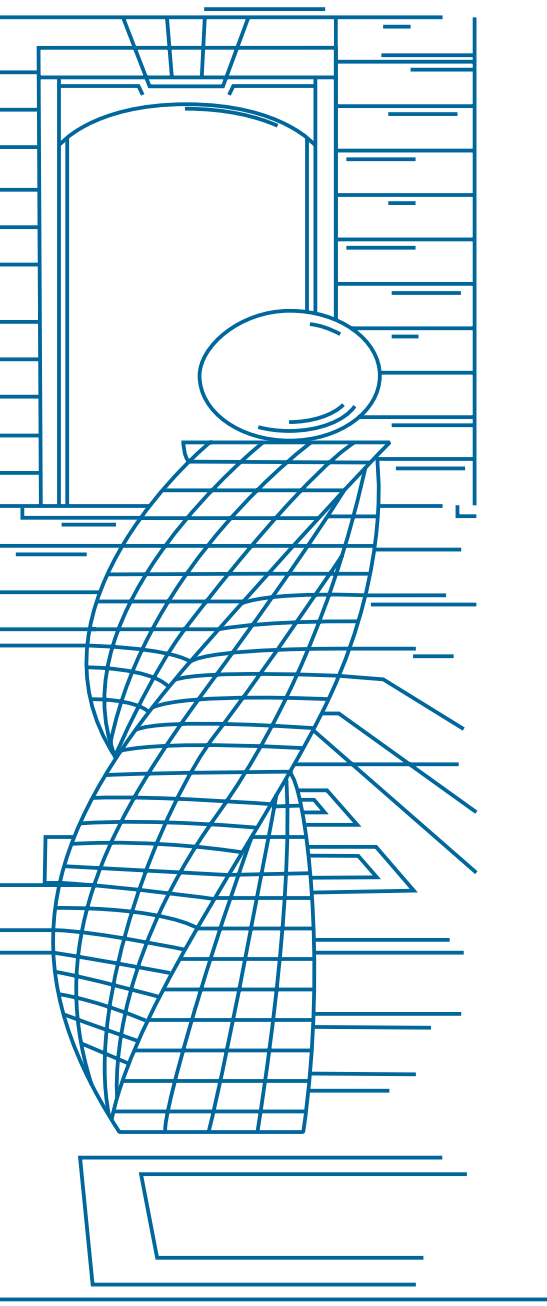
In pursuit of goals set forth in the 2013-2015 National Strategy for Combating Money Laundering and Terrorism Financing in the Republic of Armenia, the Financial Monitoring Center of the Bank continued working on introducing a regulatory framework and policies in compliance with Financial Action Task Force recommendations, enhancing cooperation at the domestic and international level, expanding knowledge for reporting entities in the field of combating ML/TF and training the staff of FMC of the Bank and other bodies engaged in combating ML/TF.

In the period under review, FMC of the Bank launched a national assessment of risks to money laundering and terrorist financing in the Republic of Armenia. The results of the assessment were summed up in a document called "Report on National Assessment of Risks to Money Laundering and Terrorist Financing in the Republic of Armenia" [5]. The assessment showed that the degree of possible vulnerability of the financial institutions functioning in the Republic of Armenia is low. This is attributable to the fact that the ML/TF risks to the financial sector are mainly concentrated in the banking system where they are identified, assessed, controlled and curbed in a proper way (in Armenia, banks manage about 90 percent of the financial system's assets and provide a much broader spectrum of financial services and products in comparison with other financial market participants).

Legislative Reforms

On June 21, 2014, the draft package offering amendment and supplement to the Republic of Armenia Law on Combating Money Laundering and Terrorism Financing and 14 other laws was endorsed

[5] See details in https://www.cba.am/Storage/AM/downloads/FDK/risk_assesment/2014_NRA_main_findings_arm.pdf



by the National Assembly of the Republic of Armenia. The package took effect beginning October 28, 2014.

In the period under review, a handful of resolutions of the Board of the Bank to approve new forms of reports subject to mandatory reporting, other reports of suspicious transactions or business relationships, a procedure on completing and submitting these reports as well as a procedure that considers delisting of persons linked to terrorism and unfreezing of the property of persons linked to terrorism were adopted pursuant to the requirements laid down in the Republic of Armenia Law on Combating Money Laundering and Terrorism Financing.

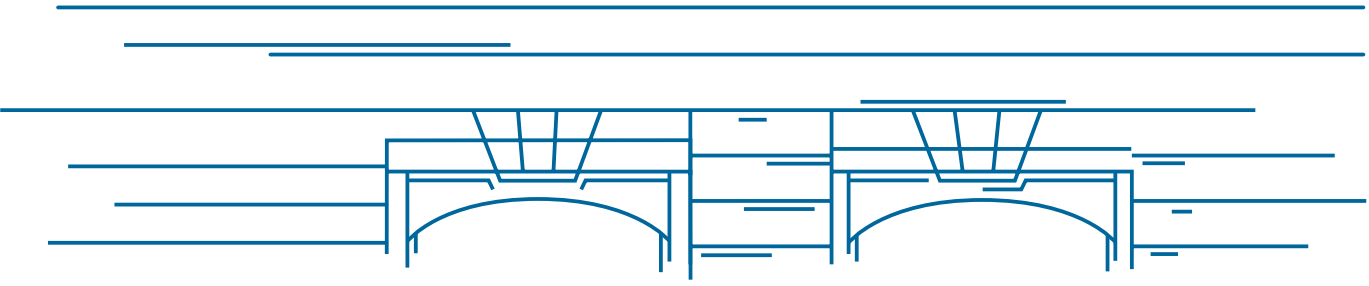
Analyses and Statistical Profile

Based on the results of analyzed signals and suspicious transactions reports in the field of ML/TF, the staff of FMC took preventative measures in the form of warnings issued to financial market participants on the one hand and referrals to law enforcement authorities and foreign financial intelligence units on the other. The results of the above mentioned signals and reports suggest that the cases of legalization of illicit proceeds involved various dubious schemes in which data of stolen bank cards, including cards issued by foreign banks, were used, swindles in which a model of mass marketing and computers were used, circulation of assets on the basis of fabricated documentation, evasion of tax liabilities, financial transactions linked to underground activities as well as schemes described by the typologies published by the Bank.

There was one case of conviction instigated in 2014 for legalization of illicit proceeds, with a laundering of money as the only corpus delicti, for which one person was sentenced 6.

A brief information about the FMC referrals to law enforcement authorities, the information FMC requested from law enforcement

[6] See details in https://www.cba.am/Storage/AM/downloads/FDK/Judicial%20Acts/ARD_0071_01_14_(Armen_Sadovichiy)_arm.pdf



authorities, the information law enforcement authorities requested from FMC, the criminal cases instigated and the sentences rendered is presented in Figure 9.

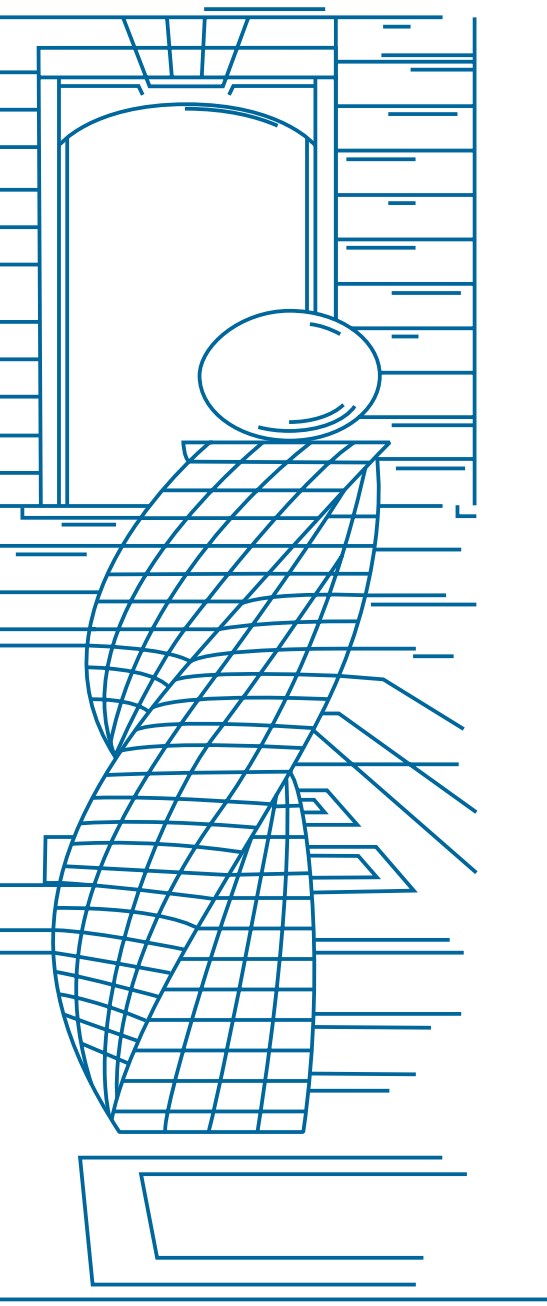
FMC continued to exchange information with foreign financial intelligence units through the Egmont Group's secure information network. In the period under review, a total of 17 requests were made from foreign FIUs and 38 requests made from FMC.

Training and Consultancy

For better knowledge and capacity building in the field of combatting ML/TF, FMC carried out a bunch of training programs during 2014. In particular, employees of internal monitoring units of reporting

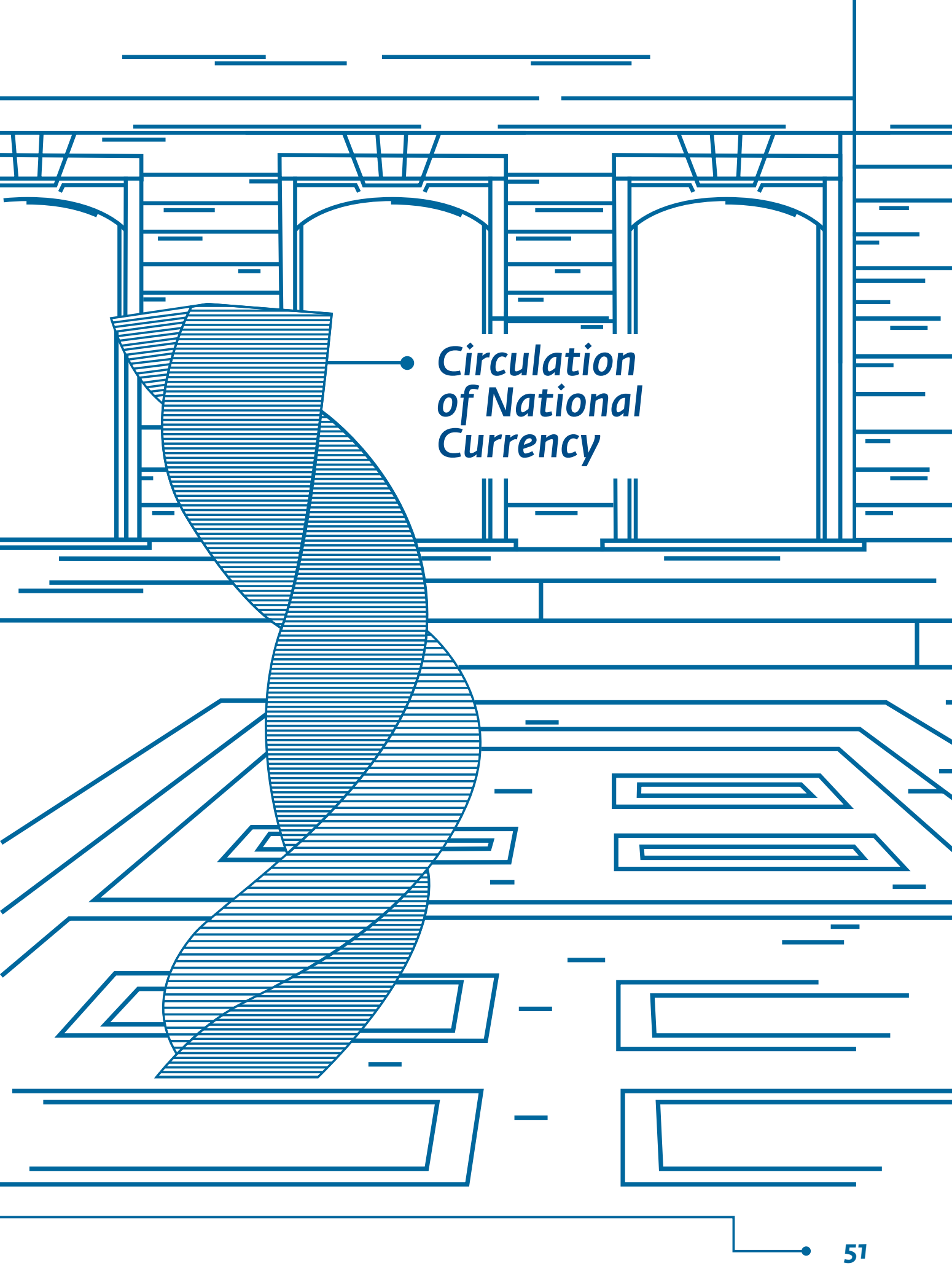
	2010	2011	2012	2013	2014	Total
FMC referrals to law enforcement authorities	23	17	11	25	28	104
Information FMC requested from law enforcement authorities	16	33	11	17	17	93
Information law enforcement authorities requested from FMC	53	58	61	36	66	274
Criminal cases instigated	13	12	9	10	9	53
Sentences rendered	3	5	2	2	1	13

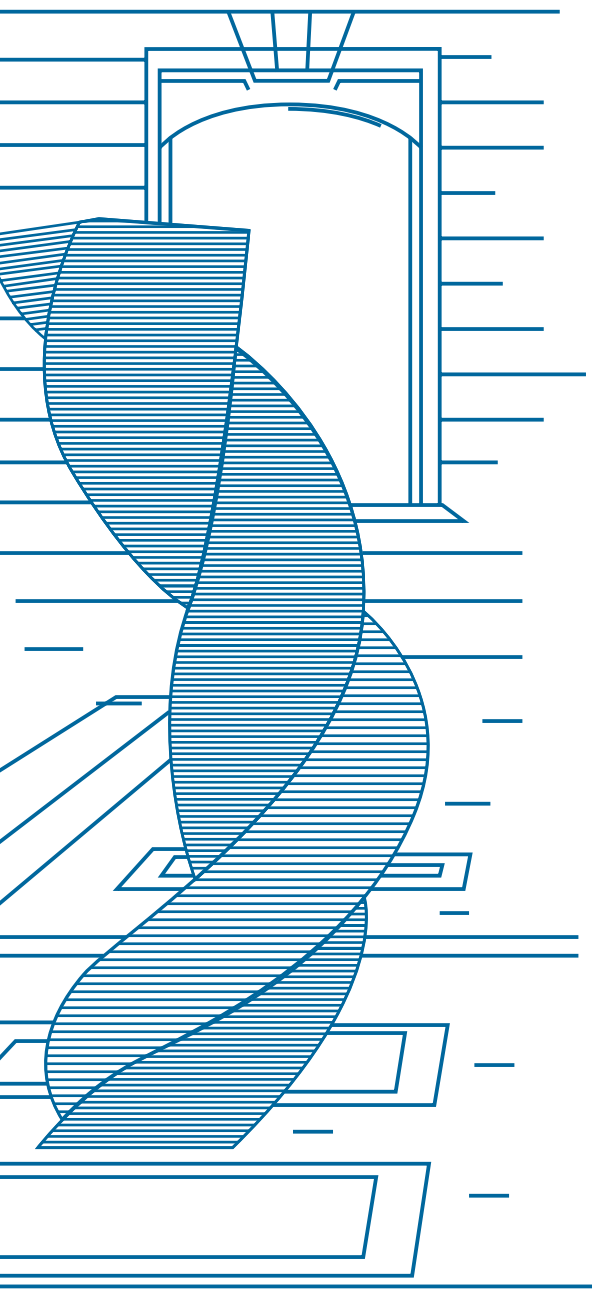
Figure 9.



financial institutions as well as relevant staff of financial supervision department of the Bank participated in seminars on amendments to the Republic of Armenia Law on Combating Money Laundering and Terrorism Financing and other laws and regulations.

To get more knowledge and skills in the ML/TF prevention, the FMC employees, other relevant staff of the Bank, representatives from government agencies, including law enforcement and supervisory entities, involved in the fight against ML/TF attended conferences and seminars organized by the International Monetary Fund, the Council of Europe's MONEYVAL Committee, the Egmont Group, other international organizations and foreign intelligence units.


Circulation
of National
Currency



Cash Money Circulation

In pursuit of maintaining circulation of national currency, the Bank is mandated to organize, regulate and control the money cycle following the principles of reliability and continuity.

The Bank provides cash servicing to its customers through Yerevan-based cash center and regional cash centers. To achieve an increased effectiveness in cash circulation during the year, the Bank decided to restructure its cash centers network. As a result, the Vanadzor regional cash center terminated its activities, while two other regional cash centers (the Dilijan and Syuniq RCCs), equipped with up-to-date facilities, were set up.

Prudent management of the stock of local currency allowed the Bank to provide cash servicing for its customers and be able to fully meet the cash needs of the customers when they asked any particular nominal value.

In the period under review, the value of cash circulation of the Bank has grown by 11.6 percent against the same reference period last year to AMD 1,773.7 billion. Regional cash centers were responsible for as much as 20.4 percent of total cash cycling and they mostly reported transactions for cash withdrawal, constituting 84.0 percent in their total turnover (Figure 10).

As of December 31, 2014, the value of currency outside the Bank was AMD 412.3 billion, and Figure 11 illustrates the share of notes and coins by nominal value.

In 2014, the Bank put into circulation a new set of collector coins, with nominal value 200 drams, dedicated to wild trees growing in Armenia. The obverse of the coins, a total of six names in the set, depicts the oak, maple, beech, willow, pine and poplar sprouts. The technical

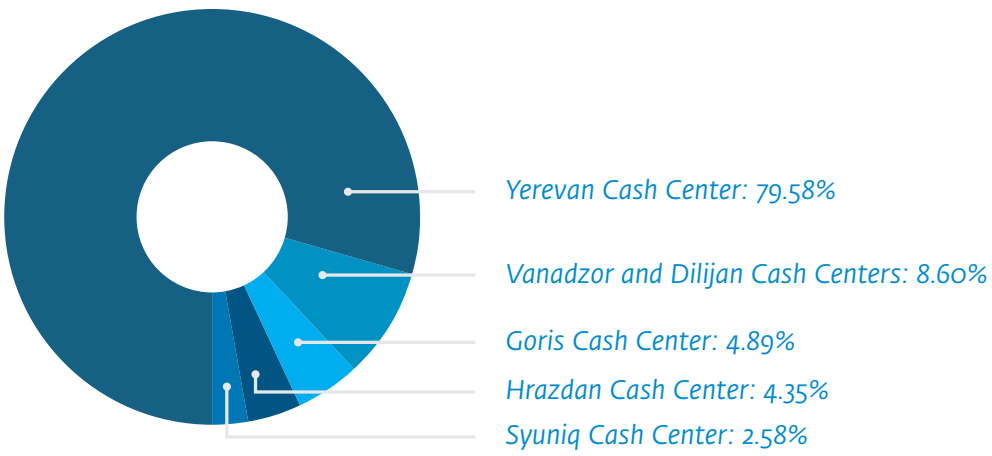
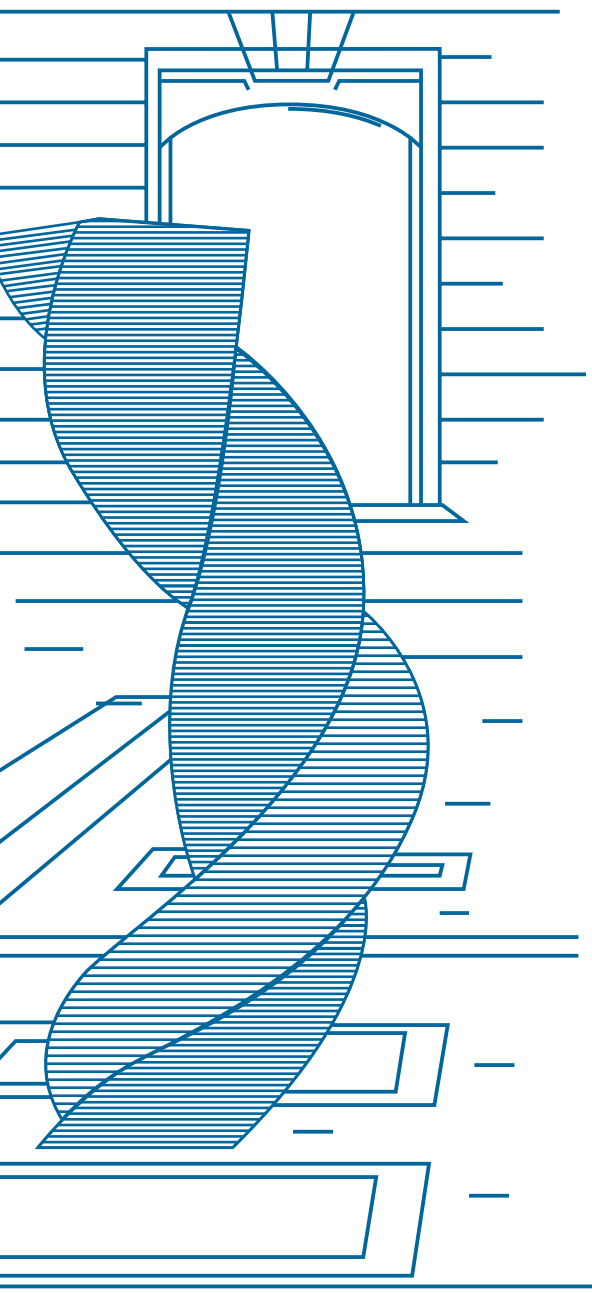


Figure 10. Cash turnover of the Bank in 2014

specification and the reverse are the same as on the coin with nominal value 200 drams of the 2003 issue.

Getting cash transactions and relevant information flows automated as well as increasing efficacy in the fight against counterfeit money remain key aspects of the Bank's strategy. In 2014, further efforts were spent to expand and improve the system that registers any incoming information on counterfeit money, create a single database that registers and collates information on notes and coins whether or not fit for being cycled and achieve an automated design of expert conclusions, reports and other such deliverables.

In the framework of fight against counterfeiting, the Bank continued its cooperation with law enforcement authorities. As part of cooperation, analytical activities reflected on the methods and approaches to making and grouping of the counterfeit banknotes detected by the Bank. New equipment and facilities for banknote expertise which the Bank acquired during the year make it possible



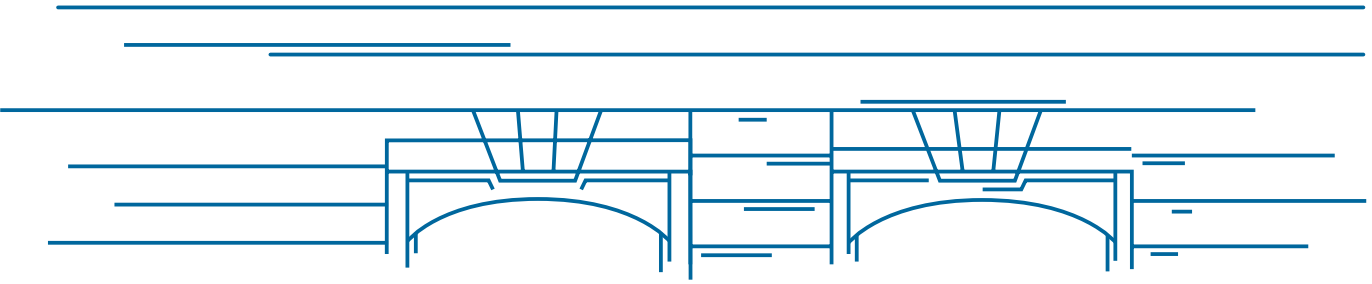
to do thorough research on the methods of creating counterfeit money. The main methods of counterfeiting are broadly featured in informational materials which are distributed to the commercial banks functioning in Armenia.

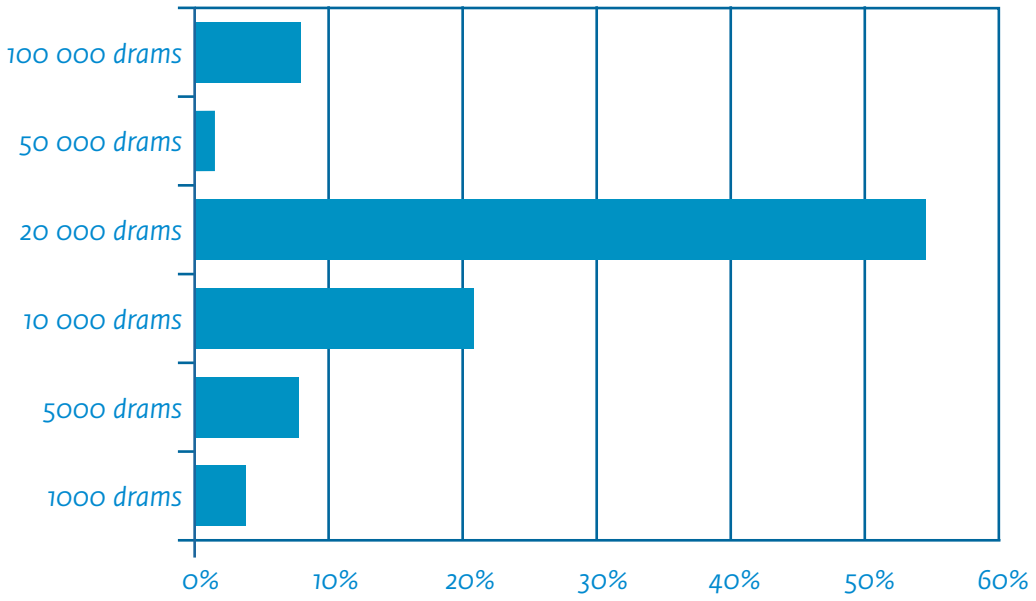
In pursuit of advocating national, historic, cultural and spiritual values as well as to meet an increasingly dynamic numismatic demand, the Bank issued commemorative coins of precious metals to celebrate the jubilees of famous Armenians in 2014. In the period under review, the Bank took part in the international numismatic program "FIFA World Cup 2014" and continued the "Treasures of Etchmiadzin" series.[7]

In the period under review, the Bank continued issuing silver investment coins "The Noah's Ark" in the following weights: 1/4, 1/2, 1, 5, 10 troy oz., and 1 and 5 kg.

The Bank took part in numismatic contests elsewhere in the world. At an international contest *Coin Constellation-2014* held in Moscow, Russia, the commemorative coins "The Letters of the Armenian Alphabet" earned the special prize of Steering Committee of the contest.

[7] See details in the "Annual Journal of the Commemorative Coins of the Republic of Armenia, 2014".





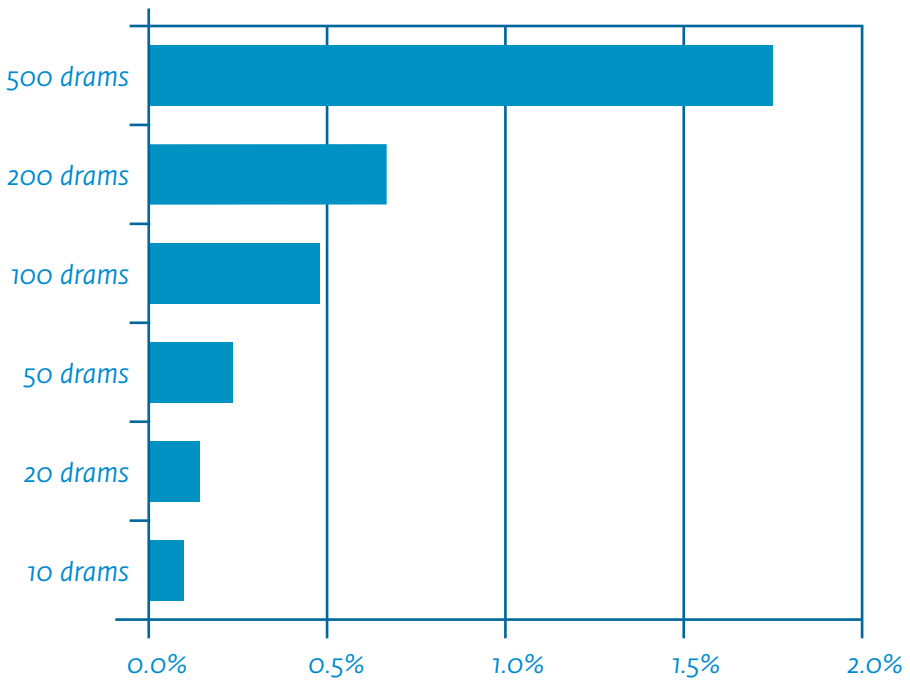
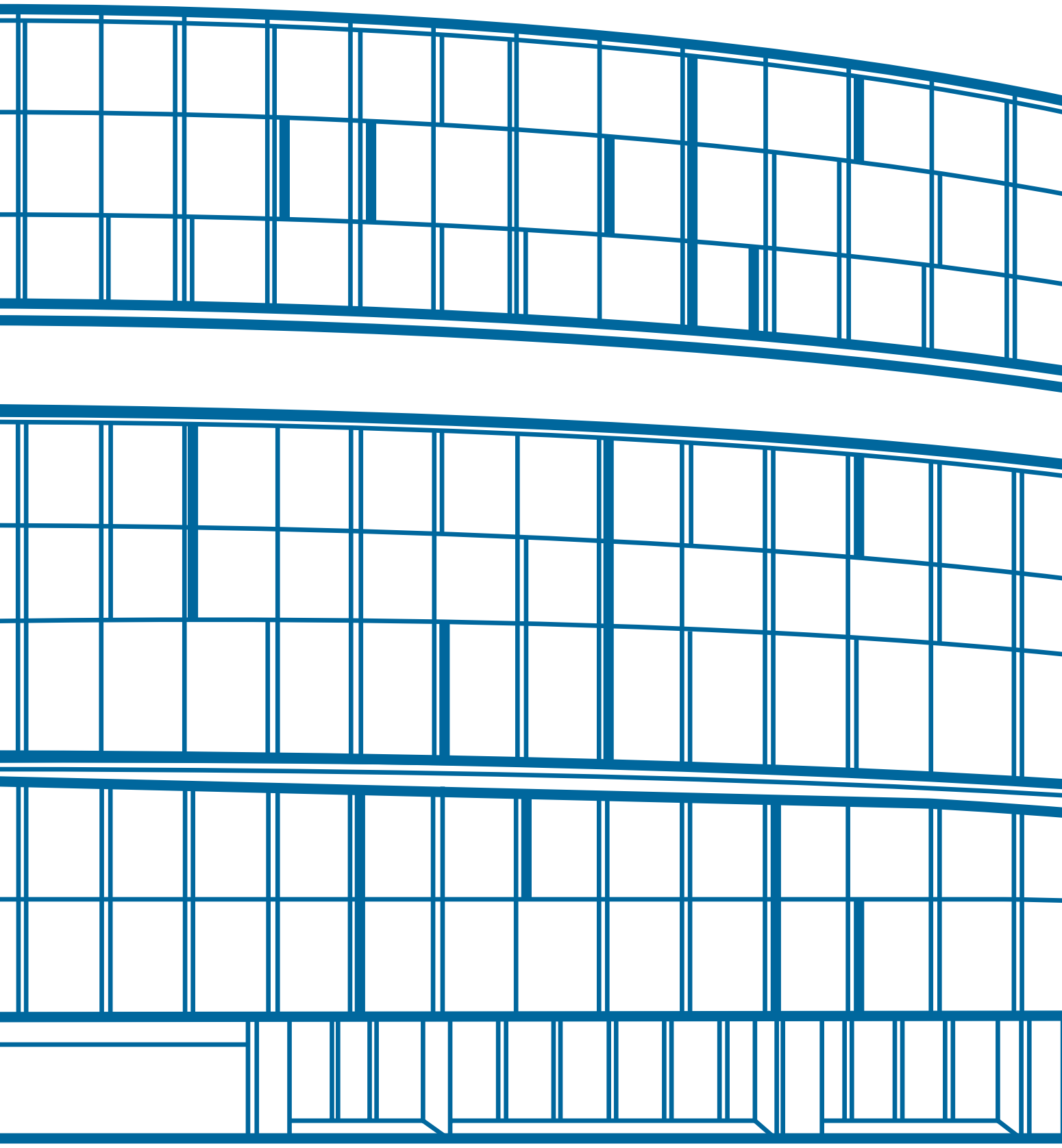
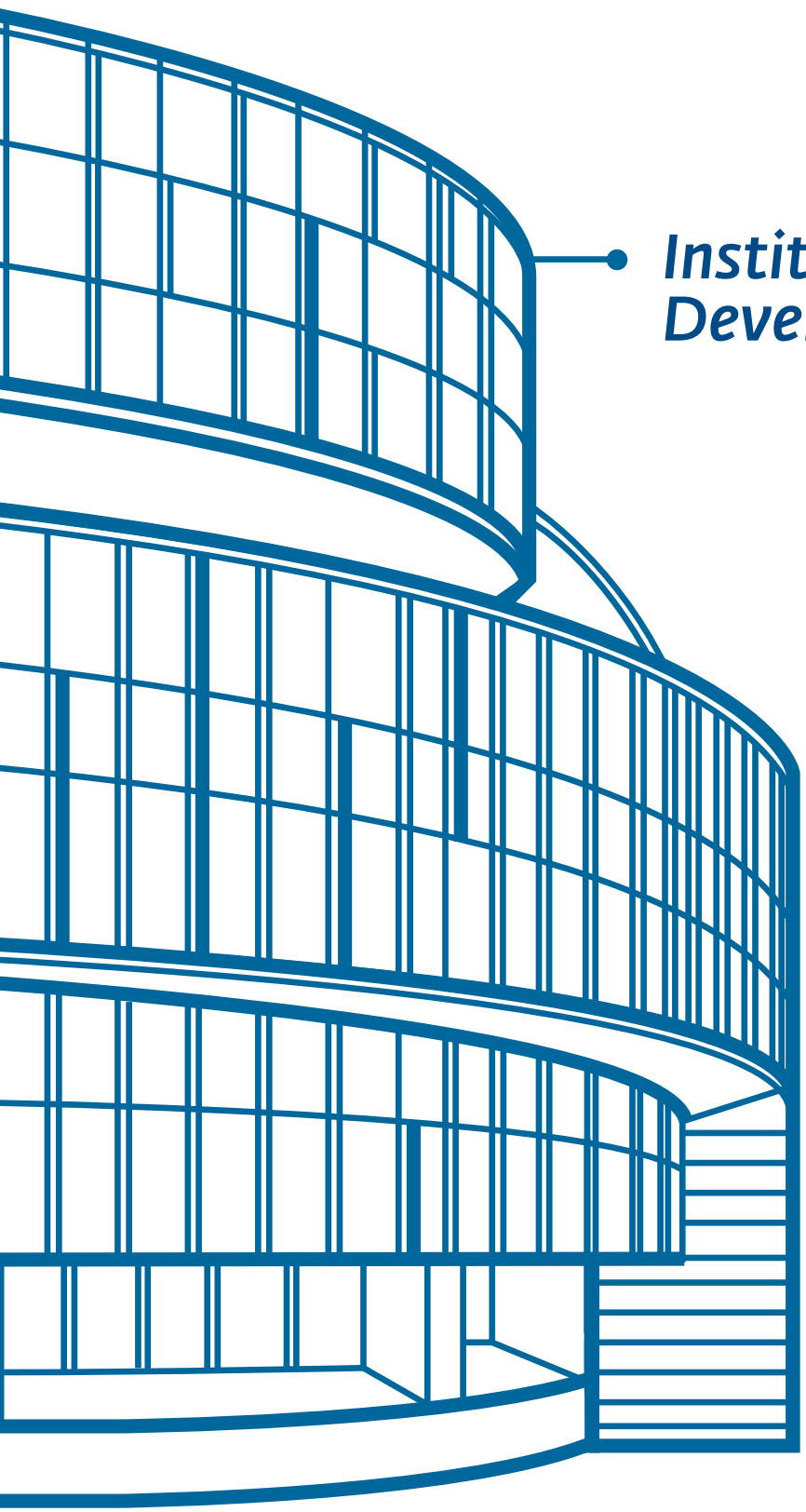


Figure 11. Type structure of currency outside the Bank as of 31.12.2014





Institutional Development



Governance and Accountability

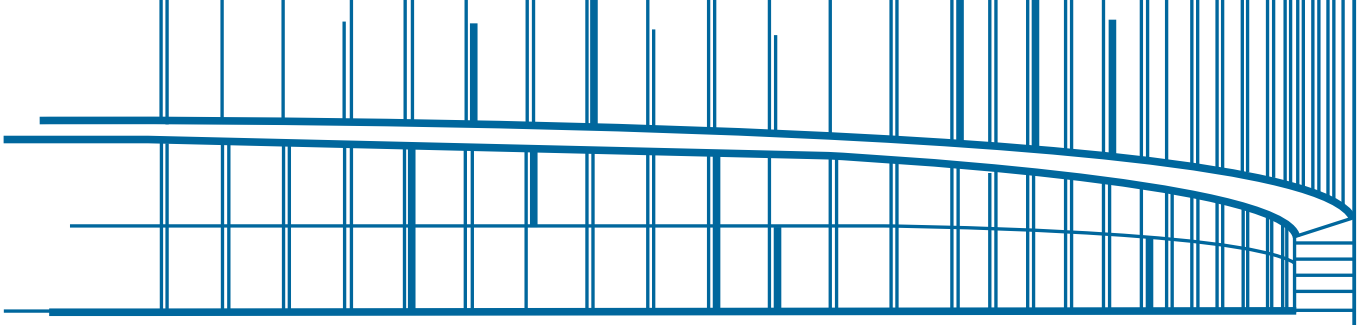
Governance of the Bank

The Republic of Armenia Law on the Central Bank provides that the Board of the Bank is top management body of the Central Bank.

The Board consists of Chairman, Deputy Chairman of the Central Bank, and five Members. Chairman and Deputy Chairman are included in the Board *ex officio*.

Chairman of the Central Bank is the highest official of the Bank. Chairman of the Central Bank is appointed by the Armenian National Assembly upon recommendation of President of the Republic of Armenia, for a 6-year term. Chairman is responsible for fulfillment of the Central Bank objectives. Chairman coordinates and organizes the work and ensures the normal activity of the Central Bank; represents the Central Bank in the Republic of Armenia, other states and international organizations; exercises authority not reserved to the competence of the Board. Where Chairman is absent or otherwise unable to act, such powers are to be vested with *Deputy Chairman of the Central Bank*, and where Deputy Chairman is absent or otherwise unable to act, such powers are to be vested with the eldest Board Member of the Central Bank. Deputy Chairman of the Central Bank is appointed by President of the Republic of Armenia, for a 6-year term. Chairman and Deputy Chairman as well as Board members cannot serve as a member of managing body of any party, be involved in activities other than scientific research, pedagogical and creative activities.

Board Members of the Central Bank are appointed by President of the Republic of Armenia for a 5-year term. Board Members cannot hold any other position in the Bank.



Board of the Central Bank

Regular meetings of the Board are held every two weeks, on Tuesday, pursuant to the schedule set by the Board at the opening meeting of the year. Extra meeting of the Board can be held at the request of Chairman, Deputy Chairman or at least three Board Members of the Central Bank.

The Board approves Charter of the Central Bank, Monetary Policy Program of the Republic of Armenia, caps and interest rates on outright operations, loans provided and deposits attracted by the Central Bank, terms and procedure for reserve requirement with the Central Bank; enacts normative regulations of the Central Bank; issues, revokes or annuls banking licenses and other activity licenses; determines the procedure of licensing to banks and other entities; approves prudential standards for banking and calculation thereof; and exercises other authorities under law.

In 2014, in addition to some meetings of the Board, which took place in Dilijan Research and Training Center, the Board met 56 times and adopted 377 resolutions, of which ***131 were normative legal acts (CBA resolutions) about prudential standards.*** The resolutions covered such aspects of the Bank's activity as approval of regulations and supplements thereto, resolutions on funded pension contribution (101), putting collector coins and notes into circulation (7), determining prudential standards that regulate operations of insurance companies, credit organizations, investment companies, regulated market operator, reporting issuers, Armenian Bureau of Motor Vehicle Insurers as well as cases of price manipulation (23); ***246 were individual resolutions*** about permitting payment and settlement organizations to make money transfers and participate in the payment and settlement system (30), interest rates of the Bank operations in the financial market (8), approval of the design of commemorative coins, collector coins and investment coins issued by the Bank (11), issuing or revoking activity license to foreign exchange operations (52), resolutions on pawnshop activities (54), credit organizations (2), insurance companies and investment service providers (2), repo system (4), Armenian Bureau



of Motor Vehicle Insurers' activities (8), performance and structure of international reserves of the Republic of Armenia (4), as well as resolutions on Financial Monitoring Center and Audit Group of the Bank (4), and 68 more decisions on various matters.

As a policy approving body, the Board of the Bank has done much in improving the legislative and regulatory framework aimed to the financial system stability and development. In particular, a handful of legislative amendments proposed by the Board were endorsed by the National Assembly of the Republic of Armenia [8].

Executive Board of the Central Bank

The Executive Board is a consultative body adjunct to Chairman of the Central Bank, and conducts its proceedings through meetings. Normally, the Executive Board meets on a biweekly basis, on Tuesday following the day on which the Board's consecutive meeting was held.

Chairman of the Central Bank takes the chair of the Executive Board's meetings and, in his absence, Deputy Chairman does so.

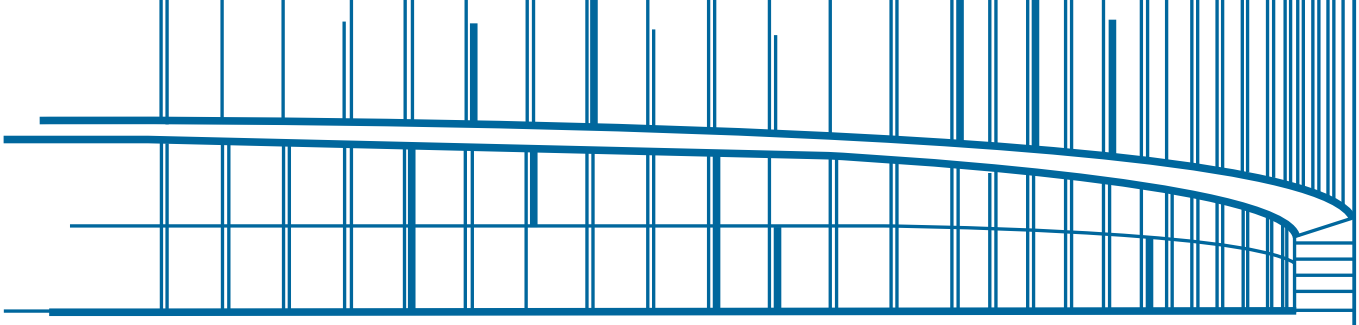
Issues to be addressed by Executive Board Members in the meeting of the Board of the Central Bank are delivered to the Executive Board for consideration.

In 2014, the Executive Board met 15 times.

Commissions and Committees of the Central Bank

Commissions, committees and other consultative bodies are key pillars of the Central Bank governance, and their structure and competence are defined based on the scope of issues and area of activity. The commissions and committees of the Central Bank hold meetings and draw up minutes which are approved by Chairman of the Central Bank. Where appropriate, Chairman makes a decision and issues orders based on such minutes.

[8] See details in Section *Financial system stability, regulation and supervision.*



As well as standing commissions and committees, ad-hoc committees can be set up at the Central Bank if certain tasks and objectives need to be fulfilled.

Monetary Policy Committee

MPC is responsible for reviewing and evaluating the previous week's monetary policy, the situation in banking sector and financial market, the Central Bank's operations as well as monetary indicators and relations with State Budget.

MPC is set to review and evaluate the Central Bank Statistics Department's and the Republic of Armenia National Statistical Service's observations concerning inflation estimations of the previous 10 days.

MPC's meetings are held each Friday at the Bank. In 2014, MPC met 49 times.

Financial Stability Committee

FSC is a consultative body adjunct to Chairman of the Bank. It is set to review, evaluate and analyze stability of the financial system, prepare for relevant measures and propose terms and conditions for taking up such measures. FSC makes thorough situational analysis when needed.

During the meetings FSC makes a review of how risks progress in the global economy, macro-environment and financial markets in Armenia as well as domestic financial institutions and infrastructure in the previous quarter and whether they made impact on the development of financial stability.

FSC meets once every quarter, in the second half of the month following each quarter. Extra meetings of the Committee are held as and when chairman of the committee decides so.



Investment Committee

IC is an authorized decision-making body within the Central Bank structure. The Committee supervises and coordinates the investment activities, evaluates the results of financial analyses in compliance with decisions taken about management of international reserves of the Republic of Armenia as well as investment guidelines approved by the Board of the Bank.

The Committee is set to address issues of strategic and tactical management of international reserves as well as to perform monitoring of ongoing investment activities.

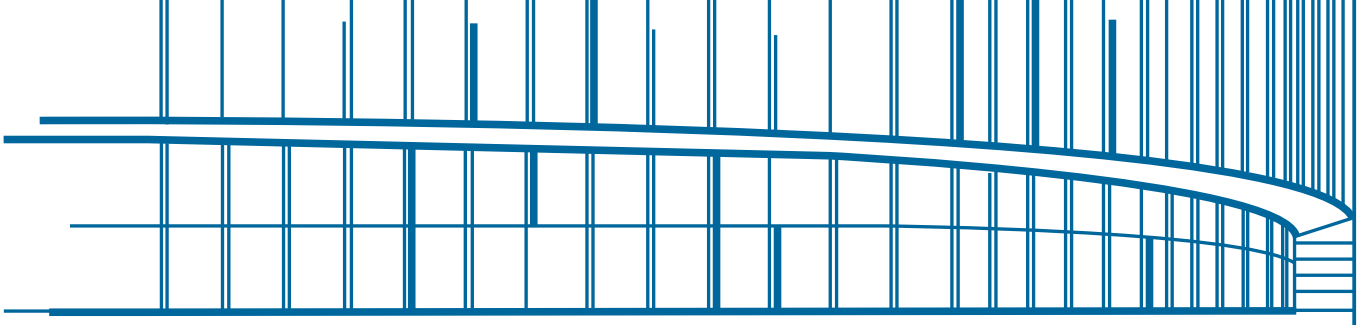
Normally, the Committee's meetings are held once a month. In 2014, IC met 8 times and adopted 6 decisions.

Licensing and Supervision Committee

LSC is set to address aspects such as granting preliminary consent to creation of banks and branch offices of foreign banks; registration and/or licensing of banks and branch offices of foreign banks; registration of branch offices, representations of banks, representations of foreign banks; registration of operational rules of regulated market operator and Central Depositary; licensing of other participants.

LSC considers whether or not to impose sanctions against the financial institutions licensed and supervised by the Bank, or whether or not to qualify price manipulation as such in the event it has found facts of such manipulation during foreign exchange trades and auctions. LSC has its proceedings through meetings which are convened as and when appropriate but not less than once a week.

In 2014, LSC met 59 times.



Young Specialists Evaluation Committee

This committee is created to evaluate professional knowledge of young specialists in the Bank. The committee adopts decisions of a consultative nature which then serve a basis for unit heads to prepare recommendation on the upcoming status of young specialists. YSEC decisions are consultative only and can be used by heads of structural units for judgment and recommendation to chairman of the Bank for consideration.

In 2014, YSEC met 3 times and assessed a total of 17 young specialists.

Job Evaluation Committee

The task of JEC is to evaluate and categorize new jobs or changed job positions at the Central Bank. The Committee is set to discuss issues on evaluation and categorization of jobs for new or changed positions and make recommendations to Chairman of the Bank for consideration.

The Committee addresses the issues that are disputable with regard to performance of individual work programs of employees of the Bank.

JEC meetings are held as and when needed, by October 15 of the year. In 2014, the Committee met 4 times.

Staff Assessment Committee

SAC convenes meetings during which professional capacities of the staff of the Bank and those who wish to work at the Bank are assessed.

Professional capacities of the staff of the Bank and applicants can be assessed through both interview and tests in writing. Chairman of the Bank heads the committee and has a decision-making power based on the conclusion issued by the committee, regarding:

- professional capacities and integrity of the employee for the job position
- signing an employment contract with the applicant
- promoting a job position.

In 2014, SAC met 19 times.

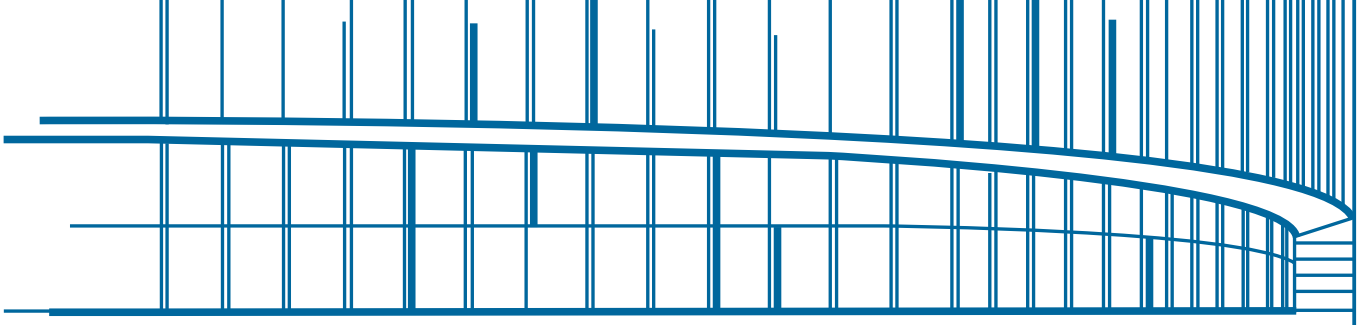
Audit Committee

AC of the Central Bank is a specific structural unit within the Bank. Responsibilities of the Committee include issues and tasks pertinent to financial accounts of the Bank, internal control, external and internal audit. AC consists of three members, including chairman of the Committee. Members of the Committee are board members of the Bank. The issues addressed during the year covered audit engagement, external audit, internal control and risk management system as well as day-to-day activities, methodology and area-specific issues of Audit Group.

In 2014, AC met 6 times.



In addition to these committees, an important role in corporate governance of the Bank is attributed to the Bank's Budget Committee, Information Security Committee, Information Technologies Development Committee, Tender Committee, Research and Analysis Assessment Team and Editorial Board which is responsible for upgrading the Bank's Internet homepage, as well as



the development and implementation of information policy of the Bank.

Accountability of the Bank

In fulfilling its objectives, the Bank is independent from state authorities of the Republic of Armenia. The Bank maintains its accountability pursuant to the terms and procedure determined by the Republic of Armenia Law, the Central Bank strategy and internal rules and policies.

The Central Bank presents the *Monetary Policy Program and Status Report on Implementation of Monetary Policy (Inflation Report)* as well as Expenditures Estimate and Capital Investment Program, with performance papers, to the National Assembly of the Republic of Armenia.

In addition to the aforementioned papers, the Central Bank makes the following papers publicly available, such as: *Financial System of the Republic of Armenia: Development, Regulation and Supervision, Annual Report of the Central Bank, Financial Stability Report, Central Bank Bulletin, Central Bank Review, Central Bank Statistical Bulletin, Commemorative Coins of the Republic of Armenia.*

The Bank maintains accountability also through its official website (www.cba.am) which contains the Central Bank Development Strategy, regular issues of periodical papers, the Board minutes and press releases on the refinancing rate, and other information relevant to the Bank's operations and activity and the financial system as a whole.

Annual financial reports of the Bank are another important component of accountability. Compliance of these reports with International Financial Reporting Standards is verified each year by international recognized auditor.



Management Systems and Organizational Development

In the period under review, the Bank continued its efforts to improve the information security management system.

In view of the role of the financial and banking system, the Bank actively supports the implementation of industry standards and best practices in information security. Most banks have been already certified or are in the final stage for receiving certification in ISO/IEC 27001:2013 Information Security Management Standard. This standard has started to be implemented in other organizations providing payment and settlement services.

Highlighting the importance of uninterrupted provision of services to the population, the Bank takes steps for increased effectiveness of cooperation with commercial banks in emergency situations.

Always on a lookout for developments taking place in the information security industry, the Bank has passed re-certification for a new ISO/IEC 27001:2013 standard.

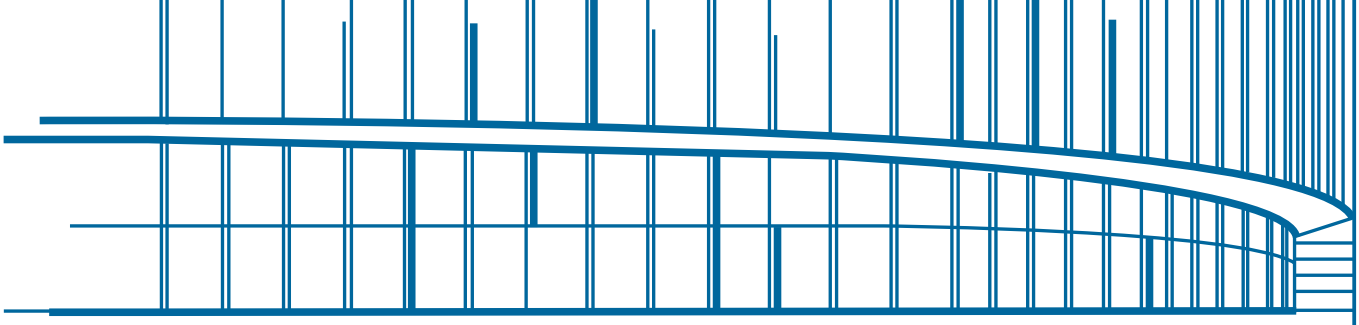
International cooperation

In the period under review, the Bank sustained its multilateral and bilateral cooperation with international organizations and institutions elsewhere in the world.

In 2014, the Bank continued working with the International Monetary Fund Armenia mission in the framework of an extended financial assistance. The Bank hosted working meetings with the IMF delegations led by Mark Horton and Menno Snel.

During the year, a technical assistance mission on the pension reform visited Armenia as part of the cooperation between the Bank and the World Bank.

Delegations headed by first vice-chairman Philip Bennett of the European Bank of Reconstruction and Development, the EBRD South



Europe and Caucasus regional director Francis Malige, vice-president of Asian Development Bank Wencai Zhang and chairman of the Black See Trade and Development Bank Ihsan Ugur Delikanli as well as other financial institutions and international delegations paid visits to Armenia to expand business contacts, learn about the country's macroeconomic situation and negotiate with the Bank.

In 2014, the Bank organized a series of business meetings, sessions, round tables and conferences, including 6th session of Interstate Coordination Board of Directors of CIS Insurance Supervisory Authorities in March 12-13; annual conference of European Fund for South Eastern Europe in June 16-18; and the 27th annual meeting of Banking Supervisors from Central and Eastern Europe in June 12-14. The meeting gathered representatives of central/national banks from 24 countries.

In October 7-9, 2014, the Dilijan Training and Research Center of the Bank hosted a regional seminar on Risk-Based Supervision for Sound and Transparent Insurance Markets, jointly organized by Financial Stability Institute, International Association of Insurance Supervisors, and the Bank. Representatives of central/national banks from 14 countries attended the seminar. Dilijan TRC has also hosted other events, namely a regular plenary meeting of the Eurasian Group of Financial Intelligence Units, which was attended by experts from the CIS countries. The meeting addressed topics such as "National Assessment of Risks to Money Laundering and Terrorism Financing" and "Implementation of FATF Recommendations in the National Legislation: Actual Issues". The staff of Financial Monitoring Center of the Bank delivered a lecture.

During the year, the Dilijan TRC also hosted a regional seminar on consumer protection and financial education, jointly organized by the Bank and Alliance for Financial Inclusion.

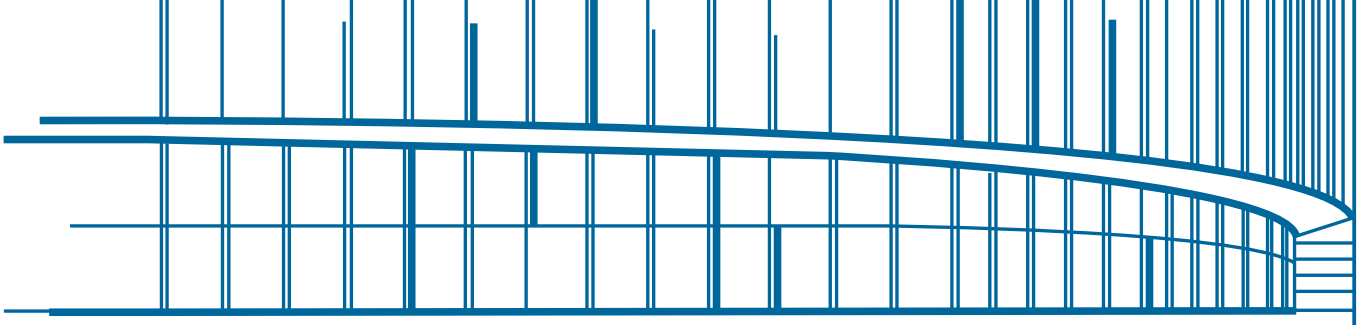
The year saw more agreements and memoranda of understanding signed between the Bank and foreign central banks in the framework of both bilateral and intergovernmental commissions; the Agreement on Cooeration between the Cenral Bank of the Republic of Armneia and People's Bank of China was signed in Beijing on March 27, 2014.



On the occasion of the Republic of Armenia President Serzh Sargsyan's visit to Austria, the "Armenian Center for International Economic and Financial Integration in Europe" opened its doors at the premises of the Embassy of Armenia to Austria on June 11, 2014. The center's primary goal is to help strengthen cooperation between Armenia commercial banks and European financial instiurtions. It is a unique platform for thematic conferences, seminars, educational and representational events. The center's facilities are also used by the Armenian Embassy for a variety of events, including, for example, official reception for the Armenian Independence Day, participated by foreign diplomats accredited in Austria, the Armenia community in Austria and repesentatives from international organizations, other public and community-level events, cultural events in remembrance of the centenary of the Armenian Genocide.

On December 5, 2014, the European Investment Bank and the Bank inked a EUR 50 million Loan Agreement in Vienna to fund various SME projects in Armenia. The loan funds will be used primarily for processing of agro products and agriculture and tourism sector development. The loan will be provided to the Bank which will on-lend it to the SME's through intermediary financial institutions. The agreement was signed by vice-president of EIB Wilhelm Molterer.

On December 9, 2014 in Yerevan, the Bank and the German KfW Development Bank signed loan and grant contracts of the 2nd phase of the Loan Agreement "Agricultural Sector Support" within the framework of German-Armenian Financial Cooperation. The loan of EUR 15 million will be used by the local banks and credit organizations to on-lend to small and medium-size enterprises in agricultural sector. Part of the funds will be channelled to the aigriculture sector support project, which is underway, and the rest will be used for a value chains subproject financing which is an experimental project in the agricultural sector. The KfW Bank's grant of EUR 750 thousand is intended to finance the costs of consulting services to the beneficiaries under the technical assistance which will be provided by a company chosen through a competitive tender prcedure by the KfW.



The year was good in terms of stronger cooperation with international institutions in the field of fight against money laundering and terrorism financing. The FMC representatives participated in the meetings, the 22nd plenary meeting of the Egmont Group and the 6th session of the conference of the Parties esatblished under the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism, in which the timetable for assessing Republic of Armenia compliance with the Convention was approved. As members of the Armenia delegation, the FMC representatives also participated in the MONEYVAL Committee's regular plenary sessions, during which it was decided that the Republic of Armenia will pass the 5th round of assessment in May-June of 2015 acting in MONEYVAL as the first country to be assessed under revised FATF recommendations.

In the period under review, the Bank and the National Bank of Kazakhstan signed an Agreement on Correspondent Account in National Currency of the Republic of Kazakhstan, and the Bank's FMC signed memoranda of understanding with financial investigation units of Liechtenstein and Kyrgyz Republic. A memorandum of understanding was re-concluded with the restructured FIU of the United Kingdom.

During the year, the Bank developed and strengtened its relations with international organizations in the area of consumer protection.

In 2014, the Bank became head of the workgroup on Consumer Protection and Market Conduct at the Alliance for Financial Inclusion. The Bank has, in cooperaton with the Alliance, embarked on the Financial Capabilities Assessment Project as part of the national strategy for financial education.

The Bank continued cooperation with the International Network of Financial Education, an educational platform of the Organization for Economic Cooperation and Development. The Bank is a member to expert workgroups of the National Strategy for Financial Education and Core Competencies for Financial Literacy.



The Bank cooperated with ACCION, an international organziation, for drafting a model law on consumer protection in the context of the financial inclusion promotion policy.

Over 2014, in the framework of cooperation with international rating agencies, the Bank has arranged a total of four re-evaluations of sovereign rating of the Republic of Armenia, two of which were long-distance.

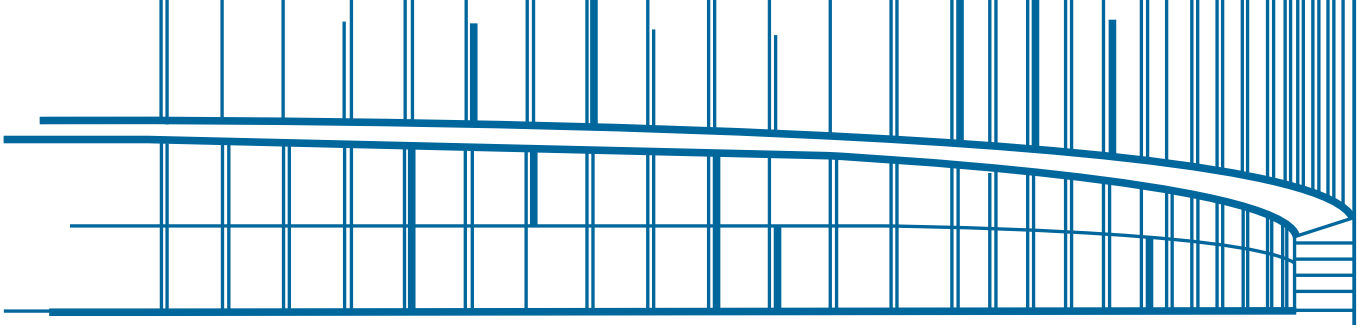
In January of 2014, the Bank arranged meetings for experts from international rating agrecies Fitch and Moody's with representatives of the Republic of Armenia government departments, international organizations functioning in Armenia as well as representatives of the domestic financial system. Following these meetings, Fitch a month later in February and Moody's in July released their reports on re-confirmed sovereign ratings for Armenia. Fitch in July and Moody's in December 2014 made the second re-evaluation of their ratings for Armenia based on official reference about the Armenian economy and external vulnerabilities and as a result of teleconferences with the Armenian Ministry of Finance and the Central Bank. At present, Armenia's sovereign credit rating is "Ba3" (with negative prospect) awarded by Moody's and "B+" (with stable prospect) awarded by Fitch.

Employees of the Bank participated in conferences, forums, international banking and financial conferences, exhibitions and workshops, organized by the Bank's partner institutions, and delivered speeches at these events.

Personnel management

In 2014, the Bank remained committed to a personnel policy that supports professional development, provides opportunities for lifelong education and pursues to engage true professionals and skilled workers.

At the end of the year, the Bank had 775 employees (for both fixed-term and open-ended contracts) of which 439 are women and 336 men. The average age of employees is 37. A total of 54 employees left the Bank during the year in comparison with the previous year's figure of 49.



Vacancies in the Bank were filled primarily by competition. During the year, 25 positions were filled up by both internal and external competitions; 35 employees earned promotion (10 of who for a managerial position) for taking a more complex function.

The Bank further maintained a policy that encouraged recruiting young specialists (with no professional experience) while providing them with an opportunity to grow professionally and fill up vacancies in the future. In 2014, the two-month program named "The Central Bank: an introductory course" was implemented twice, and the Bank signed fixed-term employment contracts with a total of 17 young specialists.

In the period under review, the Bank embarked on a number of structural alterations in order to achieve higher optimality of functions. Specifically, change in the structure of the Statistics Department of the Bank pursued a goal of bringing together various types of surveys made by different units in a separate unit. With the exception of two new units "Sampling Surveys and Analysis" and "Accepting and Summing Up Reports", the rest of the Statistics Department moved to the Dilijan TRC. Furthermore, two units responsible for maintaining information and technical security have merged into a department in order to reduce information and technical security risks.

In 2014, the Bank successfully cooperated with universities and participated in *Career Day* events. During the year, 106 students from tertiary enrollment in Armenia and 5 students from higher academic institutions abroad took their internship in the Bank.

In the period under review, the Bank communicated its policy transparency and values to the general public also by way of presenting such regular publications as "Inflation Report" and "Financial Stability Report" to the students and lecturers of faculty of economics in Armenian State Engineering University, Russian-Armenian (Slavonic) University, and Yerevan State University. The theme was further developed and communicated through discussions in the Q & A format.

The Bank always encourages students with high academic performance and research abilities. Once again, gifted students of



higher educational establishments of the Republic of Armenia and Nagorno-Karabakh Republic were given an opportunity to participate in the Isahak Isahakyan Stipend eligibility contest. Gladly, of 20 applicants, three from the Faculty of Economics and Management of YSU, three from Armenian State University of Economics and one from Artsakh State University were awarded the Isahak Isahakyan Stipend.

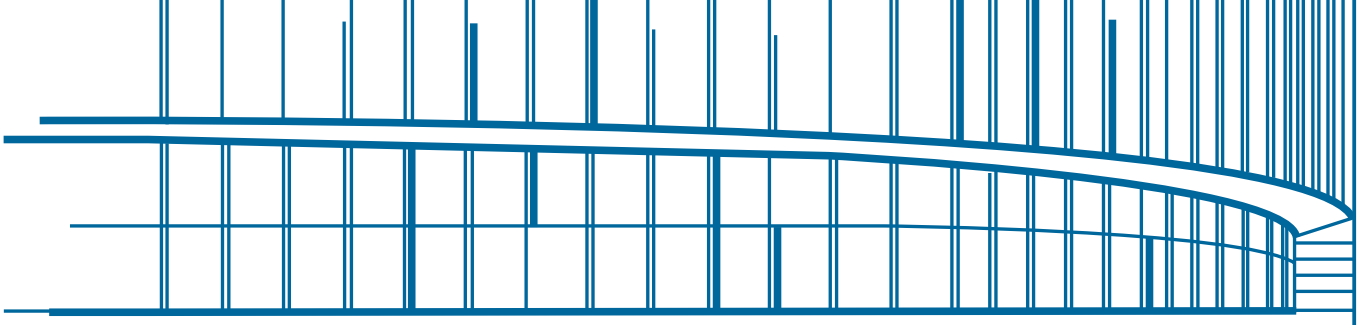
During the year, a total of 38 employees of the Bank delivered lectures, among others, at the Yerevan State University, Armenian State University of Economics, the French University of Armenia, the American University of Armenia, Armenia State Academy of Management, Russian-Armenian (Slavonic) University.

Improving professional qualification

Highlighting the importance of achieving increased qualification and sustainable professional growth of employees, the Bank continued sending its employees to receive training at financial institutions abroad and educational establishments in Armenia.

During the year, in order for the Bank's employees to pass along the knowledge and skill gathered over the years and raise public awareness on its current issues and functions, the Bank organized seminars on such topics as "The Objectives, Strategy, Channels of Monetary Transmission and Implementation of Monetary Policy", "Analysis of Export Structure in the Context of an Effective Export Model", "International Financial Reporting Standards", "Structural Shifts and Economic Growth" and "Pension Reforms", to name a few.

In the period under review, the Bank continued cooperating successfully with member countries of the Eurasian Economic Community, Bank Negara Malaysia, the Centre for Central Banking Studies in England, the Joint Vienna Institute in Austria, Germany's Bundesbank, National/Central Banks of France, the Netherlands, Switzerland, Poland, the Czech Republic, the Financial Technology Transfer Agency of Duchy of Luxembourg and the Financial Stability Institute.



During the year, the above-mentioned institutions offered standard training packages, and as many as 117 employees of the Bank attended these courses to enhance professional knowledge and skills in strategic areas of the Bank. A total of 32 employees of the Bank took part in 12 training courses focusing, among others, on insurance business, pension schemes, consolidated supervision, sampling surveys, the Solvency 2 and a number of other issues and best international practice.

During the year, 36 employees of the Bank attended on-line training courses on financial supervision offered by the Financial Stability Institute.

In 2014, too, the Bank successfully implemented staff rotation, another tool for professional development in order to maintain a pool of management personnel, enhance knowledge and improve the skills of young professionals within the Bank. During the year, a total of 16 employees moved to other positions through rotation.

Employees of the Bank further took international certification and qualification exams in the fields of finance, accounting, audit, insurance, and information technologies. A total of 103 employees already hold or are taking exams for earning international certificates of qualification (46 employees for ACCA and 22 for CFA). Five employees of the Bank are full members of CFA and two are full members of ACCA.

Dilijan Training and Research Center

In the period under review, more staff from the Bank's research and analysis departments moved to Dilijan TRC. During the year, a total of 28 employees relocated and as of end-2014, the number of employees having moved to Dilijan TRC totaled 114.

The series of advanced economics courses organized at Dilijan TRC for the staff of Economic Research Department and delivered by well-known lecturers invited from best universities of the world completed in 2014. This will be followed by a broader spectrum of economic



research by trained researchers aimed at formulating economic policy and making effective analytics.

In 2014, Dilijan TRC hosted a number of managerial skills enhancement courses for the Bank's executive staff. The topics covered aspects, such as project management, improvement of communication skills and leadership. Professors invited from universities of Harvard, Columbia, Oxford and London Imperial University as well as specialists from GK Tribe Global delivered lectures. A total of 137 employees of the Bank attended the courses.

Three Harvard University students had their 2-month summer work internship at Dilijan TRC. The students studied the economy of Armenia and made research on the following topics: "Potential Impact of Tax Harmonization on the Financial Services Sector", "The Impact of Economic Integration on Bilateral Foreign Direct Investment Flow" and "Determinants of Approaches to Regional Integration".

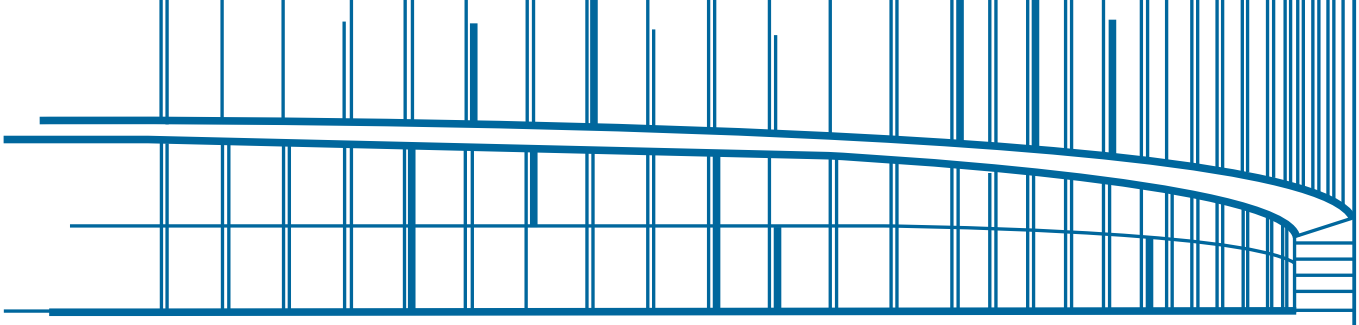
Public relations

In the period under review, the Bank continued communicating its activity, actions in the financial market, as well as reforms and other administrative initiatives to the general public.

The Bank continued cooperating with the Union of Banks of Armenia and maintaining close ties with public unions and non-governmental organizations as part of its public awareness strategy implementation.

The Bank regularly organized meetings and discussions with financial market participants; appeared with explanation of its actions, projects and legislative initiatives in the area of monetary policy, financial supervision and financial stability.

A number of seminars were organized for representatives of mass media in which issues relating to monetary policy, international reserves of the Republic of Armenia, financial supervision and financial stability were addressed.



During the year, Press Service of the Bank published 8 decisions of the Board of the Bank on repo operations (refinancing rate). Brief statement on the Board decisions came immediately after the decision by the Board while the Board Minutes were published within 10 days. A total of 4 Board Minutes have been published in the periodical "Inflation Report".

In 2014, the Bank had 223 press releases issued for public disclosure of its activities. There were 32 releases on the meetings of the Board of the Bank and 12 releases on the refinancing rate of the Bank published during the year. In 2014, Press Service of the Bank arranged interviews and other events with broad media coverage. During the year, Press Service received inquiries, both verbal and written, which were responded appropriately.

The Visitor Center

The goal of creating a visitor center at the Bank is to increase public awareness of the Bank and its activities through using educational tools, such as static, thematic and interactive exhibitions [9].

In 2014, the Center received a total of 7167 visitors of which 5728 were schoolchildren and students and 1439 teachers, lecturers and general public.

In the period May 12-19, 2014, the Bank organized a regular exhibition in Armavir, which was titled "History of Money Cycle in Armenia: finances for all". Such exhibitions are designed to acquaint people and especially students with the history of the national currency, the security features of the Dram, the main functions of the financial system, the rights of users of financial services. The exhibition in Armavir gathered as much as 900 visitors of which 571 were schoolchildren and students and 329 teachers, lecturers and general public.

Beginning November 2014, the Center launched a new educational project titled "One Day at the Central Bank" designed for the servicemen and alumni of educational institutions of the Armenian Ministry of Defense as part of the cooperation between the Bank and the Ministry. In November-December, the Center has received a total of 526 servicemen

[9] See details on www.visitorcentre.cba.am, www.museum.cba.am, www.cba.am.

and alumni of V. Sargsyan Military Institute, A. Khanperyants Military Aviation Institute and M. Melkonyan Military College.

In 2014, the Center served a total of 8067 visitors.



Internal audit

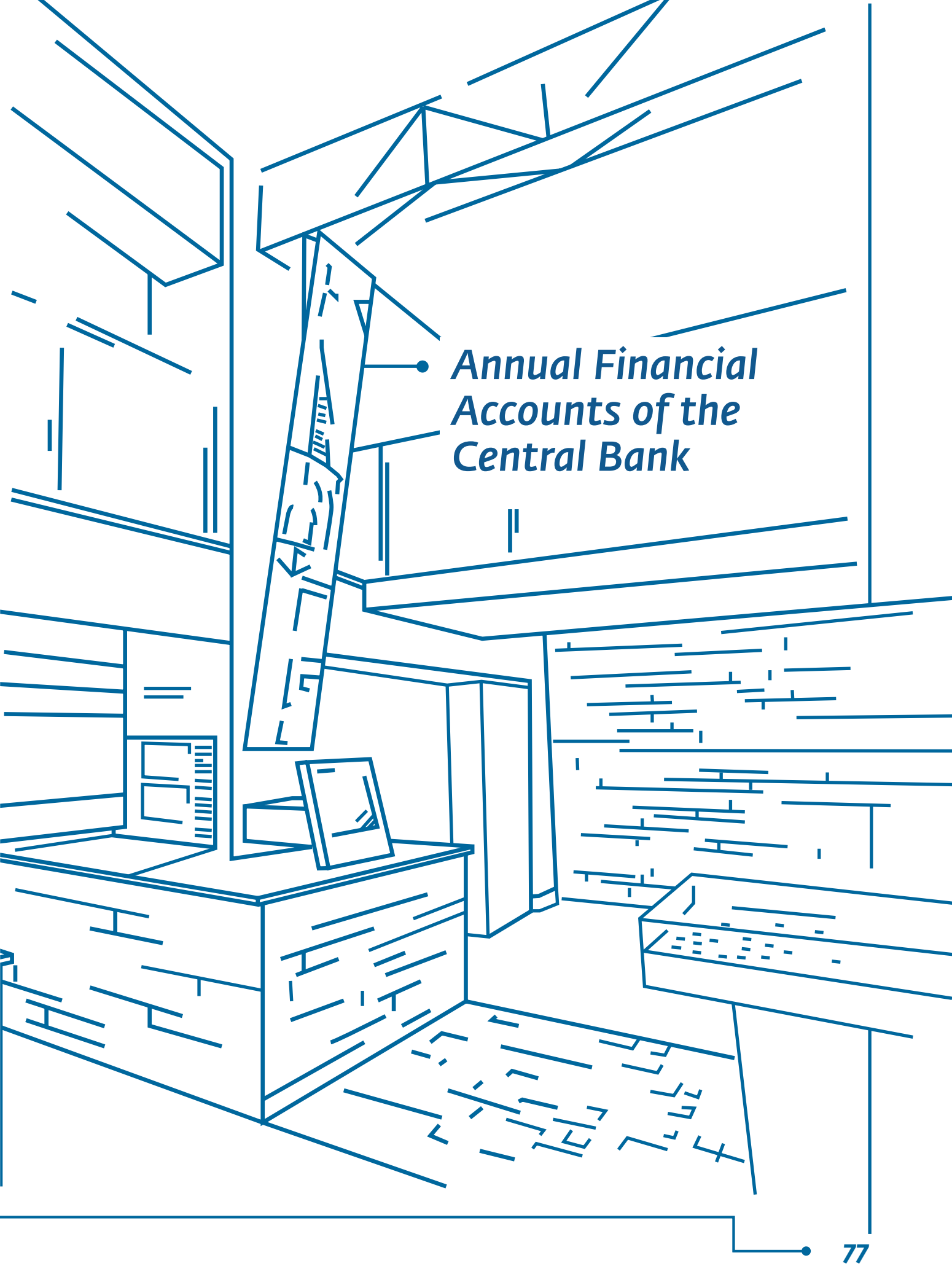
Audit Group takes on the function of internal auditing of the Bank. The Group has been set up by the Board of the Bank according to the Republic of Armenia Law on the Central Bank. The Group performs its functions in compliance with the Armenian Law, ISPPIA standards issued by the Institute of Internal Auditors (IIA) as well as statutes developed by COSO Internal Control — Integrated Framework and CobIT information technologies documentation.

The employees of the Group are members to the IIA, Information System Audit and Control Association, Association of Chartered Certified Accountants, Association of Certified Fraud Examiners, and take international qualification exams (CIA, CRMA, CISA, CRISC, ACCA, CFE) as established by these institutions. In 2014, three employees of the Group received international qualification certificates CIA, CRISC, ISO27000I Lead Auditor.

Pursuant to the risk-based annual audit plan for 2014, approved by the Board of the Bank, the Group conducted examinations in order to enhance efficiency in risk management, control and governance processes. Reports with appropriate recommendations and indication of agreed action for their implementation was prepared for each examination.

Quality self-assessment

Following external evaluation of performance of Audit Group by the experts of the Bank of Netherlands in 2012, the Group began working on introducing the quality management program. This provided ground for the Group to perform quality self-assessment in 2014. The results of self-assessment are reflected in the updated methodology, while members of the group were given recommendation for further improvement.



Annual Financial Accounts of the Central Bank

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CENTRAL BANK
OF THE REPUBLIC OF ARMENIA

Consolidated Financial Statements and

Independent Auditor's Report

31 December 2014

Independent Auditor's Report

To the Board of the Central Bank of the Republic of Armenia

We have audited the accompanying consolidated financial statements of the Central Bank of the Republic of Armenia and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Managements' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the entity's internal control. An audit is also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards.



Altaf Tapia
Managing Partner

Lilit Matevosyan
Auditor

15 April 2015
Yerevan, Republic of Armenia

PricewaterhouseCoopers Armenia LLC.
1 Northern Ave., Business Center NORD, 6th floor, Yerevan 0001, Republic of Armenia
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Consolidated Statement of Profit or Loss and Other Comprehensive Income

In thousands of Armenian Drams

	Note	2014	2013
Interest income	4	20,105,848	18,989,431
Interest expense	5	(11,078,566)	(11,196,180)
Net interest income		**9,027,282**	**7,793,251**
Fee and commission income		126,103	91,860
Fee and commission expense		(441,704)	(765,006)
Net foreign exchange gain/(loss)	6	30,384,095	(2,100,028)
Net gain/(loss) on derivatives	7	5,549,363	(6,148,349)
Net gain from disposals of investment securities available-for-sale		-	121,789
Net gain on financial instruments at fair value through profit or loss	8	2,742,597	1,220,081
Other income	9	4,254,263	4,016,539
Cost of production of banknotes, coins and numismatics	10	(957,693)	(322,285)
Other expenses	11	(18,839,977)	(14,219,984)
Profit/(loss) before tax		**31,844,329**	**(10,312,132)**
Income tax expense		(661,845)	(396,181)
PROFIT/(LOSS) FOR THE YEAR		**31,182,484**	**(10,708,313)**
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss:			
Net unrealised (loss)/gain from changes in fair value of available-for-sale assets		(1,016,791)	2,544,278
Net gain reclassified to profit or loss on disposal of available-for-sale assets		-	(121,789)
Other comprehensive (loss)/ income for the year		**(1,016,791)**	**2,422,489**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**30,165,693**	**(8,285,824)**
Profit/(loss) is attributable to:			
- Owners of the Bank		31,125,330	(10,726,798)
- Non-controlling interest		57,154	18,485
Profit/(loss) for the year		**31,182,484**	**(10,708,313)**
Total comprehensive income/(loss) is attributable to:			
- Owners of the Bank		30,108,539	(8,304,309)
- Non-controlling interest		57,154	18,485
Total comprehensive income/(loss) for the year		**30,165,693**	**(8,285,824)**

These consolidated financial statements were approved by the Board of the Central Bank of the Republic of Armenia on 31 March 2015 and were signed by:

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



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



The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

In thousands of Armenian Drams

	Note	31 December 2014	31 December 2013
ASSETS			
Foreign currency assets			
Cash		18,230,986	5,570,029
Placements with banks and other financial institutions	12	238,346,216	297,991,441
Financial instruments at fair value through profit or loss	13	355,266,581	490,723,065
Derivative assets	14	-	28,096
Available-for-sale assets	15	2,718,999	1,563,410
Held-to-maturity assets	15	94,150,359	118,299,299
Placements with the IMF	16	66,268,240	58,242,991
Other assets		240,418	124,864
Total foreign currency assets		**775,221,799**	**972,543,195**
Domestic currency assets			
Placements with banks and other financial institutions	12	381,855,350	241,475,163
Financial instruments at fair value through profit or loss	13	2,117,870	1,655,255
Available-for-sale assets	15	127,026,270	113,633,052
Non-current assets held for sale	17	2,757,046	4,876,013
Property and equipment	17	78,234,823	77,613,891
Intangible assets	18	1,781,769	1,761,170
Other assets	19	10,248,776	9,217,301
Total domestic currency assets		**604,021,904**	**450,231,845**
TOTAL ASSETS		**1,379,243,703**	**1,422,775,040**
LIABILITIES			
Foreign currency liabilities			
Deposits and accounts of financial and other institutions	20	138,720,805	240,775,372
Due to the Government of the Republic of Armenia	23	2,984,769	5,550,796
Derivative liabilities	14	833,832	3,112
Due to the IMF	16	261,737,845	260,542,511
Other borrowed funds	21	72,658,257	58,357,035
Other liabilities		356,633	195,126
Total foreign currency liabilities		**477,292,141**	**565,423,952**

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

	Note	31 December 2014	31 December 2013
Domestic currency liabilities			
Notes and coins in circulation		412,344,941	446,833,170
Deposits and accounts of financial and other institutions	20	335,444,193	223,826,683
Due to the Government of the Republic of Armenia	23	116,830,511	189,388,176
Debt securities issued	24	4,040,952	2,259,703
Other liabilities	22	2,373,446	2,300,839
Total domestic currency liabilities		**871,034,043**	**864,608,571**
TOTAL LIABILITIES		**1,348,326,184**	**1,430,032,523**
EQUITY			
Issued capital	25	100,000	100,000
General reserve		17,389,049	17,389,049
Additional paid-in capital	25	136,194,821	128,185,512
Revaluation reserve for available-for-sale assets		223,258	1,240,049
Accumulated deficit		(123,698,589)	(154,823,919)
Net assets attributable to owners of the Bank		**30,208,539**	**(7,909,309)**
Non-controlling interest		**708,980**	**651,826**
TOTAL EQUITY		**30,917,519**	**(7,257,483)**
TOTAL LIABILITIES AND EQUITY		**1,379,243,703**	**1,422,775,040**

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

In thousands of Armenian Drams

	Attributable to owners of the Bank							
	Issued capital	General reserve	Additional paid-in capital	Revaluation reserve for available-for-sale assets	Accumulated deficit	Total	Non-controlling interest	Total equity
Balance at 1 January 2013	**100,000**	**17,389,049**	**107,531,884**	**(1,182,440)**	**(144,392,121)**	**(20,553,628)**	**-**	**(20,553,628)**
Loss for the year	-	-	-	-	(10,726,798)	**(10,726,798)**	18,485	**(10,708,313)**
Other comprehensive income	-	-	-	2,422,489	-	**2,422,489**	-	**2,422,489**
Total comprehensive loss for the year	**-**	**-**	**-**	**2,422,489**	**(10,726,798)**	**(8,304,309)**	**18,485**	**(8,285,824)**
Extension of the promissory note by the Government of the Republic of Armenia (Note 25)	**-**	**-**	20,653,628	-	-	**20,653,628**	**-**	**20,653,628**
Additions as a result of consolidation	**-**	**-**	**-**	**-**	**-**	**-**	633,341	**633,341**
Other	**-**	**-**	-	-	295,000	**295,000**	**-**	**295,000**
Balance at 31 December 2013	**100,000**	**17,389,049**	**128,185,512**	**1,240,049**	**(154,823,919)**	**(7,909,309)**	**651,826**	**(7,257,483)**
Profit for the year	-	-	-	-	31,125,330	**31,125,330**	57,154	**31,182,484**
Other comprehensive loss	-	-	-	(1,016,791)	-	**(1,016,791)**	-	**(1,016,791)**
Total comprehensive income for the year	**-**	**-**	**-**	**(1,016,791)**	**31,125,330**	**30,108,539**	**57,154**	**30,165,693**
Extension of the promissory note by the Government of the Republic of Armenia (Note 25)	-	-	8,009,309	-	-	**8,009,309**	**-**	**8,009,309**
Balance at 31 December 2014	**100,000**	**17,389,049**	**136,194,821**	**223,258**	**(123,698,589)**	**30,208,539**	**708,980**	**30,917,519**

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

In thousands of Armenian Drams

	Note	2014	2013
Cash flows from operating activities			
Profit/(loss) before tax		31,844,329	(10,312,132)
Adjustments to reconcile profit for the year to cash provided by operations:			
Depreciation and amortisation	11	4,575,453	2,777,975
Gain from disposal of property and equipment		(11,649)	-
Change in interests receivable		2,593,742	(869,283)
Change in interests payable		(494,733)	195,697
Net (gain)/loss from foreign exchange translation	6	(29,398,749)	2,075,843
Net loss from re-measurement of financial instruments at fair value		2,259,335	1,379,548
Income tax paid		(553,014)	(285,959)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**10,814,714**	**(5,038,311)**
Net (increase)/decrease in operating assets:			
Placements with banks and other financial institutions in foreign currency		(37,350,827)	(2,995,389)
Financial instruments at fair value through profit or loss		173,021,619	(210,253,123)
Available-for-sale assets		(7,407,611)	2,477,440
Placements with banks and other institutions in domestic currency		(140,114,875)	(39,053,964)
Other assets		(772,312)	(6,843,418)
Net cash (used in)/from operating activities			
Notes and coins in circulation		(34,488,229)	6,716,047
Deposits and accounts of financial and other institutions		(8,130,400)	195,090,625
Due to the Government of the Republic of Armenia		(76,265,662)	80,404,851
Debt securities issued		1,781,249	818,239
Other liabilities		436,177	685,339
Net cash (used in)/from operating activities		**(118,476,157)**	**22,008,336**
Cash flows from investing activities			
Purchase of property, equipment and intangible assets		(2,855,458)	(13,307,109)
Proceeds from sale of property and equipment		44,022	9,246
Purchase of held-to-maturity assets		(105,173,398)	(208,084,484)
Proceeds from redemption of held-to-maturity assets		133,846,115	263,574,494
Net cash from investing activities		**25,861,281**	**42,192,147**

	Note	2014	2013
Cash flows from financing activities			
Loans received		28,518,405	41,367,938
Loans redeemed		(41,550,145)	(76,252,058)
Net cash used in financing activities		**(13,031,740)**	**(34,884,120)**
Effect of exchange rate changes on cash and cash equivalents		**15,872,344**	**3,601,705**
Net (decrease)/increase in cash and cash equivalents		**(89,774,272)**	**32,918,068**
Cash and cash equivalents at the beginning of the year		296,179,955	263,261,887
Cash and cash equivalents at the end of the year	28	**206,405,683**	**296,179,955**
Supplementary information			
Interest received		23,079,858	19,858,714
Interest paid		(11,573,299)	(11,000,483)

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements – 31 December 2014

1. Principal activities

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as at 31 December 2014 and for the year then ended for the Central Bank of the Republic of Armenia or the Central Bank of Armenia (the "Bank") and its subsidiaries (together referred to as the "Group").

The Bank is a legal entity the sole founder of which is the Republic of Armenia.

The Bank operates in accordance with the Constitution of the Republic of Armenia, Law "On the Central Bank of the Republic of Armenia" (the "Law") and other laws of the Republic of Armenia.

The registered address of the Bank is 6 Vazgen Sargsyan Street, Yerevan 0010, Republic of Armenia.

The average number of employees of the Bank during 2014 was 791 (2013: 790).

The Bank does not aim to earn profits. The financial results of the Bank's activities, as well as the structure of its assets, liabilities and equity are defined by the functions of the Bank.

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

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

The Bank also:

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

The Bank's largest subsidiaries are as follows:

Name	Country of incorporation	Principal activity	Controlled %		Date of establishment
			2014	2013	
"Armenian Card" CJSC	Republic of Armenia	Payment and settlement services	57.5	57.5	March 2000
"Hayincassatsia" CJSC	Republic of Armenia	Transportation/ delivery of cash	100	100	April 1998
"Panarmenian Bank" OJSC	Republic of Armenia	Banking	100	100	December 2009
"National Mortgage Company" RCO CJSC	Republic of Armenia	Mortgage refinancing	100	100	June 2009
"Home for Youth" RCO CJSC	Republic of Armenia	Mortgage refinancing	100	100	February 2010
"Small and Medium Business Credit Support" CJSC	Republic of Armenia	Lending support	100	100	December 2010
"Vehicle Single Window" CJSC	Republic of Armenia	Insurance Infrastructure support	100	100	December 2013

2. Summary of significant accounting policies

Statement of compliance. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as of and for the year ended 31 December 2014 for the Bank and its subsidiaries.

Basis of measurement. The consolidated financial statements have been prepared under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss including derivative financial instruments. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Form of presentation of the financial statements. In exceptional circumstances detailed disclosure of the information about the operations which occur in the respective reporting period may lead to a loss of confidence spreading through the financial system of the Republic of Armenia as a whole. Accordingly, although the financial effects of such operations will be included into the consolidated financial statements of the Group, the Group may provide only limited disclosure in respect of such types of operations.

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

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

Fair value. Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Assessment of impairment. The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Transactions with related parties. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. 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 judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 27.

Accounting for operations with the International Monetary Fund. In accordance with the "Financial Organisation and Operations of the IMF" Pamphlet, each member of the IMF designates a fiscal agency (ministry of finance, central bank, or similar entity) to conduct financial transactions with the IMF and a depository (central bank or similar

agency) to maintain the accounts of the IMF (the IMF No. 1 and No. 2 Accounts and the Securities Account).

In accordance with the Law of the Republic of Armenia "On Membership of the Republic of Armenia in the International Monetary Fund (the "IMF"), International Bank for Reconstruction and Development, International Finance Corporation, International Development Association, European Bank for Reconstruction and Development, Multilateral Investment Guarantee Agency and International Center for Settlement of Investment Disputes", the Bank acts as the fiscal agent of the Republic of Armenia in accordance with clause 1, article 5 of the IMF articles of agreement. The Bank also is considered to be a depository of the Republic of Armenia.

In the case when central bank performs fiscal agent function, the amounts of assets and liabilities and results of transactions with the IMF are recorded in the statement of financial position and profit or loss of the central bank. When the central bank performs depositary function in operations with the IMF, all transactions are made through correspondent accounts of central bank, however balances outstanding as a result of these transactions and respective profit or loss are not reflected in the central bank's statement of financial position and profit or loss.

Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2014:

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy. These amendments did not have any material impact on the Group's consolidated financial statements.

"Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair

value basis. An investment entity is required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. These amendments did not have any impact on the Group's consolidated financial statements.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. This IFRIC did not have any impact on the Group's consolidated financial statements.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. These amendments did not have any impact on the Group's consolidated financial statements.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014).The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. These amendments did not have any impact on the Group's consolidated financial statements.

Basis of consolidation. The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2014. Subsidiaries are those investees that the Group controls. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- power to direct relevant activities of the investees that significantly affect their returns,
- exposure, or rights, to variable returns from its involvement with the investees, and
- the ability to use its power over the investees to affect the amount of investor's returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at the non-controlling interest's proportionate share of net assets of the acquiree or fair value.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net

assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Foreign currency translation and presentation of foreign currency items. Transactions in foreign currencies are initially recognised in the functional currency, converted at the exchange rate published by the Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are recalculated at the exchange rate published by the Bank at the reporting date.

Gains and losses resulting from the translation of foreign currency transactions are recognised in profit or loss as net foreign exchange gain/(loss). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate published by the Bank at the date of the transaction are included in the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2014 and 31 December 2013, the rates of exchange used for translating foreign currency balances were as follows:

	31 December 2014	31 December 2013
AMD/1 US Dollar	474.97	405.64
AMD/1 Euro	577.47	559.54
AMD/1 SDR (Special Drawing Rights)	688.09	624.68

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Group considers cash, nostro accounts with banks and SDR holdings in the IMF to be cash and cash equivalents. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the counterparty's current account or interest payments or disbursement of loans credited to the counterparty's current account, deposits placement through transfer of funds from counterparties' current account to their deposit account, which represents cash or cash equivalent from the counterparty's perspective.

Financial instruments - key measurement terms. The Group measures financial instruments, such as, financial instruments at fair value through profit or loss, available-for-sale assets and derivatives at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 29.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the Group. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and

duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition

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

Date of recognition

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

Financial assets at fair value through profit or loss

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

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

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

Held-to-maturity assets

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets include placements with banks and other financial institutions, holdings with the IMF, loans and reverse repurchase agreements. Such assets are carried at amortised cost using the effective interest

method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale assets

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

Reclassification of financial assets

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

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

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

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

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include deposits and accounts of financial and other institutions, amounts due

to the Government and the IMF, other borrowed funds and debt securities issued.

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

Accounting for zero interest rate loans. The benefit of the funds which are obtained by the Group from the international financial institutions at zero rate of interest is treated and accounted for as a government grant. The benefit of zero rate of interest is measured as the difference between the fair value of the funds obtained and the proceeds received and recognised as deferred income as at the date of the funds initial recognition. The amount of deferred income is recognised in the profit or loss over the period in which the Group recognises as expenses the related costs. Grant related income is deducted in reporting the related expense.

Derecognition of financial assets and liabilities. A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

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

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

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

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankrupt.

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

Funds provided to purchase securities under agreements to resell ("reverse repo agreements") are recorded as placements with banks and other financial institutions. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

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

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

Numismatic coins. Numismatic coins are measured at the lower of cost and net realisable value. The cost of numismatic coins is based on the first-in first-out principle, and includes expenses incurred

in acquiring the numismatic coins and bringing them to their existing location. Net realisable value is the estimated selling price less the estimated costs necessary to make the sale. During the sale the inflow amount is recognised as income in the consolidated statement of profit or loss and other comprehensive income for the current year, and the amount of carrying value is recognised as expense in the consolidated statement of profit or loss and other comprehensive income for the current year.

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

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

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

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

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

	2014	2013
Land and buildings		
– Buildings	30-80 years	30-80 years
– Building technical systems	3-15 years	3-15 years
Networks, computer and other equipment	2-15 years	2-15 years
Vehicles	5 years	5 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Non-current assets classified as held for sale. Non-current assets, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, within twelve months after the end of the

greporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Held for sale non-current assets are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises are not depreciated.

Intangible assets. Intangible assets include computer software and licenses. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

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

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

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

Placements with banks and other financial institutions

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

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

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

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

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

Held-to-maturity assets

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

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

Available-for-sale assets

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

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

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Non-financial assets. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or

CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

Taxation. The Bank is not subject to any taxes except for import duties. At the same time the Bank acts as a tax agent according to the procedures envisaged by the laws of the Republic of Armenia. The Group's subsidiaries are subject to income tax and other taxes on their operations in accordance with the laws of the Republic of Armenia.

Issued capital. Issued capital represents the authorised capital of the Bank which is the property of and belongs to the Republic of Armenia and may not be pledged, confiscated or otherwise alienated against the obligations of the Republic of Armenia.

The non-interest bearing promissory note extended by the Government as envisaged by the article 11.4 of the Law to cover excess of the losses of the Group over its reserves is recognised as ***additional paid-in capital***.

Profit allocation. The profit of the Group determined after the publication of its consolidated financial statements is allocated as follows:

- 20% of the profit is addressed to replenish the general reserve until its total amounts 25% of the broad money,
- 80% of the profit is addressed to recover the amounts as per promissory notes which have been previously issued by the Government to the Bank with transfer of the remaining part to the state budget.

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

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

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

Fee and commission income. Fees earned for the provision of services over a period of time are accrued over that period.

Changes in accounting estimates. As at 1 January 2014 the management of the Group has performed assessment of the remaining useful life of buildings of the Group. The remaining useful lives of several administrative buildings which were put into operation since the financial year 2011 and later were reassessed to be equal to 80 years based on the analysis of buildings' technical conditions as at the date of reassessment. As a result of change in estimate the amount of depreciation charge for "Land and buildings" for the year changed to AMD 2,433,422 thousand compared to AMD 2,610,772 thousand, which should have been charged if no changes in estimate were made.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

Changes which were made did not have impact on the Group's financial position and on its financial result for the year ended 31 December 2013.

3. New accounting pronouncements

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

Management anticipates that all of the pronouncements will be adopted in the Group'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 Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not relevant for the Group's consolidated financial statements.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The Group does not expect the amendment to have any impact on its consolidated financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that

the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

The amendments are not expected to have any material impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

The amendments are not expected to have any material impact on the Group's consolidated financial statements.

Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued in May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The

amendments are not expected to have impact on the Group's consolidated financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued in May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments are not expected to have impact on the Group's consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers (issued in May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The standard is not expected to have any material impact on the Group's consolidated financial statements.

Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued in August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are not expected to have impact on the Group's consolidated financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued in September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Annual Improvements to IFRSs 2014 (issued in September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards.

IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.

The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.

The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise.

IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The improvements are not expected to have any material impact on the Group's consolidated financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The amendments are not expected to have impact on the Group's consolidated financial statements.

4. Interest income

In thousands of Armenian Drams

	2014	2013
Interest income from foreign currency assets		
Assets held-to-maturity	366,438	446,643
Term deposits	105,783	34,090
Nostro accounts	73,406	56,696
Placements with the IMF	2,159	8,961
Other	48,103	24
Total interest income from foreign currency assets	**595,889**	**546,414**
Interest income from domestic currency assets		
Placements with banks and other financial institutions	17,471,143	16,732,455
Available-for-sale assets	2,038,816	1,710,562
Total interest income from domestic currency assets	**19,509,959**	**18,443,017**
Total interest income	**20,105,848**	**18,989,431**

5. Interest expense

In thousands of Armenian Drams

	2014	2013
Interest expense on foreign currency liabilities		
Due to the IMF	1,199,188	2,179,671
Other borrowings	751,284	625,805
Other	6,745	6,497
Total interest expense on foreign currency liabilities	**1,957,217**	**2,811,973**
Interest expense on domestic currency liabilities		
Due to the Government (Note 27)	8,217,776	7,681,810
Deposits and accounts of financial and other institutions	448,993	424,791
Debt securities issued	336,209	157,264
Other	118,371	120,342
Total interest expense on domestic currency liabilities	**9,121,349**	**8,384,207**
Total interest expense	**11,078,566**	**11,196,180**

6. Net foreign exchange gain/(loss)

In thousands of Armenian Drams

	2014	2013
Net gain/(loss) from foreign exchange translation	29,398,749	(2,075,843)
Net gain/(loss) on spot transactions	985,346	(24,185)
Total net foreign exchange gain/(loss)	**30,384,095**	**(2,100,028)**

Included in the net gain from revaluation of monetary assets and liabilities is a foreign exchange translation gain of AMD 40,908,776 thousand on financial instruments at fair value through profit or loss (2013: gain in the amount of AMD 9,944,816 thousand).

7. Net gain/(loss) on derivatives

In thousands of Armenian Drams

	2014	2013
Net gain /(loss) on forward contract with the Government (Note 27)	5,881,610	(6,094,861)
Net gain on swaps	238,697	14,109
Net loss on futures under own management	(570,944)	(67,597)
Total net gain/(loss) on derivatives	**5,549,363**	**(6,148,349)**

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

In thousands of Armenian Drams

	2014	2013
Net gain on foreign securities under own management (excluding foreign exchange translation*)	1,588,806	951,859
Net gain on assets under trust management (excluding foreign exchange translation*)	1,219,400	112,278
Net gain on the Government securities	163,748	249,716
Net gain on money market instruments under own management	-	3,092
Trust management fees (excluding foreign exchange translation*)	(229,357)	(96,864)
Total net gain on financial instruments at fair value through profit or loss	**2,742,597**	**1,220,081**

** The foreign exchange translation of assets is included in "Net foreign exchange gain/(loss)" (Refer to Note 6).*

9. Other income

In thousands of Armenian Drams

	2014	2013
Financial agency fee	1,674,456	1,534,990
Numismatic coins	660,188	463,534
Credit registry	-	90,456
Other	1,919,619	1,927,559
Total other income	**4,254,263**	**4,016,539**

Financial agency fee represents fee which is obtained by the Bank as an agent of the Government in accordance with the agency agreements. Based on the conditions of the agency agreements the Bank provides loans to commercial banks and other financial institutions.

During the year ended 31 December 2014, the amount of AMD 1,736,373 thousand included in "Other" line represents the revenue of two subsidiaries of the Bank which render cash collection and plastic cards processing services (2013: AMD 1,629,839 thousand).

10. Cost of production of banknotes, coins and numismatics

In thousands of Armenian Drams

	2014	2013
Production of numismatic coins sold during the year	524,317	322,285
Production of banknotes and coins	433,376	-
Total cost of production of banknotes, coins and numismatics	**957,693**	**322,285**

11. Other expenses

In thousands of Armenian Drams

	2014	2013
Employee compensation, staff training and related payments	7,546,770	6,884,945
Depreciation and amortisation	4,575,453	2,777,975
Education, research and development of new projects	1,642,560	336,212
Repairs and maintenance	1,629,316	980,292
Security and insurance expenses	459,749	454,167
Expenses on establishment and service of payment system	313,617	284,020
Expenses for Basel requirements implementation	286,855	307,559
Professional services	165,872	261,829
Other	2,219,785	1,932,985
Total other expenses	**18,839,977**	**14,219,984**

There are no expenses for the year ended 31 December 2014 and 31 December 2013 in relation to statutory pension contributions within employee compensation, staff training and related payments due to changes in Armenian legislation.

During the year ended 31 December 2014 and 31 December 2013, the expenses included into "Other" line represent subscription fees, representation expenses, printing expenses, communication expenses, utilities, rent expenses and stationary.

Amounts of employee compensation, staff training and related payments, depreciation and amortisation and repairs and maintenance expenses for the year ended 31 December 2014 and 31 December 2013 also include respective amounts of expenses of the Group's subsidiaries.

12. Placements with banks and other financial institutions

Placements with banks and other financial institutions in foreign currency

In thousands of Armenian Drams

	2014	2013
Placements with banks and other financial institutions in foreign currency		
Nostro accounts	185,210,899	289,839,197
Term deposits	28,792,806	7,359,186
Repurchase agreements	21,378,513	-
Cash included in assets under trust management	2,789,677	605,427
Margin requirement of interest rate futures	124,081	66,815
Other	50,240	120,816
Total placements with banks and other financial institutions in foreign currency	**238,346,216**	**297,991,441**

Concentration of placements with banks and other financial institutions in foreign currency

As at 31 December 2014 the Group had placements in one bank with individual balance exceeding 10% of total placements. The gross value of these placements as of 31 December 2014 amounted to AMD 143,387,405 thousand (31 December 2013: placements with one bank amounted to AMD 240,448,057 thousand).

The term deposits have up to three months remaining maturity with the interest rate from 0.02% to 0.5% (31 December 2013: 0.46%).

As at 31 December 2014 AMD 2,789,677 thousand balance of cash included in assets under trust management and AMD 124,081 thousand balance of margin requirement of interest rate futures (31 December 2013: AMD 605,427 thousand balance of cash included in

assets under trust management and AMD 66,815 thousand balance of margin requirement of interest rate futures) represent balance maintained by the Bank for settlements under operations with foreign securities and margin reserve for settlements under futures operations respectively within the framework of Agreements on investment management and advisory services.

As at 31 December 2014 AMD 1,425,753 thousand of term deposits denominated in foreign currency are pledged to secure bonds issued by the Group (refer to Note 24) (31 December 2013: there were no pledged term deposits).

As at 31 December 2014 receivables of the Group under repurchase agreements were collateralised by foreign government and state agencies bonds with fair value of AMD 21,915,181 thousand (31 December 2013: there were no receivables under repurchase agreements).

Placements with banks and other financial institutions in domestic currency

In thousands of Armenian Drams

	31 December 2014	31 December 2013
Placements with banks and other financial institutions in domestic currency		
Repurchase agreements and other overnight facilities	227,566,937	104,029,800
Loans to resident financial institutions under arrangement with the KfW, the World Bank and Asian Development Bank	64,620,390	52,250,601
Mortgage refinancing	39,868,360	32,734,060
Deposits and current accounts placed in commercial banks	29,947,531	17,524,997
Subordinated loans	12,618,347	30,281,515
Other loans	7,233,785	4,654,190
Total placements with banks and other financial institutions in domestic currency	**381,855,350**	**241,475,163**

Concentration of placements with banks and other financial institutions in domestic currency

As at 31 December 2014 two banks had the balances individually exceeding 10% of total placements with banks and other financial institutions denominated in domestic currency (31 December 2013: two banks).

Loans issued to commercial banks under reverse repurchase agreements represent short-term loans which are issued to commercial banks on a regular basis via the tender process.

The Group accepted securities on reverse repurchase agreements as collateral for commercial loans, which the Group is permitted to sell or repledge. As at 31 December 2014 amounts receivable under reverse repurchase agreements are with 18 resident banks and two other financial institutions (2013: 11 resident banks) and are collateralised by the following securities:

In thousands of Armenian Drams

	31 December 2014	31 December 2013
Treasury bonds of the Government	169,576,189	104,953,751
Eurobonds issued by the Government	14,841,093	-
Corporate bonds	4,189,454	1,228,385
Total	**188,606,736**	**106,182,136**

AMD 2,078,953 thousand out of AMD 4,189,454 thousand corporate bonds as at 31 December 2014 (31 December 2013: AMD 384,775 thousand out of AMD 1,228,385 thousand) represents debt securities of the Group's subsidiary.

Loans to resident banks under the agreements with the KfW, Asian Development Bank (ADB) and the World Bank are provided by the Group to commercial banks under the following programs which are financed by KfW Banking Group, ADB and International Bank for Reconstruction and Development (member of the World Bank):

- *SME Support.* The objective of the SME support Programs of the World bank and KfW is to develop SMEs in Armenia, in particular by providing the necessary funding to the commercial banks and universal credit organisations in order to make lending to micro, small and medium size private enterprises efficient and profitable. This is supported by introducing new loan technologies in partner banks and organising the teaching and training of qualified loan experts. During 2014 a new credit line was received within the framework of the ADB "Women Entrepreneurship Support Sector Development" Program. The main objective of the program is to stimulate entrepreneurship development among women by increasing the availability of domestic currency funds for women-owned SMEs via the financial system of the Republic of Armenia.
- *Development of the Renewable Energies.* The overall objective of the Program is to contribute to an improved energy supply and to the further development of the private sector in Armenia by the cost-effective utilisation of renewable energy sources for electricity production. The Program envisages promoting the utilisation of renewable energy, in particular Small Hydro Power Plants ("SHPP"), by enhancing the access to loans for private entrepreneurs and private enterprises.
- *Development of sustainable housing market*. The purpose of the Program is the expansion of sustainable lending to private households by commercial banks and credit organisations for the purpose of either purchase or modernisation of housing.

In accordance with the conditions of the programs the Group appoints eligible Armenian banks and financial institutions using technical and finance criteria, and places funds with appointed banks and financial institutions according to contracts signed with these counterparties. The banks and financial institutions specify final borrowers and assume risks for the loans extended.

As at 31 December 2014 loans to resident banks under the agreements with the KfW, the World Bank and ADB are provided to 18 domestic banks (31 December 2013: 18 domestic banks) and five financial institutions (31 December 2013: five financial institutions) at interest rates from 5.5% to 9% (31 December 2013: from 5.5% to 9%).

Subordinated loans category include loans provided to commercial banks on subordinated terms starting from 2009 with initial maturity of five years and interest rate ranging from 7.5% to 8% aimed to build sufficient capacity in the banking system in order to absorb potential crisis-derived risks.

Mortgage refinancing has been provided to financial institutions at interest rates ranging from 5.5% to 9.5% (31 December 2013: from 5.5% to 8.75%) and up to 15 years (2013: 15 years) of maturity period.

As at 31 December 2014 mortgage refinancing loans were collateralised with claims under loan agreements with the banks' and other financial institutions' customers in the amount of AMD 39,555,684 thousand (31 December 2013: AMD 32,463,377 thousand).

As at 31 December 2014 mortgage refinancing loans in the amount of AMD 6,229,074 thousand (31 December 2013: AMD 4,843,955 thousand) are pledged to secure the Group's borrowings from the Government (refer to Note 23) and bonds issued (refer to Note 24).

Current accounts and deposits placed in commercial banks represent on-demand and short-term placements made by the Group's subsidiaries in commercial banks.

As at 31 December 2014 AMD 30,000 thousand of deposits and current accounts placed in banks are pledged to secure bonds issued by the Group (31 December 2013: there were no pledged deposits and current accounts placed in banks) (refer to Note 24).

Other loans are secured by real estate in the amount of AMD 5,524,719 thousand (31 December 2013: AMD 3,381,191 thousand), movable property and other assets in the amount of AMD 1,249,964 thousand (31 December 2013: AMD 723,490 thousand).

13. Financial instruments at fair value through profit or loss

In thousands of Armenian Drams

	31 December 2014	31 December 2013
Assets		
Debt and other fixed-income instruments* in foreign currency - *Quoted		
Foreign bonds under own management	270,272,110	443,412,189
Foreign bonds under trust management	84,994,471	47,310,876
Total financial instruments at fair value through profit or loss in foreign currency - *Quoted*	**355,266,581**	**490,723,065**
Debt and other fixed-income instruments in domestic currency		
Government securities	2,117,870	1,655,255
Total financial instruments at fair value through profit or loss in domestic currency	**2,117,870**	**1,655,255**
Total financial instruments at fair value through profit or loss	**357,384,451**	**492,378,320**

As at 31 December 2014 and 31 December 2013 foreign securities at fair value under own management include:

In thousands of Armenian Drams

	31 December 2014	31 December 2013
Government bonds	125,188,957	338,661,719
State agency bonds	80,130,938	30,523,017
Other securities	64,952,215	74,227,453
Total	**270,272,110**	**443,412,189**

Debt securities at fair value through profit or loss under own management represent securities issued by governments of European countries and US treasury bills, securities issued by state agencies, foreign banks and other financial institutions.

As at 31 December 2014 and 31 December 2013 the foreign bonds under trust management include:

In thousands of Armenian Drams

	31 December 2014	31 December 2013
Government bonds	38,032,306	21,601,289
State agency bonds	22,216,243	11,711,574
Other securities	24,745,922	13,998,013
Total	**84,994,471**	**47,310,876**

Securities under trust management represent financial instruments under discretionary asset management by the international financial

institution in accordance with Investment Management Agreement (31 December 2013: in accordance with Investment Management and Consulting Services Agreement).

As at 31 December 2014 and 31 December 2013 government securities denominated in domestic currency are represented by coupon treasury bills of the Government.

14. Derivative financial instruments

In thousands of Armenian Drams

	31 December 2014	31 December 2013
Derivative financial assets		
Foreign currency contracts under trust management	-	28,096
Total derivative financial assets	**-**	**28,096**
Derivative financial liabilities		
Forward contract with the Government (Note 27)	245,189	3,112
Swap contracts	588,643	-
Total derivative financial liabilities	**833,832**	**3,112**

As at 31 December 2013 the Group had 205 short futures contracts with the nominal value of USD 50,567 thousand or AMD 20,512,033 thousand at the year-end official exchange rate of US Dollar to Armenian Dram, which were under discretionary asset management by the international financial institution for the purposes of regulating the interest rate risk. These operations were performed as a part of Investment Management and Consulting Services Agreement. As at 31 December 2014 the Group did not have any such contracts under trust management.

In thousands of Armenian Drams

	2014	2013	2014		2013	
	Nominal value		*Fair value*			
			Asset	**Liability**	**Asset**	**Liability**
Interest rate futures	-	20,512,033		-	28,096	-
Total foreign exchange futures contracts under trust management	**-**	**20,512,033**		**-**	**28,096**	**-**
Currency forward contract with the Government	1,801,947	824,440	-	245,189	-	3,112
Currency swap contracts	5,789,520	-	-	588,643	-	
Total	**7,591,467**	**21,336,473**		**833,832**	**28,096**	**3,112**

15. Investment securities

In thousands of Armenian Drams

	31 December 2014	31 December 2013
Available-for-sale investments in foreign currency - Unquoted		
Foreign securities	2,717,353	1,561,764
Equity investments at cost		
SWIFT	1,646	1,646
Total available-for-sale investments in foreign currency - Unquoted	**2,718,999**	**1,563,410**
Available-for-sale investments in domestic currency		
Debt instruments		
Treasury bonds of the Government	14,722,231	15,259,484
Promissory note of the Government (Note 25)	106,175,637	98,166,328
Corporate bonds	5,561,948	-
Total debt instruments	**126,459,816**	**113,425,812**
Equity investments at cost		
Other investments	566,454	207,240
Total equity investments	***566,454***	***207,240***
Total available-for-sale investments in domestic currency	**127,026,270**	**113,633,052**
Total available-for-sale investments	**129,745,269**	**115,196,462**
Held-to-maturity investments in foreign currency		
Foreign bonds	94,150,359	118,299,299
Total held-to-maturity investments in foreign currency	**94,150,359**	**118,299,299**

Foreign securities classified as available-for-sale as at 31 December 2014 and as at 31 December 2013 represent investment of one of the Group's subsidiaries into the development fund initiated and led by the KfW. The development fund was established with the aim to foster economic development and prosperity in the Southeast Europe region including the Republic of Armenia through the sustainable provision of additional development finance.

Debt securities denominated in domestic currency and classified as available-for-sale represent coupon securities issued by the Government of the Republic of Armenia and securities issued by local investment and development funds.

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

In 2014 a non-interest bearing on-demand promissory note in the amount of AMD 106,175,637 thousand (2013: AMD 98,166,328 thousand) was re-issued by the Government.

The nominal value of the promissory note includes AMD 8,009,309 thousand coverage of excess of losses of the Group for the year ended 31 December 2013 over aggregate amount of its reserves

calculated as total amount of general reserve, additional paid-in capital, revaluation reserve for available-for-sale assets, accumulated loss and other equity reserves (refer to Note 25).

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

Foreign securities classified as held to maturity include coupon and discount securities issued by governments of European countries and Japan, securities issued by state agencies, foreign banks and other financial institutions.

16. International Monetary Fund

Assets due from the IMF

In thousands of Armenian Drams

	31 December 2014	31 December 2013
Placements with the IMF		
Membership quota in the IMF (subscription)	63,304,280	57,471,044
SDR holdings in the IMF	2,963,798	770,729
Accrued interest	162	1,218
Total placements with the IMF	**66,268,240**	**58,242,991**

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

The quota balance is a special type asset. Quotas vary based on the economic size of each country and are determined by the Board of Governors of the IMF. The quota determines a member's voting power in the IMF, the limits of access to the financial resources of the IMF and a participant's share in the allocation of SDRs, the IMF's unit of account. The quota of the Republic of Armenia was paid in the form of non-interest-bearing promissory notes issued to the IMF by the Bank. As at 31 December 2014 the quota of the Republic of Armenia in the IMF amounted to SDR 92,000 thousand, or AMD 63,304,280 thousand at the year-end official exchange rate of Armenian Dram to SDR (2013: SDR 92,000 thousand, or AMD 57,471,044 thousand at the year-end official exchange rate of Armenian Dram to SDR). The quota does not earn interest and is a non-current asset.

The Bank maintains an SDR-denominated current account with the IMF used for processing and settlement of transactions with the IMF. This current account earns interest based on the SDR Interest Rate which is published by the IMF on a weekly basis.

Movements in SDR holdings account during the year ended 31 December 2014 and 31 December 2013 were as follows:

In thousands of Armenian Drams

	31 December 2014	31 December 2013
Balance of SDR holdings as at 1 January	**770,729**	**12,802,798**
Receipt of funds from the IMF under Extended Fund Facility program:		
in favour of the Bank	15,289,937	17,758,965
Receipt of funds from the IMF under Extended Credit Facility program:		
in favour of the Bank	-	16,398,170
Purchase of SDRs	50,442,279	69,271,753
Repayment of loans to the IMF:		
on behalf of the Bank		
PRGT	(4,845,104)	(6,890,754)
SBA	(32,301,854)	(67,309,551)
EFF	(1,003,464)	-
on behalf of the Government		
SBA	(24,426,872)	(37,638,121)
Payment of loan related commission	(99,966)	(88,795)
Other income	22,990	26,638
Other fees	(379)	(307)
Payment of interest for use of the IMF resources:		
on behalf of the Bank	(1,196,787)	(2,430,013)
on behalf of the Government	(196,082)	(893,177)
Payment of interest for use of funds received under SDR allocation	(51,807)	(40,545)
Income on SDR holdings	3,216	8,455
Translation differences	556,962	(204,787)
Balance of SDR holdings as at 31 December	**2,963,798**	**770,729**

During 2014 funds totalling SDR 23,480 thousand were received into SDR holdings account under Extended Fund Facility (the “EFF”) program. All these funds were obtained by the Bank on behalf of itself.

During 2013 funds totalling SDR 28,400 thousand were received into SDR holdings account under the EFF program and SDR 26,600 thousand were received into SDR holdings account under the Extended Credit Facility (the “ECF”) program. All these funds were obtained by the Bank on behalf of itself.

The amounts of transactions in the table above are represented in AMD equivalent at SDR/AMD exchange rates at the dates when each of transactions had place.

Liabilities due to the IMF

In thousands of Armenian Drams

	31 December 2014	31 December 2013
Securities account	140,663,079	140,663,079
Adjustment account for AMD liabilities to the IMF	11,547,540	1,136,262
Account 1	19,987,383	32,596,561
Account 2	2,492	2,411
SDR allocation	60,544,116	54,965,219
ECF:	28,803,447	30,935,664
Carrying value	*27,067,655*	*28,864,741*
Deferred income	*1,735,792*	*2,070,923*
Interest accrued	189,788	243,315
Total liabilities due to the IMF	**261,737,845**	**260,542,511**

The Securities account, Adjustment account and Account 1 represent the amounts of the liability of the Bank as per Stand-By Arrangement, EFF and the membership quota. Currently all major settlements with the IMF are made through Account 1. Account 2 is used by the IMF for administrative purposes.

As at 31 December 2014 part of the Bank's liabilities to the IMF and the membership quota are covered by the promissory note in the amount of AMD 140,663,079 thousand (31 December 2013: AMD 140,663,079 thousand).

Except for membership quota and liability in respect of SDR allocation, the Bank's liability to the IMF as at 31 December 2014 represents liabilities as per Extended Credit Facility, Extended Fund Facility, and Stand-By Arrangement.

The Extended Credit Facility provides financial assistance to the countries with protracted balance of payments problems. The ECF was created under the newly established Poverty Reduction and Growth Trust (the "PRGT") as part of a broader reform to make the IMF's financial support more flexible and better tailored to the diverse needs of Low Income countries, including in times of crisis. As at 31 December 2014 the ECF bears no interest (2013: 0%). The loans outstanding as at 31 December 2014 mature in May 2015 - June 2023 (31 December 2013: May 2015 – June 2023).

The Extended Fund Facility (the "EFF") is provided to the countries to overcome medium-term payment problems. The EFF interest rate is floating and published by the IMF on a weekly basis as Adjusted Rate of Charge. The loans outstanding as at 31 December 2014 mature in June 2020 - December 2024 (31 December 2013: June 2020 – June 2023). As at 31 December 2014 the nominal amount withdrawn by the Bank under this facility equaled SDR 155,422 thousand (AMD 106,944,095 thousand at the year-end official

exchange rate) (31 December 2013: SDR 133,400 thousand (AMD 83,333,014 thousand at the year-end official exchange rate).

The Stand-By Arrangement (the “SBA”) is provided by the IMF to member countries to overcome their payment problems during crisis. Part of loans under the SBA was obtained directly by the Bank and another part was obtained by the Bank on behalf of the Government. The SBA interest rate is floating and published by the IMF on a weekly basis as Adjusted Rate of Charge. Till November 2012 the IMF accounted surcharge of 2% per annum on the part of the SBA and the EFF exceeding 300% of the membership quota. From November 2012 to 30 September 2013 the IMF accounted surcharge of 3% per annum, as it was already three years that the total amount of SBA and the EFF exceeded 300% of the membership quota.

Starting from October 2013 the IMF does not account any surcharge as the amount of the SBA and the EFF is less than 300% of the membership quota.

The part of loans under the SBA recorded as liability of the Bank as at 31 December 2014 matures in March 2015 (31 December 2013: March 2014 – March 2015).

As at 31 December 2014 the amount of liability of the Bank under the SBA was SDR 2,944 thousand (AMD 2,025,737 thousand at the year-end official exchange rate) (31 December 2013: SDR 53,774 thousand (AMD 33,591,825 thousand at the year-end official exchange rate). On 31 March 2015 the Bank has fully repaid loans under the SBA.

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

17. Property and equipment

In thousands of Armenian Drams

	Land and buildings	Networks, computer and other equipment	Vehicles	Construction in progress	Total
Cost					
Balance as at 1 January 2013	**16,463,893**	**7,915,011**	**410,157**	**46,841,675**	**71,630,736**
Additions	678,488	534,023	144,165	11,181,570	12,538,246
Disposals	-	(118,551)	(16,372)	-	(134,923)
Transfer	45,821,444	4,275,088	-	(50,096,532)	-
Reclassifications into non-current assets held for sale and additions as a result of consolidation	486,697	9,111,723	35,172	(4,799,353)	4,834,239
Balance as at 31 December 2013	**63,450,522**	**21,717,294**	**573,122**	**3,127,360**	**88,868,298**
Additions	11,406	1,245,139	52,367	3,643,424	4,952,336
Disposals	-	(234,601)	(7,351)	-	(241,952)
Transfer	1,186,125	385,250	-	(1,571,375)	-
Balance as at 31 December 2014	**64,648,053**	**23,113,082**	**618,138**	**5,199,409**	**93,578,682**
Depreciation					
Balance as at 1 January 2013	**2,612,052**	**4,393,253**	**260,553**	**-**	**7,265,858**
Charge for the period	893,867	1,544,772	54,566	-	2,493,205
Disposals	-	(109,041)	(15,553)	-	(124,594)
Additions as a result of consolidation	149,869	1,454,420	15,649	-	1,619,938
Balance as at 31 December 2013	**3,655,788**	**7,283,404**	**315,215**	**-**	**11,254,407**
Charge for the period	2,433,422	1,801,532	61,035	-	4,295,989
Disposals	-	(199,553)	(6,984)	-	(206,537)
Balance as at 31 December 2014	**6,089,210**	**8,885,383**	**369,266**	**-**	**15,343,859**
Carrying amount					
At 31 December 2014	**58,558,843**	**14,227,699**	**248,872**	**5,199,409**	**78,234,823**
At 31 December 2013	**59,794,734**	**14,433,890**	**257,907**	**3,127,360**	**77,613,891**

As at 31 December 2013 buildings with carrying value of AMD 4,875,776 thousand were reclassified to “Non-current assets held for sale” category, based on the announced decision of the Group’s management in respect of sale of these buildings to the Group’s employees within the period of one year. During the year ended 31 December 2014 buildings amounting to AMD 2,121,230 thousand were sold to employees. AMD 2,500 thousand of other property and equipment during the year ended 2014 was reclassified to “Non-current assets held for sale” category.

Construction in progress consists mainly of construction of premises and software development. Upon completion, assets are transferred to premises and equipment and intangible assets respectively.

18. Intangible assets

In thousands of Armenian Drams

	Computer software
Cost	
Balance as at 1 January 2013	**1,330,834**
Additions	521,909
Disposals	(50)
Additions as a result of consolidation	1,346,496
Balance as at 31 December 2013	**3,199,189**
Additions	310,484
Disposals	(746,557)
Balance as at 31 December 2014	**2,763,116**
Amortisation	
Balance as at 1 January 2013	**353,771**
Charge for the period	284,770
Disposals	(20)
Additions as a result of consolidation	799,498
Balance as at 31 December 2013	**1,438,019**
Charge for the period	279,464
Disposals	(736,136)
Balance as at 31 December 2014	**981,347**
Carrying amount	
At 31 December 2014	**1,781,769**
At 31 December 2013	**1,761,170**

19. Other assets

In thousands of Armenian Drams

	31 December 2014	31 December 2013
Numismatic coins	7,366,813	7,471,416
Prepayments	2,371,944	1,219,173
Other	510,019	526,712
Total other assets	**10,248,776**	**9,217,301**

20. Deposits and accounts of financial and other institutions

In thousands of Armenian Drams

	31 December 2014	31 December 2013
Foreign currency liabilities		
Vostro accounts and deposits of domestic banks	135,944,337	238,814,087
Term deposit of Deposit Guarantee Fund	2,021,254	1,958,516
Current accounts of other legal entities	755,214	2,769
Total foreign currency liabilities	**138,720,805**	**240,775,372**
Domestic currency liabilities		
Vostro accounts and deposits of domestic banks	334,596,232	223,508,942
Accounts of other legal entities	844,580	113,323
Current accounts and term deposit of Deposit Guarantee Fund	3,381	204,418
Total domestic currency liabilities	**335,444,193**	**223,826,683**
Total deposits and accounts of financial and other institutions	**474,164,998**	**464,602,055**

Concentration of deposits and accounts of financial and other institutions

As at 31 December 2014 three counterparty banks had balances individually exceeding 10% of the total amount of deposits and accounts of financial and other institutions amounting to AMD 157,530,035 thousand (31 December 2013: two banks with total balance of AMD 188,189,723 thousand).

21. Other borrowed funds

In thousands of Armenian Drams

	31 December 2014	31 December 2013
Due to the KfW	44,158,097	38,031,637
Due to the World Bank	23,480,856	20,325,398
Due to the ADB	3,589,001	-
Other	1,430,303	-
Total other borrowed funds	**72,658,257**	**58,357,035**

The loans due to the KfW are provided under an intergovernmental agreement on financial cooperation between the Government and the Federal Republic of Germany to finance special loan programs placed through domestic commercial banks (Note 12). The loans mature from 2015 to 2048, and bear interest of 0.75-2.1% for the used part of the loan (31 December 2013: from 2014 to 2048; 0.75%-1.73%), and 0.25% for the unused part of the loan. The repayment of the loans to the KfW is guaranteed by the Government.

The loan due to the World Bank is provided by the World Bank for financing small and medium enterprises through domestic commercial banks and financial institutions (Note 12). The loan matures during the period from 2015 to 2035, and bears interest of 0.43% (31 December 2013: from 2014 to 2035; 0.47%).

During the year ended 31 December 2014 the Group obtained loan from ADB provided by the ADB for financing women-owned small and medium enterprises through commercial banks and financial institutions (Note 12). The loan matures during the period from 2015 to 2044, and bears interest of 1% until the end of grace period (year 2020) and 1.5% from 2020 to 2044.

During the year ended 31 December 2014 one of the Group's subsidiaries obtained borrowings from French Agency for Development. The loan matures during the period from 2015 till 2025 and bears interest of 2.62%. Loans are repaid by equal parts on a semi-annual basis with the grace period till 1 June 2017. As at 31 December 2014 the balance outstanding under this loan facility is AMD 1,430,303 thousand.

22. Other liabilities

In thousands of Armenian Drams

	31 December 2014	31 December 2013
Other liabilities in domestic currency		
Payables	1,605,596	1,294,113
Demand deposits of employees	674,466	986,010
Other liabilities	93,384	20,716
Total other liabilities in domestic currency	**2,373,446**	**2,300,839**

23. Due to the Government of the Republic of Armenia

In thousands of Armenian Drams

	31 December 2014	31 December 2013
Foreign currency liabilities		
Current accounts of the Government	2,839,117	5,277,257
Payables	145,652	273,539
Total foreign currency liabilities	**2,984,769**	**5,550,796**
Domestic currency liabilities		
Current accounts of the Government	78,741,063	39,801,062
Term deposits	35,191,972	146,045,773
Loans from the Government	2,897,476	3,541,341
Total domestic currency liabilities	**116,830,511**	**189,388,176**
Total due to the Government of the Republic of Armenia	**119,815,280**	**194,938,972**

Term deposits of the Government have maturity of less than one year and interest rate is ranging from 6.4% to 7.6% (2013: from 8% to 9%).

Loans from the Government outstanding as at 31 December 2014 and 31 December 2013 represent loans obtained by one of the Group's subsidiaries from the Government under the Mortgage Loan Market Refinancing Project based on the general agreement signed on 13 June 2009. Loan's nominal interest rate is 7% per annum. Loans are repaid by equal parts on a semi-annual basis with the grace period till 16 December 2012.

As at 31 December 2014, mortgage refinancing loans to banks and financial institutions with a gross value of AMD 2,306,675 thousand (31 December 2013: AMD 2,962,403 thousand) serve as collateral for loans from the Government.

24. Debt securities issued

During the year ended 31 December 2014 the subsidiary company of the Group issued one-year discount bonds at AMD 805,000 thousand par value, the three-year coupon bonds at AMD 2,000,000 thousand par value and the five-year coupon bonds at AMD 1,200,000 thousand par value (31 December 2013: six-month discount bonds at AMD 1,500,000 thousand par value and one-year discount bonds at AMD 1,000,000 thousand par value). The average annual yield on these bonds is from 8.68% to 11.82% (31 December 2013: 8.57% to 9.54%). The carrying value of the issued bonds as at 31 December 2014 is AMD 4,040,952 thousand (31 December 2013: AMD 2,259,703 thousand). As at 31 December 2014 mortgage refinancing loans to banks and financial institutions in the amount of AMD 3,922,399 thousand and term deposits denominated in foreign and domestic currencies in the amount of AMD 1,455,753 thousand (31 December 2013: AMD 1,881,552 thousand mortgage refinancing loans to banks and financial institutions) serve as collateral for debt securities issued.

25. Management of capital

Capital of the Group comprises the residual value of the Group's assets after deduction of its liabilities.

No external capital requirements exist for the Bank as the central bank, except for the size of the authorised (statutory) capital stipulated by the Law.

In accordance with this Law the amount of issued capital of the Bank is AMD 100,000 thousand. The authorised capital of the Bank is the property of and belongs to the Republic of Armenia and may not be pledged, confiscated or otherwise alienated against the obligations of the Republic of Armenia.

The Bank's objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the Bank and ability to perform its functions. The Bank's management considers total capital under management to be equity as shown in the consolidated statement of financial position.

Objectives and policies of managing components of the Bank's capital are defined by the respective internal regulations approved by the decisions of the Board of the Central Bank of the Republic of Armenia (the "Board"). Formation of funds and reserves of the Bank for covering financial risks associated with performance of its functions is carried out in accordance with the regulations approved by the Board and the Law.

The general reserve is formed according to the Law and cannot be distributed. General reserve is formed to cover general risks (potential losses) arising as a result of banking operations.

Additional paid-in capital represents a contribution made by the Government by the way of issuing a promissory note in the case when the losses in the result of the financial year in the consolidated financial statements of the Bank exceed the aggregate amount of its reserves. In December 2014 the Government covered AMD 8,009,309 thousand excess of losses over the Group's reserves as at 31 December 2013 through re-issuance of the non-interest bearing promissory note at the nominal amount of AMD 106,175,637 thousand, which covers excess of losses for the year ended 31 December 2013 and losses of the prior periods (refer to Note 15).

The difference between the amount of additional paid-in capital as at 31 December 2014 of AMD 136,194,821 thousand and the nominal value of the promissory note issued by the Government of AMD 106,175,637 thousand recognised by the Group within "Available-for-sale" assets denominated in domestic currency represents amounts of transfer of the Group's prior years' profits calculated in accordance with the requirements of the Article 12 of the Law which, as determined by the Law, at the first priority are directed for redemption of the amount of the promissory note issued by the Government.

Revaluation reserve for available-for-sale assets in the amount of AMD 223,258 thousand (positive effect) as at 31 December 2014 (31 December 2013: AMD 1,240,049 thousand (positive effect)) represents difference between the fair value of the Group's financial assets classified as available-for-sale as at the reporting date and their cost at initial recognition.

26. Commitments

Capital commitments

The capital commitments outstanding at 31 December 2014 related to the construction of the Group's premises and development of the software are AMD 554,025 thousand (31 December 2013: AMD 1,283,775 thousand).

Litigation

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

Guarantees

As at 31 December 2014 the Group has liabilities as per outstanding guarantees in the amount of AMD 732,196 thousand (31 December 2013: AMD 625,320 thousand) issued from 1994 to 1995 on behalf of construction companies and relates to earthquake zone construction. Guarantees represent irrevocable assurance that the Group will make payments in the event that a customer cannot meet its obligations to third parties and carry credit risk. During the period starting from the date of the issuance of the guarantees and till 31 December 2014 the Group has not made any payments and has not received any claims under these guarantees.

27. Related party transactions

Transactions with members of the key management

Amount of the key management remuneration included into "Employee compensation, staff training and related payments" line (refer to Note 11):

In thousands of Armenian Drams

	2014	2013
Key management including the Board members	266,218	259,964
Total	**266,218**	**259,964**

Total amount of loans issued to the members of the key management outstanding as at 31 December 2014 is AMD 145,334 thousand (31 December 2013: AMD 63,824 thousand). Total amount of loans issued to and repaid by the members of the key management during the year ended 31 December 2014 is AMD 129,940 thousand and AMD 48,430 thousand respectively (2013: AMD 11,440 thousand

and AMD 16,119 thousand). Total amount of deposits placed in the Bank by the members of the key management outstanding as at 31 December 2014 is AMD 56,908 thousand (31 December 2013: AMD 106,908 thousand). Total amount of deposits placed and deposits redeemed by the members of the key management during the year ended 31 December 2014 is AMD 55,704 thousand and AMD 105,704 thousand respectively (2013: AMD 66,353 thousand and AMD 77,420 thousand). In accordance with the Bank's internal regulations loans cannot be provided to the Bank's employees who have deposits with the Bank.

Amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with the key management are as follows:

In thousands of Armenian Drams

	2014	2013
Consolidated statement of profit or loss and other comprehensive income		
Interest expense	(10,216)	(14,415)
Interest income	4,108	3,078

Transactions with the Government of the Republic of Armenia

The outstanding balances and average contractual interest rates with the Government are as follows:

In thousands of Armenian Drams

	31 December 2014		31 December 2013	
	Balance outstanding	Average contractual interest rate	Balance outstanding	Average contractual interest rate
Consolidated statement of financial position				
Assets				
The Government treasury bonds at fair value through profit or loss (Note 13)	2,117,870	8.7%	1,655,255	10,1%
The Government treasury bonds classified as available-for-sale (Note 15)	14,722,231	11.0%	15,259,484	10.5%
The Government promissory note extended to the Bank as additional paid-in capital (Note 15):				
Balance at 1 January	98,166,328		77,512,700	
Additions	8,009,309		20,653,628	
Balance at 31 December	**123,015,738**		**115,081,067**	
Liabilities				
Due to the Government (domestic currency, Note 23)	116,830,511	2.4%	189,388,176	6.9%
Due to the Government (foreign currency, Note 23)	2,984,769	0.0%	5,550,796	0.0%
Balance at 31 December	**119,815,280**		**194,938,972**	

The movement of deposits included in liabilities due to the Government in domestic currency was as follows:

In thousands of Armenian Drams

	2014	2013
Balance at 1 January	**146,045,773**	**40,083,860**
Additions	568,727,822	861,114,548
Interest charge	7,806,486	7,007,469
Redemption (including interest payment)	(687,388,109)	(762,160,104)
Balance at 31 December	**35,191,972**	**146,045,773**

The movement of the loans from the Government in domestic currency was as follows:

In thousands of Armenian Drams

	2014	2013
Balance at 1 January	**3,541,341**	**4,184,498**
Interest charge	143,908	177,836
Redemption (including interest payments)	(787,773)	(820,993)
Balance at 31 December	**2,897,476**	**3,541,341**

Amounts included in the statement of profit or loss and other comprehensive income in relation to transactions with the Government are as follows:

In thousands of Armenian Drams

	2014	2013
Consolidated statement of profit or loss and other comprehensive income		
Interest income	2,038,816	1,710,562
Net foreign exchange loss	(1,601,422)	(276,717)
Net gain/(loss) on derivatives	5,881,610	(6,094,861)
Interest expense	(8,217,776)	(7,681,810)

In accordance to the agreement dated 5 January 2007 with the Government the Bank is obliged to exchange main foreign currency denominated state budget inflows and outflows at exchange rates determined in the Government's budget message for the given year which is a basis for the calculation of indexes in the Law "On the State budget of the Republic of Armenia".

Transactions with the Deposit Guarantee Fund

The information in the tables below relates to the balances and results of transactions with the Deposit Guarantee Fund of Armenia, in governing body of which the Bank has its representatives.

In thousands of Armenian Drams

	31 December 2014		31 December 2013	
	Balance outstanding	Average contractual interest rate	Balance outstanding	Average contractual interest rate
Consolidated statement of financial position				
Liabilities				
Due to the Deposit Guarantee Fund (domestic currency, Note 20)	3,381	0.0%	204,418	8.0%
Due to the Deposit Guarantee Fund (foreign currency, Note 20)	2,021,254	0.27%	1,958,516	0.3%
Total	**2,024,635**		**2,162,934**	

The movement of deposits and current account of the Deposit Guarantee Fund was as follows:

In thousands of Armenian Drams

	2014	2013
Balance at 1 January	**2,162,934**	**1,870,937**
Additions	36,112,264	31,215,485
Redemption (including interest payment)	(36,250,563)	(30,923,488)
Balance at 31 December	**2,024,635**	**2,162,934**

Amounts included in the statement of profit or loss and other comprehensive income in relation to transactions with the Deposit Guarantee Fund are as follows:

In thousands of Armenian Drams

	2014	2013
Consolidated statement of profit or loss and other comprehensive income		
Interest expense	12,125	13,653

28. Cash and cash equivalents

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

In thousands of Armenian Drams

	31 December 2014	31 December 2013
Cash	18,230,986	5,570,029
Nostro accounts (Note 12)	185,210,899	289,839,197
SDR holdings in the IMF (Note 16)	2,963,798	770,729
Total cash and cash equivalents	**206,405,683**	**296,179,955**

29. Fair value of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

In thousands of Armenian Drams

	31 December 2014			
	Level 1	Level 2	Level 3	Total
Assets carried at fair value				
Financial assets				
Financial instruments at fair value through profit or loss				
- Government bonds	163,221,263	-	-	**163,221,263**
- State agency bonds	102,347,181	-	-	**102,347,181**
- Other securities	89,698,137	-	-	**89,698,137**
- Treasury bonds of the Government	-	2,117,870	-	**2,117,870**
Derivative assets	-	-	-	**-**
Investment securities available for sale				
- Foreign securities	-	2,717,353	-	**2,717,353**
- Treasury bonds of the Government	-	14,722,231	-	**14,722,231**
- Promissory note of the Government	-	106,175,637	-	**106,175,637**
- Corporate bonds	-	-	5,561,948	**5,561,948**
Total assets recurring fair value measurements	**355,266,581**	**125,733,091**	**5,561,948**	**486,561,620**

In thousands of Armenian Drams

	31 December 2013			
	Level 1	Level 2	Level 3	Total
Assets carried at fair value				
Financial assets				
Financial instruments at fair value through profit or loss				
- Government bonds	360,263,008	-	-	**360,263,008**
- State agency bonds	42,234,591	-	-	**42,234,591**
- Other securities	88,225,466	-	-	**88,225,466**
- Treasury bonds of the Government	-	1,655,255	-	**1,655,255**
Derivative assets	28,096	-	-	**28,096**
Investment securities available for sale				
- Foreign securities	-	1,561,764	-	**1,561,764**
- Treasury bonds of the Government	-	15,259,484	-	**15,259,484**
- Promissory note of the Government	-	98,166,328	-	**98,166,328**
- Corporate bonds	-	-	-	**-**
Total assets recurring fair value measurements	**490,751,161**	**116,642,831**	**-**	**607,393,992**

In thousands of Armenian Drams

	31 December 2014			31 December 2013		
	Level 2	Level 3	Total	Level 2	Level 3	Total
Liabilities carried at fair value						
Financial liabilities						
Derivative liabilities	588,643	245,189	**833,832**	-	3,112	**3,112**
Total liabilities recurring fair value measurements	**588,643**	**245,189**	**833,832**	**-**	**3,112**	**3,112**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2014:

In thousands of Armenian Drams

	Fair value	Valuation technique	Inputs used
Assets carried at fair value			
Financial assets			
Financial instruments at fair value through profit or loss			
– Treasury bonds of the Government	2,117,870	Discounted cash flows ("DCF")	Government bonds yield curve
Investment securities available for sale			
– Foreign securities	2,717,353	DCF	EUR risk-free rate
– Treasury bonds of the Government	14,722,231	DCF	Government bonds yield curve
– Promissory note of the Government	106,175,637	DCF	Government bonds yield curve
Liabilities carried at fair value			
Financial liabilities			
Derivative liabilities			
– Swap contracts	588,643	DCF	USD/AMD spot rate at the year-end
Total recurring fair value measurements at Level 2	**126,321,734**		

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2013:

In thousands of Armenian Drams

	Fair value	Valuation technique	Inputs used
Assets carried at fair value			
Financial assets			
Financial instruments at fair value through profit or loss			
– Treasury bonds of the Government	1,655,255	DCF	Government bonds yield curve
Investment securities available for sale			
– Foreign securities	1,561,764	DCF	EUR risk-free rate
– Treasury bonds of the Government	15,259,484	DCF	Government bonds yield curve
– Promissory note of the Government	98,166,328	DCF	Government bonds yield curve
Total recurring fair value measurements at Level 2	**116,642,831**		

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2014:

In thousands of Armenian Drams

	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement
Assets carried at fair value						
Financial assets						
Investment securities available for sale						
– Corporate bonds	5,561,948	DCF	1) Government bonds yield curve	1) 10.406%	1) ± 150b.p.	(153,665)/ 159,488
			2) Credit risk	2) 3%	1) ± 200b.p.	(253,000)/ 213,990
			3) Recovery rate	3) 50%	1) ± 20%	105,662/ (153,665)
Liabilities carried at fair value						
Financial liabilities						
– Derivative liabilities	245,189	DCF	1) AMD risk-free rate	1) 8.635%	1) ± 150b.p.	1) 1,855/ (1,883)
			2) USD risk-free rate	2) 4.670%	2) ± 75b.p.	2) (1,119)/ 1,128
			3) USD/AMD spot rate at the year-end	3) 474.97	3) n/a	3) n/a
			4) Expected net amount of external debt	4) USD 3,781 thousand	4) ± 10%	4) 24,519/ (24,519)
Total recurring fair value measurements at Level 3	**5,807,137**					

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2013:

In thousands of Armenian Drams

	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement
Liabilities carried at fair value						
Financial liabilities						
– Derivative liabilities	3,112	DCF	1) AMD risk-free rate 2) USD risk-free rate 3) USD/AMD spot rate at the year-end 4) Expected net amount of external debt	1) 8.088% 2) 4.047% 3) 405.64 4) USD 2,026 thousand	1) ± 100b.p. 2) ± 50b.p. 3) n/a 4) ± 10%	1) 937/(345) 2) (34)/634 3) n/a 4) 640/(42)
Total recurring fair value measurements at Level 3	**3,112**					

The above tables disclose sensitivity to valuation inputs for derivative liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly. For this purpose, significance was judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity. The sensitivity of fair value measurement disclosed in the above tables shows the direction that an increase or decrease in the respective input variables would have on the valuation result.

(b) Valuation processes for recurring level 3 fair value measurements

Level 3 valuations are periodically reviewed by the Accounting and Finance Departments of the Bank with making decision in respect of the appropriateness of the valuation technique which is used and analysis of the valuation model inputs. The level three instruments are valued at the net present value of estimated future cash flows using discount factors determined based on the characteristics of each individual financial instrument. When appropriate, the back testing is performed by the Group.

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed

The management believes that the carrying amount of placements with banks and other financial institutions in foreign currency approximates their fair value. The fair value hierarchy for placements

with banks and other financial institutions in foreign currency is Level 2.

Fair values analysed by level in the fair value hierarchy and carrying value of the remaining financial assets not measured at fair value are as follows:

In thousands of Armenian Drams

	31 December 2014		
	Level 1	**Level 2**	**Carrying value**
Financial assets			
Placements with banks and other financial institutions in domestic currency			
- Repurchase agreements and other overnight facilities	-	227,566,937	**227,566,937**
- Loans to resident financial institutions under arrangement with the KfW, the World Bank and Asian Development Bank	-	64,631,779	**64,620,390**
- Mortgage refinancing	-	38,119,840	**39,868, 360**
- Deposits and current accounts placed in commercial banks	-	29,772,716	**29,947,531**
- Subordinated loans	-	12,539,067	**12,618,347**
- Other loans	-	6,899,204	**7,233,785**
Investment securities held to maturity			
- Government bonds	52,171,940	-	**52,160,613**
- State agency bonds	23,702,517	-	**23,692,490**
- Other securities	18,322,541	-	**18,297,256**
Total	**94,196,998**	**379,529,543**	**476,005,709**

In thousands of Armenian Drams

	31 December 2013		
	Level 1	**Level 2**	**Carrying value**
Financial assets			
Placements with banks and other financial institutions in domestic currency			
- Repurchase agreements and other overnight facilities	-	104,029,800	**104,029,800**
- Loans to resident financial institutions under arrangement with the KfW, the World Bank and Asian Development Bank	-	51,264,166	**52,250,601**
- Mortgage refinancing	-	31,719,633	**32,734,060**
- Deposits and current accounts placed in commercial banks	-	17,524,997	**17,524,997**
- Subordinated loans	-	30,062,735	**30,281,515**
- Other loans	-	4,066,976	**4,654,190**
Investment securities held to maturity			
- Government bonds	47,319,988	-	**47,399,427**
- State agency bonds	10,152,261	-	**10,209,949**
- Other securities	59,314,611	-	**60,689,923**
Total	**116,786,860**	**238,668,307**	**359,774,462**

The management believes that the carrying amount of deposits and accounts of financial and other institutions in foreign currency and in domestic currency, amounts due to the IMF and other borrowed funds approximates their fair value. The fair value hierarchy for these financial liabilities is Level 2.

Fair values analysed by level in the fair value hierarchy and carrying value of the remaining financial liabilities not measured at fair value are as follows:

In thousands of Armenian Drams

	31 December 2014		31 December 2013	
	Level 2	Carrying value	Level 2	Carrying value
Financial liabilities				
Due to the Government of the Republic of Armenia				
Foreign currency liabilities				
- Current accounts of the Government	2,839,117	**2,839,117**	5,277,257	**5,277,257**
- Payables	145,652	**145,652**	273,539	**273,539**
Domestic currency liabilities				
- Current accounts of the Government	78,741,063	**78,741,063**	39,801,062	**39,801,062**
- Term deposits	35,157,816	**35,191,972**	145,047,675	**146,045,773**
- Loans from the Government	2,897,476	**2,897,476**	3,541,341	**3,541,341**
Debt securities issued	3,973,086	**4,040,952**	2,259,703	**2,259,703**
Total	**123,754,210**	**123,856,232**	**196,200,577**	**197,198,675**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

30. Risk management

Introduction

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

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

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

The Board

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

Institutional framework

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

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

Starting from 2007 the Bank has established a new reserve management framework in compliance with best international practices. The Group adopted a three level decision-making system, whereby the Board sets the Strategic Asset Allocation framework for the reserves management for a long-term time horizon (three years), whereas the Investment Committee of the Bank was given executive power on short-term tactical benchmarks. Portfolio managers, in turn, have been delegated authority to decide on current management issues within the framework of tactical benchmarks and active risk tolerance.

Administration and control

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

Investment Committee as a rule meets once a month to discuss issues related to reserves management. The Committee includes heads of structural units involved in the entire process of reserves management, as well as the Bank's Chairman and Deputy Chairman. Formerly, the Committee was only a consultative body but, after the introduction of the three level system for reserves management, it has

been granted executive power. The Financial Department reports on the performance of reserves management to the Investment Committee on a quarterly basis and to the Board on a semi-annual basis. Each quarter the Bank presents information on condition and composition of international reserves to the Government and the National Assembly, and makes that information publicly available.

Asset allocation and risk management

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

Credit risk

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

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. For the purpose of assessment of credit quality of international reserves the Bank evaluates the counterparty creditworthiness based on the credit ratings assigned by leading internationally recognised credit rating agencies.

The Group sets minimum rating requirement for securities issued by governments, government agencies, other government authorities, financial institutions and supranational organisations. These ratings cannot be lower than certain prescribed minimum level which is regularly reviewed.

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

Derivative financial instruments

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

Maximum credit risk without collateral or other credit enhancement

The table below presents the Group's overall exposure to credit risk as of 31 December 2014, and 31 December 2013, without consideration of security.

In thousands of Armenian Drams

	Note	Gross maximum risk, at 31 December 2014	Gross maximum risk, at 31 December 2013
Placements with banks and other financial institutions in foreign currency	12	238,346,216	297,991,441
Placements with banks and other financial institutions in domestic currency	12	381,855,350	241,475,163
Financial instruments at fair value through profit or loss	13	357,384,451	492,378,320
Derivative assets	14	-	28,096
Available-for-sale assets	15	126,459,816	113,425,812
Held-to-maturity assets	15	94,150,359	118,299,299
SDR holdings in the IMF	16	2,963,798	770,729
Total credit risk		**1,201,159,990**	**1,264,368,860**

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

Credit quality per class of financial assets

Financial assets of the Bank are classified by the lowest out of the ratings assigned to the Group's counterparties by the international rating agencies Fitch IBCA, Moody's and Standard & Poor's. The ratings are listed below as per the coding of the rating agency Moody's using the rating correspondence table of Bloomberg information system. Rating AAA+ is the rating used for identification of highly reliable international financial institutions such as the Bank for International Settlements.

In thousands of Armenian Drams

	Credit rating	31 December 2014 Amount	31 December 2014 % in financial assets	31 December 2013 Amount	31 December 2013 % in financial assets
Financial assets – neither past due nor impaired					
Cash	**No risk**	**18,230,986**	**100.0**	**5,570,029**	**100.0**
Placements with banks and other financial institutions in foreign currency					
- Nostro accounts	P-1	183,871,754	77.1	288,983,078	97.0
	P-2	213,764	0.1	820,387	0.3
	Unrated	250,917	0.1	35,732	0.0
	NP	874,464	0.4	-	-
- Term deposits	P-1	27,367,053	11.5	7,359,186	2.5
	Unrated	1,425,753	0.6	-	-
- Repurchase agreements	P-1	21,378,513	9.0	-	-
- Cash included in the assets under trust management and margin requirement of interest rate futures	P-1	2,913,758	1.2	672,242	0.2
- Other	P-1	50,240	0.0	120,816	0.0
Total placements with banks and other financial institutions in foreign currency		**238,346,216**	**100.0**	**297,991,441**	**100.0**
Financial instruments at fair value through profit and loss					
- Government bonds	Aaa	12,344,939	3.5	124,559,862	25.3
	Aa1-Aa3	150,876,324	42.2	235,703,146	47.9
- State agency bonds and other securities	Aaa	52,287,214	14.6	25,980,284	5.3
	Aa1-Aa3	40,422,297	11.3	16,254,307	3.3
	A1	9,637,670	2.7	-	-
- Other securities	Aaa	37,318,878	10.4	32,597,795	6.6
	Aa1-Aa3	52,379,259	14.7	55,627,671	11.3
- Treasury bonds of the Government	Ba2	2,117,870	0.6	1,655,255	0.3
Total financial instruments at fair value through profit and loss		**357,384,451**	**100.0**	**492,378,320**	**100.0**
Available-for-sale assets					
- Treasury bonds of the Government	Ba2	14,722,231	11.6	15,259,484	13.5
- Promissory note of the Government	Ba2	106,175,637	84.0	98,166,328	86.5
- Corporate bonds	Unrated	5,561,948	4.4	-	-
Total available-for-sale assets		**126,459,816**	**100.0**	**113,425,812**	**100.0**
Held to maturity assets					
- Government securities	Aa1-Aa3	1,514,720	1.6	-	-
	A1	50,645,893	53.8	47,399,427	40.1
- State agency bonds and other securities	Aaa	9,866,385	10.4	-	-
	Aa1-Aa3	13,826,105	14.7	10,209,949	8.7
- Other securities	Aaa	14,376,835	15.3	54,786,657	46.3
	Aa1-Aa3	3,920,421	4.2	5,903,266	4.9
Total held to maturity assets		**94,150,359**	**100.0**	**118,299,299**	**100.0**

As at 31 December 2014 term deposits included in the unrated credit rating category amounting to AMD 1,425,753 thousand (31 December 2013: nil) represent the placement made by one of the Group's subsidiaries with local commercial bank.

Unrated corporate bonds in the amount of AMD 5,561,948 represent investments of one of the Group's subsidiaries into local investment and development funds.

In thousands of Armenian Drams

		31 December 2014		31 December 2013	
	Credit rating	Amount	% in financial assets	Amount	% in financial assets
Placements with banks and other financial institutions in domestic currency					
- Repurchase agreements and other overnight facilities	Settled after the end of the reporting period	227,566,937	100.0	104,029,800	100.0
Total		**227,566,937**	**100.0**	**104,029,800**	**100.0**
- Loans to resident financial institutions under arrangement with the KfW, the World Bank and Asian Development Bank	Settled after the end of the reporting period	2,989,021	4.6	1,428,675	2.7
	Not due at the date of authorisation of the consolidated financial statements for issue	61,631,369	95.4	50, 821,926	97.3
Total		**64,620,390**	**100.0**	**52,250,601**	**100.0**
- Mortgage refinancing	Settled after the end of the reporting period	1,830,026	4.6	34	0.0
	Not due at the date of authorisation of the consolidated financial statements for issue	38,038,334	95.4	32,734,026	100.0
Total		**39,868,360**	**100.0**	**32,734,060**	**100.0**
- Deposits and current accounts in commercial banks	Settled after the end of the reporting period	7,390,657	24.7	12,921,710	73.7
	Not due at the date of authorisation of the consolidated financial statements for issue	22,556,874	75.3	4,603,287	26.3
Total		**29,947,531**	**100.0**	**17,524,997**	**100.0**
- Subordinated loans	Settled after the end of the reporting period	3,231,176	25.6	-	-
	Not due at the date of authorisation of the consolidated financial statements for issue	9,387,171	74.4	30,281,515	100.0
Total		**12,618,347**	**100.0**	**30,281,515**	**100.0**
- Other loans		7,233,785	100.0	4,654,190	100.0
Total		**7,233,785**	**100.0**	**4,654,190**	**100.0**
Total placements with banks and other financial institutions in domestic currency		**381,855,350**	**-**	**241,475,163**	**-**

The Bank makes decisions regarding its placements with local banks and financial institutions taking into account its role of the banking regulator and the lender of last resort and therefore does not allocate ratings to local banks and financial institutions. Thus, the analysis of credit quality of these assets is limited to the stage of respective transaction.

Impairment assessment

The main considerations for the financial assets impairment assessment include whether any payments of principal or interest are overdue more than 30 days or there are any known difficulties in the

cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

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

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Offsetting financial assets and financial liabilities

As at 31 December 2014 reverse repurchase contracts in the amount of AMD 204,396,829 thousand (31 December 2013: AMD 104,029,800 thousand) fall under the enforceable master netting or similar arrangement.

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

In thousands of Armenian Drams

	31 December 2014			
	Armenia	**OECD**	**CIS and other foreign banks**	**Total**
Assets:				
Cash	18,230,986	-	-	**18,230,986**
Placements with banks and other financial institutions in foreign currency	1,563,292	235,795,132	987,792	**238,346,216**
Placements with banks and other financial institutions in domestic currency	381,855,350	-	-	**381,855,350**
Financial instruments at fair value through profit or loss	2,117,870	355,266,581	-	**357,384,451**
Derivative assets	-	-	-	**-**
Available-for-sale assets	127,026,270	2,718,999	-	**129,745,269**
Held-to-maturity assets	-	94,150,359	-	**94,150,359**
Placements with the IMF	-	66,268,240	-	**66,268,240**
Non-current assets held for sale	2,757,046	-	-	**2,757,046**
Property and equipment and intangible assets	80,016,592	-	-	**80,016,592**
Other assets	10,489,194	-	-	**10,489,194**
Total assets	**624,056,600**	**754,199,311**	**987,792**	**1,379,243,703**
Liabilities:				
Notes and coins in circulation	412,344,941	-	-	**412,344,941**
Deposits and accounts of financial and other institutions	474,081,734	12,967	70,297	**474,164,998**
Derivative liabilities	833,832	-	-	**833,832**
Due to the Government	119,815,280	-	-	**119,815,280**
Due to the IMF	-	261,737,845	-	**261,737,845**
Other borrowed funds	-	69,069,256	3,589,001	**72,658,257**
Debt securities issued	4,040,952	-	-	**4,040,952**
Other liabilities	2,515,982	214,097	-	**2,730,079**
Total liabilities	**1,013,632,721**	**331,034,165**	**3,659,298**	**1,348,326,184**
Net assets	**(389,576,121)**	**423,165,146**	**(2,671,506)**	**30,917,519**

In thousands of Armenian Drams

	31 December 2013			
	Armenia	**OECD**	**CIS and other foreign banks**	**Total**
Assets:				
Cash	5,570,029	-	-	**5,570,029**
Placements with banks and other financial institutions in foreign currency	-	297,368,841	622,600	**297,991,441**
Placements with banks and other financial institutions in domestic currency	241,475,163	-	-	**241,475,163**
Financial instruments at fair value through profit or loss	1,655,255	490,723,065	-	**492,378,320**
Derivative assets	-	28,096	-	**28,096**
Available-for-sale assets	113,633,052	1,563,410	-	**115,196,462**
Held-to-maturity assets	-	118,299,299	-	**118,299,299**
Placements with the IMF	-	58,242,991	-	**58,242,991**
Non-current assets held for sale	4,876,013	-	-	**4,876,013**
Property and equipment and intangible assets	79,375,061	-	-	**79,375,061**
Other assets	9,342,165	-	-	**9,342,165**
Total assets	**455,926,738**	**966,225,702**	**622,600**	**1,422,775,040**
Liabilities:				
Notes and coins in circulation	446,833,170	-	-	**446,833,170**
Deposits and accounts of financial and other institutions	464,543,270	9,600	49,185	**464,602,055**
Derivative liabilities	3,112	-	-	**3,112**
Due to the Government	194,938,972	-	-	**194,938,972**
Due to the IMF	-	260,542,511	-	**260,542,511**
Other borrowed funds	-	58,357,035	-	**58,357,035**
Debt securities issued	2,259,703	-	-	**2,259,703**
Other liabilities	2,495,965	-	-	**2,495,965**
Total liabilities	**1,111,074,192**	**318,909,146**	**49,185**	**1,430,032,523**
Net assets	**(655,147,454)**	**647,316,556**	**573,415**	**(7,257,483)**

Liquidity risk and funding management

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

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

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

Analysis of financial liabilities by remaining contractual maturities

The tables below show liabilities at 31 December 2014 and 31 December 2013 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

In thousands of Armenian Drams

	31 December 2014						
	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total
Financial liabilities							
Notes and coins in circulation	412,344,941	-	-	-	-	-	**412,344,941**
Deposits and accounts of financial and other institutions	472,143,743	2,023,364	-	-	-	-	**474,167,107**
Derivative liabilities	245,189	-	588,643	-	-	-	**833,832**
Due to the Government	86,917,347	30,010,248	832,849	2,561,132		-	**120,321,576**
Due to the IMF	-	2,312,116	7,958,641	91,445,414	41,848,174	123,848,396	**267,412,741**
Other borrowed funds	372,481	-	4,402,785	23,691,905	50,271,069	-	**78,738,240**
Debt securities issued	799,412	-	365,078	3,906,462	-	-	**5,070,952**
Total non-discounted financial liabilities	**972,823,113**	**34,345,728**	**14,147,996**	**121,604,913**	**92,119,243**	**123,848,396**	**1,358,889,389**

In thousands of Armenian Drams

	31 December 2013						
	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total
Financial liabilities							
Notes and coins in circulation	446,833,170	-	-	-	-	-	**446,833,170**
Deposits and accounts of financial and other institutions	462,684,387	1,958,770	-	-	-	-	**464,643,157**
Derivative liabilities	3,112	-	-	-	-	-	**3,112**
Due to the Government	78,423,847	94,303,146	21,697,246	3,061,804	332,177	-	**197,818,220**
Due to the IMF	-	17,764,968	20,906,510	50,226,762	64,440,589	112,438,685	**265,777,514**
Other borrowed funds	48,722	-	3,839,695	16,991,886	42,195,058	-	**63,075,361**
Debt securities issued	1,000,000	-	1,500,000	-	-	-	**2,500,000**
Total non-discounted financial liabilities	**988,993,238**	**114,026,884**	**47,943,451**	**70,280,452**	**106,967,824**	**112,438,685**	**1,440,650,534**

Market risk

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

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

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

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

The following table demonstrates the sensitivity of the Bank's equity, which is calculated by revaluing fixed rate available-for-sale assets at 31 December 2014 and 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 sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

In thousands of Armenian Drams

Currency	2014		2013	
	Change in yield curve, b.p.	Effect on equity	Change in yield curve, b.p	Effect on equity
AMD	+150	(699,012)	+150	(926,549)
AMD	-150	771,920	-150	926,549

The following table demonstrates the sensitivity to profit of the Bank, which is calculated by revaluing financial instruments at fair value through profit and loss as of 31 December 2014 and 31

December 2013, based on the assumption of changing interest rates. Amounts included in the table below are presented in the original currency.

Currency	2014		2013	
	Change in basis points	Increase/(decrease) of net result on financial instruments as FVTPL and equity	Change in basis points	Increase/(decrease) of net result on financial instruments as FVTPL and equity
USD	+/-25	(884,287)/884,287	+/-25	(823,285)/823,285
EUR	+/-25	(982,279)/982,279	+/-25	(909,781)/909,781

The Group, also, has liabilities with floating interest rates outstanding as at 31 December 2014 and 31 December 2013.

The following table demonstrates the sensitivity of the Bank's profit or loss and equity as at 31 December 2014 and 31 December 2013 based on the assumption of changing interest rates on borrowings obtained by the Group:

Currency	2014		2013	
	Change in basis points	Increase/(decrease) of net interest expense and decrease/(increase) of equity	Change in basis points	Increase/(decrease) of net interest expense and decrease/(increase) of equity
USD	+/- 40	94,413/(94,413)	+/- 40	81,918/(81,918)
EUR	-	-	+/- 40	68,915/(68,915)
SDR	+/- 10	115,967/(115,967)	+/- 10	150,214/(150,214)

The following table demonstrates the sensitivity of the Bank's profit or loss and equity as at 31 December 2014 and 31 December 2013 based on the assumption of changing interest rates on deposits obtained by the Group:

Currency	2014		2013	
	Change in basis points	Increase/(decrease) of net interest expense and decrease/(increase) of equity	Change in basis points	Increase/(decrease) of net interest expense and decrease/(increase) of equity
EUR	+/- 10	2,021/(2,021)	+/- 10	1,905/(1,905)

The sensitivity of the valuation technique inputs used in the fair value measurement for level 3 measurements is disclosed in Note 29.

Currency risk

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

The following tables present sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at

the end of the reporting period relative to the Armenian Dram with all other variables held constant:

Currency	2014		2013	
	Increase in currency rate in %	Increase/(decrease) of profit and equity	Increase in currency rate in %	Increase/(decrease) of profit and equity
USD	16.83%	47,422,901	9.89%	33,530,325
EUR	20.84%	24,490,301	16.74%	26,878,705
GBP	21.10%	9,733,686	17.93%	8,928,288
JPY	0.18%	103,700	1.92%	1,142,452
RUB	1.22%	11,039	0.55%	3,355
SDR	39.24%	(78,114,450)	10.64%	(21,517,259)

Currency	2014		2013	
	Decrease in currency rate in %	Increase/(decrease) of profit and equity	Decrease in currency rate in %	Increase/(decrease) of profit and equity
USD	-16.83%	(47,422,901)	-9.89%	(33,530,325)
EUR	-20.84%	(24,490,301)	-16.74%	(26,878,705)
GBP	-21.10%	(9,733,686)	-17.93%	(8,928,288)
JPY	-0.18%	(103,700)	-1.92%	(1,142,452)
RUB	-1.22%	(11,039)	-0.55%	(3,355)
SDR	-39.24%	78,114,450	-10.64%	21,517,259

The expected change in the exchange rates was determined by the Group based on the history of respective exchange rates fluctuations during the three-year period.

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

Operating risk – control over subsidiaries

As disclosed in Note 2, the Bank has equity investments in a number of subsidiaries that are engaged in financial sector development and infrastructure activities. The purpose of such investments was to support development of the Armenian financial sector to ensure stability and normal activity of the financial system of the Republic of Armenia which is one of the objectives of the Bank as prescribed by the Law.

The control over subsidiaries' activities is exercised by the Bank through the following:

- participation in the shareholders' meetings.
- appointment of subsidiaries' management (Boards of Directors of each of subsidiaries are appointed by the shareholders and Boards of Directors appoint Executive Directors in the each of subsidiaries).
- regular analysis of performance of subsidiaries through review of their financial information at least on an annual basis including review of results of external audit of the financial statements of subsidiaries.
- performing analysis of subsidiaries' further development strategy including development of the divestment strategy, where appropriate.
- review of subsidiaries' activities within the scope of the Bank's Internal Audit work which is determined based on risk assessment results.

31. Maturity analysis

The following tables provide information on amounts expected to be recovered or settled before and after twelve months after the reporting period.

In thousands of Armenian Drams

	31 December 2014		
	Current	**Non-current**	**Total**
Assets			
Cash	18,230,986	-	18,230,986
Placements with banks and other financial institutions in foreign currency	236,921,306	1,424,910	238,346,216
Financial instruments at fair value through profit or loss	357,384,451	-	357,384,451
Placements with banks and other financial institutions in domestic currency	284,417,772	97,437,578	381,855,350
Available-for-sale assets	107,899,919	21,845,350	129,745,269
Held-to-maturity assets	93,404,632	745,727	94,150,359
Placements with the IMF	2,963,960	63,304,280	66,268,240
Non-current assets held for sale	2,757,046	-	2,757,046
Property and equipment	-	78,234,823	78,234,823
Intangible assets	-	1,781,769	1,781,769
Other assets	9,736,762	752,432	10,489,194
Total assets	**1,113,716,834**	**265,526,869**	**1,379,243,703**
Liabilities			
Notes and coins in circulation	412,344,941	-	412,344,941
Deposits and accounts of other financial institutions	474,164,998	-	474,164,998
Derivative liabilities	833,832	-	833,832
Due to the Government	117,568,673	2,246,607	119,815,280
Due to the IMF	9,349,181	252,388,664	261,737,845
Other borrowed funds	4,101,030	68,557,227	72,658,257
Debt securities issued	844,489	3,196,463	4,040,952
Other liabilities	2,657,964	72,115	2,730,079
Total liabilities	**1,021,865,108**	**326,461,076**	**1,348,326,184**
Net position as at 31 December 2014	**91,851,726**	**(60,934,207)**	**30,917,519**

In thousands of Armenian Drams

	31 December 2013		
	Current	**Non-current**	**Total**
Assets			
Cash	5,570,029	-	5,570,029
Placements with banks and other financial institutions in foreign currency	297,991,441	-	297,991,441
Financial instruments as fair value through profit or loss	492,378,320	-	492,378,320
Placements with banks and other financial institutions in domestic currency	146,686,123	94,789,040	241,475,163
Derivative assets	28,096	-	28,096
Available-for-sale assets	98,778,581	16,417,881	115,196,462
Held-to-maturity assets	109,745,103	8,554,196	118,299,299
Placements with the IMF	771,947	57,471,044	58,242,991
Non-current assets held for sale	4,876,013	-	4,876,013
Property and equipment	-	77,613,891	77,613,891
Intangible assets	-	1,761,170	1,761,170
Other assets	9,342,165	-	9,342,165
Total assets	**1,166,167,818**	**256,607,222**	**1,422,775,040**
Liabilities			
Notes and coins in circulation	446,833,170	-	446,833,170
Deposits and accounts of other financial institutions	464,602,055	-	464,602,055
Derivative liabilities	3,112	-	3,112
Due to the Government	192,050,478	2,888,494	194,938,972
Due to the IMF	37,693,406	222,849,105	260,542,511
Other borrowed funds	3,397,268	54,959,767	58,357,035
Debt securities issued	2,259,703	-	2,259,703
Other liabilities	2,495,965	-	2,495,965
Total liabilities	**1,149,335,157**	**280,697,366**	**1,430,032,523**
Net position as at 31 December 2013	**16,832,661**	**(24,090,144)**	**(7,257,483)**

32. Presentation of financial instruments by measurement category

For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement", classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2014:

In thousands of Armenian Drams

	Loans and receivables	Available-for-sale assets	Assets at FVTPL	Held to maturity	Total
Assets					
Cash	18,230,986	-	-	-	18,230,986
Placements with banks and financial institutions in foreign currency	238,346,216	-	-	-	238,346,216
Placements with banks and financial institutions in domestic currency	381,855,350	-	-	-	381,855,350
Financial instruments at fair value through profit or loss	-	-	357,384,451	-	357,384,451
Available-for-sale assets	-	129,745,269	-	-	129,745,269
Held-to-maturity assets	-	-	-	94,150,359	94,150,359
Placements with the IMF	2,963,960	63,304,280	-	-	66,268,240
Total financial assets	**641,396,512**	**193,049,549**	**357,384,451**	**94,150,359**	**1,285,980,871**

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2013:

In thousands of Armenian Drams

	Loans and receivables	Available-for-sale assets	Assets at FVTPL	Held to maturity	Total
Assets					
Cash	5,570,029	-	-	-	5,570,029
Placements with banks and financial institutions in foreign currency	297,991,441	-	-	-	297,991,441
Placements with banks and financial institutions in domestic currency	241,475,163	-	-	-	241,475,163
Financial instruments at fair value through profit or loss	-	-	492,378,320	-	492,378,320
Derivative assets	-	-	28,096	-	28,096
Available-for-sale assets	-	115,196,462	-	-	115,196,462
Held-to-maturity assets	-	-	-	118,299,299	118,299,299
Placements with the IMF	771,947	57,471,044	-	-	58,242,991
Total financial assets	**545,808,580**	**172,667,506**	**492,406,416**	**118,299,299**	**1,329,181,801**

As of 31 December 2014 and 31 December 2013, all of the Group's financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.