IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS ("**QIBs**") IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") PROVIDED BY RULE 144A THAT ARE ALSO QUALIFIED PURCHASERS ("**QPs**"), AS DEFINED IN SECTION 2(a)(51)(A) OF THE U.S. INVESTMENT COMPANY ACT OF 1940 OR (2) NON-U.S. PERSONS OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**").

IMPORTANT: You must read the following before continuing. The following applies to the preliminary prospectus following this page (the "**Prospectus**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from Ardshinbank CJSC ("**Ardshinbank**") as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. ANY FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the securities, investors must be either (1) QIBs that are also QPs or (2) non-U.S. persons outside the United States who are not acting for the account or benefit of U.S. persons. The Prospectus is being sent at your request and by accepting the e-mail and accessing the Prospectus, you shall be deemed to have represented to Ardshinbank that (1) you and any customers you represent are either (a) QIBs that are also QPs or (b) are outside the United States and are not U.S Persons and are not acting for the account or benefit of U.S. persons and (2) you consent to delivery of the Prospectus by electronic transmission.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to the offering of the Notes described in the Prospectus (the "**Offering**") do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the Offering be made by a licensed broker or dealer and J.P. Morgan Securities plc (the "**Lead Manager**"), or any affiliate of the Lead Manager is a licensed broker or dealer in that jurisdiction, the Offering shall be deemed to be made by the Lead Manager or such affiliate on behalf of Dilijan Finance B.V. (the "**Issuer**") in such jurisdiction.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither Ardshinbank, the Issuer, the Lead Manager, nor any person who controls it, nor any director, officer, employee or agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you.

Ardshinbank

U.S.$ 100,000,000 12% Amortising Loan Participation Notes due 2020

issued by, but with limited recourse to,

Dilijan Finance B.V.

for the sole purpose of financing a loan to

Ardshinbank CJSC

Issue Price: 100%

Dilijan Finance B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of The Netherlands having its corporate seat (*statutaire zetel*) in Amsterdam, The Netherlands (the "**Issuer**"), is issuing an aggregate principal amount of U.S.$ 100,000,000 12% amortising loan participation notes due 2020 (the "**Notes**"), for the sole purpose of financing a loan (the "**Loan**") to Ardshinbank CJSC ("**Ardshinbank**," the "**Bank**" or the "**Borrower**") pursuant to a loan agreement dated 27 July 2015 between the Issuer, as lender, and the Borrower (the "**Loan Agreement**"). The Loan will bear interest at 12% per annum.

Subject to the provisions of the Trust Deed (as defined herein), the Issuer will charge as security for its payment obligations in respect of the Notes and under the Trust Deed (i) all its rights to principal, interest and additional amounts (if any) payable by the Borrower under the Loan Agreement; (ii) the right to receive all sums which may be or become payable by the Borrower under any claim, award or judgment relating to the Loan Agreement; and (iii) all the rights, title and interest in and to all sums of money now or in the future deposited in an account and the debts represented thereby (including interest from time to time earned on such account, if any) of the Issuer pursuant to the Loan Agreement, in each case to Citibank, N.A., London Branch as trustee (the "**Trustee**") for the benefit of the holders of the Notes (the "**Noteholders**"), upon the closing of the offering of the Notes (the "**Offering**"). Furthermore, under the terms of the Trust Deed, the Issuer will assign absolutely with full title guarantee all of its rights under the Loan Agreement, except for any Reserved Rights (as defined in the Trust Deed) and rights subject to the charge as described above, to the Trustee for the benefit of the Trustee and the Noteholders upon the closing of the Offering.

The Notes are secured limited recourse obligations of the Issuer. In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make such payment will constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received by or for the account of the Issuer from Ardshinbank pursuant to the Loan Agreement, excluding amounts paid in respect of the Reserved Rights. The Issuer will have no other financial obligation under the Notes. **The Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on Ardshinbank's credit and financial standing in respect of the financial servicing of the Notes.**

Interest on the Notes will be payable at an annual rate equal to 12%. Subject to receipt of the funds necessary therefor from the Borrower, the Issuer will make interest payments on the Notes in arrear on 29 January and 29 July in each year, commencing on 29 January 2016 , as described under "*Terms and Conditions of the Notes—Interest*." Unless previously redeemed or cancelled, the Notes will be redeemed in four instalments on 29 January 2019, 29 July 2019, 29 January 2020 and 29 July 2020, each in the amount of U.S.$ 25,000,000. See "*Terms and Conditions of the Notes—Scheduled Redemption.*"

The net proceeds of the Loan will be used: (i) to finance the purchase of U.S.$ 59,000,000 aggregate principal amount of the total outstanding U.S.$ 75,000,000 principal amount notes due 2017 (the "**2017 Notes**") issued by Ark Finance B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of The Netherlands ("**Ark Finance B.V.**"), pursuant to a trust deed dated 5 December 2014 (the "**Existing Trust Deed**") and tendered and accepted for purchase in accordance with the terms and conditions of the tender offer and consent solicitation launched by Ardshinbank on 9 July 2015, pursuant to a tender offer and consent solicitation memorandum of the same date (the "**Tender Offer and Consent Solicitation**"), (ii) to finance the payment of a consent fee to holders of 2017 Notes who have delivered consents in accordance with the terms and conditions of the Tender Offer and Consent Solicitation in respect of certain amendments to the Existing Trust Deed, (iii) to finance the payment of an incentive fee to holders of 2017 Notes whose 2017 Notes have been tendered and accepted in the Tender Offer and Consent Solicitation, (iv) to finance the payment of Armenian withholding tax applicable to the payment of accrued interest to holders of the 2017 Notes tendered and accepted for purchase, the payment of the consent fee and the payment of the incentive fee, such withholding at the rate of 10% on the amount paid (subject to possible reduction if relevant double tax treaties can be applied), (v) to refinance up to U.S.$ 39,000,000 of Ardshinbank's indebtedness under an existing U.S.$ 71,300,000 facility provided by a large international financial institution, and (vi) to the extent net proceeds remain, for general lending to corporate and retail clients. See "*Use of Proceeds*."

Upon the occurrence of a Change of Control Put Event (as defined in the Terms and Conditions of the Notes (the "**Conditions**")), the Notes may be redeemed at the option of a Noteholder at 101% of their principal amount together with accrued interest, if any, as more fully described in "*Terms and Conditions of the Notes—Repayment and Prepayment—Prepayment upon Change of Control Put Event*."

Payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes of the Republic of Armenia or The Netherlands except as set out herein under "*Terms and Conditions of the Notes—Taxation*." Payments in respect of the Loan will be made without any deduction or withholding for or on account of taxes of the Republic of Armenia or The Netherlands except, as set out herein under "*Taxation—Armenia*," payments of interest by the Borrower under the Loan Agreement are expected to be subject to withholding at the rate of 5% (under the terms of the Convention between the Republic of Armenia and the Kingdom of The Netherlands for the Avoidance of Double Taxation with respect to Taxes on Income and on Capital (effective 1 January 2003) (the "**Armenia-Netherlands Double Tax Treaty**"), and the Borrower will accordingly increase payments to the Issuer so that the Issuer receives the sum which it would have received had no such withholding been required. As set out more fully in the Loan Agreement, Ardshinbank may prepay the Loan at its principal amount, in whole but not in part, together with accrued interest, if (i) Ardshinbank or the Issuer is obliged to deduct or withhold certain taxes from payments they make in respect of the Loan or the Notes (but Ardshinbank is not so entitled to prepay the Loan due to the 5% withholding on interest described in the preceding sentence), respectively, or following any enforcement of the security created in the Trust Deed and upon Ardshinbank or the Trustee being required to deduct or withhold any taxes of the Republic of Armenia or the jurisdiction in which the Trustee is domiciled; or (ii) it becomes illegal for the Notes or the Loan to remain outstanding. Upon such occurrence, the Issuer will, subject to the receipt of the relevant funds from Ardshinbank, prepay the principal amount of all Notes outstanding, together with accrued interest.

Except as otherwise expressly provided in this prospectus (the "**Prospectus**") and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement, or in any rights that the Issuer may receive by way of assignment in respect of the Loan, exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will be entitled to enforce any provisions of the Loan Agreement or have direct recourse to the Borrower.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "*RISK FACTORS*" ON PAGE 10.

THE NOTES AND THE LOAN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S (THE "**REGULATION S NOTES**") AND WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS ("**QIBS**"), AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**"), THAT ARE ALSO QUALIFIED PURCHASERS ("**QPS**"), AS DEFINED IN SECTION 2(a)(51)(A) OF THE U.S. INVESTMENT COMPANY ACT OF 1940 (THE "**INVESTMENT COMPANY ACT**"), IN RELIANCE ON THE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144A (THE "**RULE 144A NOTES**") AND IN RELIANCE ON THE EXEMPTION FROM REGISTRATION UNDER THE INVESTMENT COMPANY ACT PROVIDED BY SECTION 3(C)(7) THEREOF. PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT SELLERS OF THE RULE 144A NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF THE NOTES AND THE DISTRIBUTION OF THIS PROSPECTUS, SEE "*SUBSCRIPTION AND SALE*" AND "*TRANSFER RESTRICTIONS.*"

The Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**") as competent authority under Directive 2003/71/EC (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Notes to be admitted to its Official List (the "**Official List**") and trading on its regulated market (the "**Main Securities Market**"). Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any member state of the European Economic Area (the "**EEA**"). Reference in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Main Securities Market. This Prospectus constitutes a "prospectus" for the purposes of the Prospectus Directive.

The Notes are expected to be rated "B+" with a negative outlook by Fitch Ratings CIS Ltd ("**Fitch**") and "Ba3" with a negative outlook by Moody's Investors Service Ltd ("**Moody's**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Fitch and Moody's are established in the EEA and registered under Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**") and are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation.

The Notes will be in registered form and will be offered and sold in minimum denominations of U.S.$ 200,000 and integral multiples of U.S.$ 1,000 in excess thereof. The Regulation S Notes will initially be represented by a global certificate (the "Regulation S Global Certificate") without interest coupons, registered in the name of a nominee of, and deposited with a common depositary for, Euroclear Bank SA/NV ("Euroclear"), and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg") on or about 29 July 2015 (the "Issue Date"). The Rule 144A Notes will initially be represented by a global certificate (the "Rule 144A Global Certificate" and, together with the Regulation S Global Certificate, the "Global Certificates") without interest coupons, registered in the name of Cede & Co. as nominee for The Depository Trust Company ("DTC") on or about the Issue Date. The Global Certificates will only be exchangeable for definitive certificates ("Definitive Certificates") in certain limited circumstances as described herein. See "*Book Entry, Delivery and Form*."

Bookrunner and Lead Manager

J.P. Morgan

The date of this Prospectus is 27 July 2015

IMPORTANT INFORMATION

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive as implemented in Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**"), and for the purpose of giving information with respect to the Issuer, Ardshinbank, the Loan and the Notes, which, according to the particular nature of the Issuer, Ardshinbank, the Loan and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and Ardshinbank.

This Prospectus has been filed with and approved by the Central Bank as required by the Prospectus Regulations.

Any investment in the Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank. The Issuer is not and will not be regulated by the Central Bank as a result of issuing the Notes.

The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

RESPONSIBILITY STATEMENT

Each of the Issuer and Ardshinbank accepts responsibility for the information given in this Prospectus. To the best of the knowledge and belief of each of the Issuer and Ardshinbank (having taken all reasonable care to ensure that such is the case), each of the Issuer and Ardshinbank confirms that the information given in this Prospectus is in accordance with the facts and does not omit anything likely to affect its import. In addition, Ardshinbank having made all reasonable enquiries, confirms that (i) this Prospectus contains all information with respect to the Issuer, Ardshinbank, the Loan and the Notes that is material in the context of the issue of the Notes and the Offering; (ii) to the best knowledge of Ardshinbank, the statements contained in this Prospectus relating to the Issuer, Ardshinbank, the Loan and the Notes are in every material particular true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Prospectus with regard to the Issuer, Ardshinbank, the Loan and the Notes are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer, Ardshinbank, the Loan or the Notes the omission of which would, in the context of the issue of the Notes and the Offering, make any statement in this Prospectus misleading in any material respect; and (v) all reasonable enquiries have been made by Ardshinbank to ascertain such facts and to verify the accuracy of all such information and statements.

NOTICE TO INVESTORS

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, any of the Issuer, Ardshinbank or the Lead Manager to subscribe for or purchase any Notes in any jurisdiction where it is unlawful to make such an offer or invitation, and this Prospectus may not be used for, or in connection with, any offer of, or invitation by or on behalf of, any of the Issuer, Ardshinbank or the Lead Manager to subscribe for or purchase any Notes in any jurisdiction or under any circumstances in which such offer or invitation is not authorised or is unlawful. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions may be restricted by law. Each of the Issuer, Ardshinbank, the Trustee and the Lead Manager requires any person into whose possession this Prospectus comes to inform themselves about and to observe any such restrictions.

In making an investment decision, prospective investors must rely on their own examination of the Issuer, Ardshinbank, the Loan and the Notes and the terms of this Prospectus, including the risks involved. No person is authorised to provide any information or to make any representation not set out in this Prospectus. Any information or representation not so set out must not be relied upon as having been authorised by or on behalf of any of the Issuer, Ardshinbank, the Trustee or the Lead Manager. The delivery of this Prospectus at any time does not imply that the information set out in it is correct as at any time after its date.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or Ardshinbank after the date of this Prospectus. None of the Issuer, Ardshinbank, the Trustee, the Lead Manager or any of their respective representatives makes any representation to any prospective investor in the Notes regarding the legality of an investment by such prospective purchaser under applicable securities, investment or similar laws. Each prospective investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of any purchase of the Notes.

Prospective investors must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained. The Issuer, Ardshinbank, the Trustee and the Lead Manager are not responsible for compliance with these legal requirements. The appropriate characterisation of the Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase the Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which the Notes constitute a legal investment for prospective investors whose investment authority is subject to legal restrictions. Such prospective investors should consult their legal advisers regarding such matters.

In connection with the issue of the Notes, J.P. Morgan Securities plc (the "**Stabilising Manager**") (or person(s) acting on its behalf) may over-allot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or person(s) acting on its behalf) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or person(s) acting on its behalf) in accordance with all applicable laws and rules.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE LEAD MANAGER AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET OUT IN THIS PROSPECTUS, AND NOTHING CONTAINED IN THIS PROSPECTUS IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE. THE LEAD MANAGER ASSUMES NO RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET OUT IN THIS PROSPECTUS. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN THE NOTES MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE ISSUER AND ARDSHINBANK AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE, AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

THE NOTES AND THE LOAN HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE INVESTOR, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO UNITED KINGDOM INVESTORS

This Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom, (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"), (iii) high net worth entities and (iv) other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "**relevant persons**"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

NOTICE TO ARMENIAN INVESTORS

This Prospectus is only being distributed to and is only directed at persons who are outside of Armenia and other persons to whom it may lawfully be communicated under applicable law ("**applicable persons**"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, applicable persons. Any person who is not an applicable person should not act or rely on this document or any of its contents. The Notes are not being issued in Armenia, or issued by an Armenian issuer, or offered in Armenia.

THE NOTES AND THE LOAN HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE CENTRAL BANK OF ARMENIA (THE "CBA") OR ANY OTHER ARMENIAN REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS PROSPECTUS.

NOTICE TO DUTCH INVESTORS

The Notes are being, and may only be, offered, sold, resold, delivered or transferred in The Netherlands to qualified investors (*gekwalificeerde beleggers*) within the meaning of the Dutch Act on Financial Supervision (*Wet op het financieel toezicht*) (the "**Dutch FMSA**"). Consequently, this document is not approved by The Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*), and the Offering is not subject to any supervision by The Netherlands Authority for the Financial Markets.

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OVERVIEW

The following overview should be read in conjunction with, and is qualified in its entirety by reference to, the more detailed information and the Financial Statements which are set out elsewhere in this Prospectus. See "Risk Factors" for a discussion of certain factors that should be considered by prospective investors prior to an investment in the Notes.

Overview of the Bank

Ardshinbank has established itself as the second-leading bank in Armenia by a variety of measures: ranking second amongst Armenian banks in terms of total assets (with an 11.3% market share), loans (11.5%) and deposits (11.0%), as of 31 March 2015 based on bank public disclosures. Ardshinbank is seeking to complement its traditional strength in lending to Armenian corporate borrowers by emphasising growth in its lending to SME and micro businesses and retail customers. As of 31 March 2015, Ardshinbank had a total of approximately 212,000 customers, of which approximately 9,000 were corporate customers (including SME and micro businesses) and the remainder individuals.

Ardshinbank offers a wide range of banking products and services to its corporate and retail customers. Ardshinbank's lending activities include providing business, consumer, mortgage and micro loans, as well as guarantees and letters of credit. Loans secured by gold jewellery are an important part of its retail lending. Ardshinbank offers current and savings accounts, on demand and term deposits, debit and credit cards, currency exchange facilities and other products.

Ardshinbank's operations are entirely focused on the Armenian banking market (including Nagorno-Karabakh). The Bank is headquartered in the Armenian capital of Yerevan and has the second largest national branch network with 55 branches, as of 31 March 2015. In addition, Ardshinbank has a large network of ATMs and points-of-sale terminals, consisting of 96 ATMs and 196 points-of-sale terminals, as of 31 March 2015.

As of 31 March 2015, Ardshinbank had: total assets of AMD 367.0 billion, including total loans to customers of AMD 238.8 billion (of which 67% represented corporate loans and 33% retail lending); total current accounts and deposits from customers of AMD 178.2 billion; and total equity of AMD 47.2 billion. Ardshinbank's profit was AMD 531.9 million for the three months ended 31 March 2015 and AMD 3.9 billion for the year ended 31 December 2014. Ardshinbank's cost to income ratio (i.e., the ratio of its personnel expenses and other general administrative expenses to its operating income) was 57.1% for the three months ended 31 March 2015 and 49.3% for the year ended 31 December 2014, while its return on equity (ROE) for such periods was 4.5% and 8.6%, respectively. See "*Selected Financial Information—Selected Financial Ratios and Other Information*." As of 31 March 2015 Ardshinbank had 1,093 employees.

Ardshinbank has a stable balance sheet, with a ratio of net loans to customers to current accounts/deposits from customers of 134.0%, an impairment allowance to gross loans ratio of 2.0% and a non-performing loan (being any loan for which payment is overdue by more than 90 days or that otherwise is deemed individually impaired by the Bank) to total loans to customers ratio of 2.9% as of 31 March 2015. Its total capital ratio calculated in accordance with Basel II exceeds the recommended minimum of 8%, standing at 16.9% as of 31 March 2015 and 16.3% as of 31 December 2014.

As of the date of this Prospectus, Ardshinbank has Ba3 long-term and Not-prime short-term local currency deposit ratings and B1 long-term and Not-prime short-term foreign currency deposit ratings and a "D-" financial stability rating from Moody's, in each case with a "negative" outlook, B+ long term issuer default rating and B short term issuer default rating from Fitch with a "negative" outlook.

As of the date of this Prospectus, Ardshinbank is controlled by Mr. Karen Safaryan, who effectively controls the 97.52% of Ardshinbank's outstanding shares held by Center for Business Investments LLC. Mr. Safaryan has other business interests in Armenia, notably in the insurance and real estate sectors, and also in Russia. The remaining 2.48% shares in Ardshinbank were distributed to management before 2011. See "*Shareholders*."

Key Strengths

Management believes that Ardshinbank has the following key strengths that will help enable it to maintain and strengthen its position as one of the leading Armenian banking institutions:

Established market leader in the Armenian banking sector

Ardshinbank has an established market-leading position in the Armenian banking sector. Traditionally, corporate lending and deposit-taking have been its core strengths, in particular for the Armenian energy sector (including gas distribution; electricity and heat generation and transmission; and hydro and nuclear power). As of 31 March 2015, based on bank public disclosures, Ardshinbank had the top market share of all Armenian banks for corporate deposits at 14.5% and second-largest market share for corporate loans at 11.7%. Ardshinbank believes it has built up good banking relationships with its corporate customers, likely to lead to ongoing business with them.

In part by servicing employees of some of its corporate customers (for example, by providing them debit cards), Ardshinbank has also established itself in the banking retail sector. In terms of national market share, as of 31 March 2015, based on bank public disclosures, Ardshinbank ranked 3rd in terms of loans issued to individuals at 11.1% and 5th in terms of deposits by individuals at 9.1%. Combined with its 55-branch network, the leading market position that Ardshinbank already enjoys and its resulting national market brand should help it both to retain current banking relationships and gain new clients in its target lines of business.

Track record of growth and profitability

In the view of its management, Ardshinbank's track record of lending growth and profitability both evidences its good business practices and enhances its reputation, helping it retain and attract customers. The CAGR (as defined herein) of the aggregate value of Ardshinbank's total loans to customers for the three years ended 31 December 2014 was 34.0%. In the same three-year period, Ardshinbank achieved a profit CAGR of 18.3% with an average ROE of 12.4%. Ardshinbank's net interest margin was 6.9% in 2012, 6.4% in 2013 and 4.1% in 2014; last year's result reflects the Bank taking a more conservative lending approach in the second half of 2014 in light of management's concern of possible turbulence in the Armenian economy, concerns which were realised when the dram fell significantly in December 2014. Bank management believes its recent record of prudent growth generating healthy profitability places the Bank well in the competitive market.

Deep deposit base

Ardshinbank attracts market-leading corporate deposits in Armenia as well as significant, and growing, retail deposits. Term and demand deposits from customers together with current accounts comprised 55.7% of the Bank's total liabilities as of 31 March 2015. As of 31 March 2015, total deposits/current accounts of corporate customers (including SME/micro) amounted to AMD 84.8 billion, and total individual deposits/current accounts to AMD 93.4 billion. Term deposits, which as of 31 March 2015 had an average tenor of 1.1 years, are generally renewed. Total deposits at the Bank have been growing: in the three years ending 31 December 2014, the CAGR for its total current accounts/deposits from customers was 24.3%. The Bank believes these deposits provide an important capital base for its lending activities.

Managing foreign currency exposure

The Armenian economy is highly dollarised, reflecting in part the relatively small size of the national economy, the limited international use of the dram, the historic volatility of the dram and the receipt of remittances from Armenians working abroad. As a consequence, as of 31 March 2015, 59.6% of the Bank's total net loans to customers were dollar-denominated and 51.9% of its total deposits/current accounts from customers were dollar-denominated. The Bank actively manages its balance sheet to limit its foreign currency, and in particular U.S. dollar, exposure: as of 31 March 2015, the Bank had total U.S. dollar financial assets of AMD 191.9 billion and total U.S. dollar financial liabilities of AMD 191.1 billion, a difference of 0.5%. As such, the Bank effectively seeks to hedge its U.S. dollar exposure (without using foreign exchange derivative contracts).

Exclusive focus on the Armenian market

Ardshinbank operations are entirely focused on the Armenian banking market (including Nagorno-Karabakh). While this exposes the Bank to a single-market volatility, the Bank considers it a strength as its management has an in-depth knowledge of the Armenian market, has developed deep understandings of the business of its corporate clients, and can anticipate the needs of its retail/SME/micro customers. The Bank also considers its relations with the government of Armenia and its regulators, including the CBA, to be very good, as some of the

Bank's senior managers have served with the government and/or the CBA. Ardshinbank has a streamlined business with a clear strategic focus on its core banking activities in Armenia, which should help enable Ardshinbank to maintain a strong balance sheet with a stable, deposit-based source of funding.

Extensive distribution network

Ardshinbank has built an extensive physical distribution network over the years by a combination of acquiring existing distribution channels from distressed financial institutions and establishing new branches. As of 31 March 2015, Ardshinbank, in addition to its head office in Yerevan, had a multi-channel distribution network consisting of 55 branch offices, 96 ATMs and 196 points-of-sale terminals with its branch network being the second-largest in Armenia, based on bank public disclosures, which helps enable Ardshinbank to increase its interaction with customers and potential customers and to cross-sell its products. Management believes the existing branch network has significant absorptive capacity to take on new business.

Experienced management team and performance-oriented culture

Ardshinbank's current management team, most of which was put in place three years ago, has extensive local and international banking experience. All members of the Management Board have significant experience in the banking and finance industry, with most having at least 15 years of relevant experience. Four members of the Management Board have previously worked for the CBA and/or in the Armenian Government and two have experience with international financial organisations.

Management believes that Ardshinbank's evaluation system and performance-oriented culture are an important foundation to its success and the execution of its strategy. Individual compensation packages of most of Ardshinbank's sales and management employees provide for performance-based bonuses. Importantly, as a general rule the correlation between compensation and performance increases with the individual employee's progression within the bank's internal hierarchy.

Strategy

Ardshinbank's strategic objective is to remain a leading Armenian bank, continuing to deliver strong, sustainable growth and profitability without compromising asset quality or risk management processes. In order to implement its strategy, Ardshinbank intends to focus on the following:

Nurturing its existing corporate relationships while expanding its retail, SME and micro lines of business

In part due to the current slowing of the Armenian economy and potential economic volatility arising out of current macro-economic circumstances, Ardshinbank's current strategy in respect of its large corporate clients is to focus on its existing client base, customers whose credit quality is generally well understood by the Bank, while only quite selectively taking on new large corporate clients. The universe of large corporate clients—which the Bank defines as businesses with annual turnover of over AMD 1.2 billion—is small in Armenia; the Bank estimates there are roughly 70-100 such businesses active in Armenia. The Bank will continue to cross-sell its range of services to its large corporate customers.

In contrast, Ardshinbank is looking to expand its retail business for individuals and its lending to smaller corporates, i.e., SMEs (with annual turnover from AMD 60 million to AMD 1.2 billion) and micros (with annual turnover less than AMD 60 million). The Bank's retail banking target is for loans to retail customers to eventually reach roughly 50% of its total loan portfolio (compared to 33% as of 31 March 2015); and it targets loans to SMEs/micros to eventually comprise roughly half of the total corporate loan portfolio (compared to 26.4% as of 31 March 2015), especially lending into the energy sector, such as for small hydro-electric plants, bringing to bear its experience and knowledge from its large corporate lending into the sector, as well as into the food processing/agricultural sector, which is a mainstay of the Armenian economy, and the hospitality sector, as Armenia develops its tourist industry. These lines of businesses promise higher net interest margins than lending to large corporate businesses. As certain banks in the Armenian market have decreased lending activities to individuals, Ardshinbank hopes to attract them, which, as the Bank believes, explains the significant increase in its retail gold-secured loans in the first quarter of 2015. The Bank this year has bolstered its staffing for making SME and micro loans. Along these lines, the Bank would consider pursuing an acquisition of a smaller Armenian bank, especially one with an SME/micro lending focus, if mutually satisfactory terms of purchase could be reached, but to date no such agreement has been reached, and the Bank remains confident it can grow this business organically.

Launching internet and mobile banking services

To complement its 55-branch network, the Bank is planning to introduce internet and mobile banking services in the next year, most likely in the first half of 2016. The relatively high usage rate and general availability of the internet in Armenia and the ubiquity of mobile telephones should be conducive to a successful launch of these services. The launch of internet/mobile banking services is in keeping with the Bank's effort to expand its retail and SME/micro business lines. The Bank currently provides some on-line services to its corporate customers, but also looks to expand these in the next year. The availability of internet/mobile banking is expected over time to increase the frequency of customer transactions, generate fee income, expand the customer base and add to customer satisfaction.

Increasing fee and commission income

Ardshinbank aims to further diversify its revenue base by increasing its non-interest income (in the year ended 31 December 2014, net fee and commission income was AMD 3.0 billion, 15.5% of operating income). Management believes this will help Ardshinbank to sustain its profitability by becoming less reliant on interest margins, which have recently declined. Accordingly, Ardshinbank's strategy is to increase its fee and commission income generating capabilities by growing fees from existing sources, such as worker remittances and (subject to appropriate credit quality controls) debit and credit card operations, guarantees and trade finance as well as by new commission-based products and services related to Ardshinbank's core corporate banking business.

Competition

As of 31 March 2015, there were 21 commercial banks operating in Armenia. Ardshinbank's primary competition comes from the other four largest Armenian banks by assets as of 31 December 2014 (as per the KPMG Publication (as defined herein)): CJSC ACBA-Credit Agricole Bank (in which Credit Agricole has a minority, 28% stake); CJSC Ameriabank (with total assets of AMD 400 billion, the largest of any Armenian bank); CJSC HSBC Bank Armenia (in which the HSBC group holds a majority, 70% stake); and CJSC VTB Bank Armenia (which is wholly-owned by OJSC VTB Bank, a prominent Russian bank, and which, with 67 branches, has the largest branch network, having acquired what had been the Soviet-era branch network of Sberbank); Ardshinbank together with these four banks accounted for approximately 51% of total bank assets in Armenia.

In the corporate market, Ardshinbank considers its principal competitors to be Ameriabank, VTB Bank Armenia and HSBC Armenia, and in the retail lending market ACBA-Credit Agricole Bank and VTB Armenia as well as the smaller banks Inecobank and Unibank.

There is some expectation that there will be a consolidation in the Armenian banking sector in the coming years. In December 2014, the CBA announced that existing Armenian banks would be required, effective 1 January 2017, to have total capital (as measured by CBA methodology, which differs from IFRS) of at least AMD 30 billion (and any newly-licensed bank would have to comply with that threshold immediately). As of 31 December 2014 per the KPMG Publication, all five banks discussed above (including Ardshinbank) already satisfied this standard, while none of the other 16 Armenian banks satisfied this standard with some falling significantly short of it. As a result, there may be efforts to merge these smaller banks into larger banks with an aim to timely satisfy this new standard.

Given the relative size and development of the Armenian economy and population, some consolidation within the Armenian banking sector would appear sensible. Future growth and competition in the sector will be highly correlated to growth of the Armenian economy. At the same time, according to the CBA, Armenia's economy continues to maintain relatively low levels of financial intermediation and general penetration of financial services (which in part reflects Armenia's relatively low average GDP per person and large rural population). Moreover, according to the KPMG Publication, the industry remains unconcentrated, with the Herfindahl-Hirschman index (a commonly used measure to access market concentration) equal to 0.073 (which indicates an unconcentrated market) as of 31 December 2014. In the view of its management, Ardshinbank is accordingly positioned to grow its retail/SME/micro lines of business by a combination of attracting customers currently using the services of other banks as well as customers with no current banking relationship.

THE OFFERING

The following overview contains basic information about the Notes and the Loan and should be read in conjunction with, and is qualified in its entirety by, the information set out under "The Loan Agreement" and the Conditions appearing elsewhere in this Prospectus.

The Issuer	Dilijan Finance B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of The Netherlands having its corporate seat (*statutaire zetel*) in Amsterdam, The Netherlands and registered with the trade register of the Dutch chamber of commerce under number 63492652.
The Borrower	Ardshinbank CJSC, a closed joint-stock company incorporated under the laws of the Republic of Armenia, having its registered office at 13 G. Lusavorich str., Yerevan 0015, Armenia and telephone number +374 10 590501.
The Offer	U.S.$ 100,000,000 12% Amortising Loan Participation Notes due 2020 in reliance on Regulation S and Rule 144A under the Securities Act.
Issue Price of the Notes	100% of the principal amount of the Notes.
Issue Date	29 July 2015
Final Maturity Date	29 July 2020
Scheduled Principal Redemption	An amount equal to U.S.$ 25,000,000 will be redeemed on each of 29 January 2019, 29 July 2019, 29 January 2020 and 29 July 2020.
Interest	On each interest payment date (being 29 January and 29 July of each year, commencing on 29 January 2016), or as soon thereafter as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement, which interest under the Loan is equal to 12% per annum.
Status of the Notes	The Notes constitute secured, limited recourse obligations of the Issuer. Recourse in respect of the Notes is limited to the assets securing the Notes. The Notes are secured in the manner described in the Trust Deed and shall at all times rank *pari passu* and without preference amongst themselves.
Use of Proceeds	The gross proceeds from the Notes will be used by the Issuer for the sole purpose of financing the Loan to Ardshinbank. The net proceeds of the Loan (after deduction of any commissions and expenses payable by Ardshinbank in connection with the Notes, the Loan and the Tender Offer and Consent Solicitation), which are expected to amount to approximately U.S.$ 97,000,000, will be used by Ardshinbank for the following purposes: (i) to finance the purchase of U.S.$ 59,000,000 aggregate principal amount of the 2017 Notes tendered and accepted for purchase in accordance with the Tender Offer and Consent Solicitation and the payment of accrued interest to the date of payment on such 2017 Notes in the amount of U.S.$ 983,333.34; (ii) to finance the payment of a consent fee to holders of 2017 Notes who have delivered consents in accordance with the Tender Offer and Consent Solicitation in the amount of U.S.$ 750,000; (iii) to finance the payment of an incentive fee in the amount of U.S.$ 116,500 to holders of 2017 Notes whose 2017 Notes have

been tendered and accepted in accordance with the Tender Offer and Consent Solicitation;

(iv) to finance the payment of Armenian withholding tax applicable to the payment of accrued interest to holders of the 2017 Notes tendered and accepted for purchase per item (i) above, the payment of the consent fee per item (ii) above and the payment of the incentive fee per item (iii) above, such withholding at the rate of 10% on the amount paid (subject to possible reduction if relevant double tax treaties can be applied);

(v) to refinance up to U.S.$ 39,000,000 of Ardshinbank's indebtedness under an existing U.S.$ 71,300,000 facility provided by a large international financial institution; and

(vi) to the extent net proceeds remain, for general lending to corporate and retail clients.

Form of the Notes .... The Notes will be issued in registered form in the denomination of U.S.$ 200,000 and integral multiples of U.S.$ 1,000 in excess thereof, without interest coupons attached. The Regulation S Notes and the Rule 144A Notes will initially be represented by a Regulation S Global Certificate and a Rule 144A Global Certificate, respectively, each without interest coupons. The Regulation S Notes will be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear and Clearstream, Luxembourg, on or about the Issue Date. The Rule 144A Notes will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee for, DTC, on or about the Issue Date. The Global Certificates will only be exchangeable for Definitive Certificates in the limited circumstances described under "*Book Entry, Delivery and Form.*"

Trustee .... Citibank, N.A., London Branch

Registrar and Transfer Agent .... Citigroup Global Markets Deutschland AG

Principal Paying Agent .... Citibank, N.A., London Branch

Limited Recourse .... The Notes are secured limited recourse obligations of the Issuer. The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, excluding amounts paid in respect of the rights, interests and benefits in respect of the Reserved Rights. See "*Terms and Conditions of the Notes—Status*".

Security .... The Notes will be secured by a charge (the "**Charge**") in favour of the Trustee for the benefit of the Noteholders, of:

(a) all rights to principal, interest and additional amounts (if any) payable by the Borrower to the Issuer under the Loan Agreement;

(b) the right to receive all sums that may be or may become payable by the Borrower under any claim, award or judgment relating to the Loan Agreement; and

(c) all the rights, title and interest in and to all sums of money held from time to time in an account specified in the Loan Agreement, together with the debts represented thereby (including interest earned on the account, if any),

provided, in each case, that the Reserved Rights, and any amounts in respect thereof, are excluded from the Charge.

Furthermore, under the terms of the Trust Deed, the Issuer will assign absolutely all of its rights under the Loan Agreement, except for any Reserved Rights and rights subject to the Charge as described above, to the Trustee for the benefit of the Trustee and the Noteholders.

Redemption by the Issuer . . . . If the Borrower prepays the Loan pursuant to the Loan Agreement, whether for tax reasons or by reason of increased costs or illegality, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at 100% of the principal amount of such Notes, together with accrued and unpaid interest and additional amounts (if any) all as more fully described in "*Terms and Conditions of the Notes—Redemption*."

Optional Redemption by the Noteholders upon a Change of Control . . . . Upon the occurrence of a Change of Control Put Event, the Notes may be redeemed at the option of a Noteholder at 101% of their principal amount together with accrued interest, if any, as more fully described in "*Terms and Conditions of the Notes*."

Withholding Tax and Additional Amounts . . . . Subject to certain exceptions, all payments in respect of the Notes by or on behalf of the Issuer will be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or other governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of The Netherlands or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law. In the event any such deduction or withholding is imposed, the sum payable by the Issuer (subject to the receipt of additional amounts pursuant to the Loan Agreement) will be required (subject to certain exceptions) to be increased to the extent necessary to ensure that the Noteholders receive the sum which they would have received had no such deduction or withholding been required. See "*Terms and Conditions of the Notes—Taxation*."

All payments of interest and principal under the Loan by the Borrower will be made free and clear of and without deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, unless the deduction or withholding of such taxes or duties is required by law. In such event the sum payable by the Borrower will be required to be increased to the extent necessary to ensure that after such deduction or withholding, the Issuer receives the sum which it would have received had no such deduction or withholding been required. It is expected that withholding of 5% will be applied to payments of interest by the Borrower under the Loan Agreement (under the terms of the existing Armenia-Netherlands Double Tax Treaty), and the Borrower will accordingly increase payment to the Issuer so that the Issuer receives the sum which it would have received had no such withholding been required.

Events of Default and Relevant Events . . . . If either an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in the Loan Agreement) occurs, the Trustee may, subject to the provisions of the Trust Deed:

(a) in the case of an Event of Default, declare all amounts payable by the Borrower under the Loan Agreement to be due and payable and to do all such other acts in connection therewith that the Trustee may direct; or

(b) in the case of a Relevant Event, enforce the security created by the Trust Deed.

Upon repayment of the Loan following an Event of Default, the Notes will be redeemed and repaid at their principal amount, together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

Selling Restrictions . . . . United States, United Kingdom, the Republic of Armenia and The Netherlands. See "*Subscription and Sale*."

Further Issuances . . . . The Issuer may, from time to time and without the consent of the Noteholders, create and issue further notes on the same terms as the existing Notes (except for the first payment of interest). Such further notes may be consolidated and form a single series with such existing Notes, provided, however, that such further notes must either be fungible with the existing Notes for U.S. federal income tax purposes or be assigned a different security code than the existing Notes.

Ratings . . . . The Notes are expected to be rated "B+" with a negative outlook by Fitch and "Ba3" with a negative outlook by Moody's.

Fitch and Moody's are established in the EEA and registered under the CRA Regulation and are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency operating in the EEA before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused, or (2) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (3) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation. The European Securities and Markets Authority ("**ESMA**") is obliged to maintain on its website, www.esma.europa.eu/page/List-registered-and-certified-CRAs a list of credit rating agencies registered and certified in accordance with the CRA Regulation. The ESMA website is not incorporated by reference into, nor does it form part of, this Prospectus. This list must be updated within five working days of ESMA's adoption of any decision to withdraw the registration of a credit rating agency under the CRA Regulation. Therefore such a list is not conclusive evidence of the status of the relevant rating agency as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

	Credit ratings assigned to the Notes do not necessarily mean they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The rating does not address the likelihood that the principal on the Notes will be prepaid or paid on a particular date before the legal final maturity date of the Notes. The rating does not address the marketability of the Notes or any market price. Any change in the credit rating of the Notes could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of the rating should be analysed independently from any other rating.
Negative Pledge	The Issuer will have the benefit of a negative pledge granted by the Borrower, as fully described in the Loan Agreement.
Covenants	The Loan Agreement will have the benefit of certain covenants from the Borrower, all as fully described in the Loan Agreement.
Listing	Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.
ERISA Considerations	The Notes may not be acquired by any Benefit Plan Investor (as defined below). Each purchaser and/or holder of the Notes and each transferee thereof will be deemed to have made representations that it is not such a Benefit Plan Investor. Potential purchasers should read the sections entitled "*Certain ERISA Considerations*" and *"Transfer Restrictions.*"
Security Codes	Regulation S Notes ISIN: XS1117287638 Regulation S Notes Common Code: 111728763 Rule 144A Notes ISIN: US254032AA37 Rule 144A Notes Common Code: 098267085 Rule 144A Notes CUSIP: 254032AA3
Governing Law	The Loan Agreement, the Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with them shall be governed by, and construed in accordance with, English law.

An investment in the Notes involves a high degree of risk. See "*Risk Factors*."

RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Prospectus and, in particular, should consider, among other things, all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest.

If any of the risks discussed below is realised, in part or in whole, individually or in some combination, the value of the Notes could decline, and such circumstance could have a material adverse effect on the Bank's ability to pay principal, interest and other amounts due on the Notes, so that investors could lose some or all of their investment.

The Bank believes that the risk factors described below represent the principal risks in relation to investing in the Notes. Prospective investors should, however, note that there may be additional risks and uncertainties that the Bank currently considers immaterial or of which the Bank is currently unaware, and any of these risks and uncertainties could have similar effects as those set forth below or other adverse effects. Prospective purchasers of the Notes should make such inquiries as they think appropriate regarding the Bank and the Notes prior to making any investment decision.

Risks Relating to the Bank

Virtually all of the Bank's operations are conducted and its assets located in Armenia

The Bank carries out virtually all its business, and virtually all its assets are located, in Armenia (including Nagorno-Karabakh). The Bank has no current intention to expand its business outside Armenia. Accordingly, political and macroeconomic factors relating to Armenia have a material impact on loan losses, margins and customer demand for the Bank's products and services, and its business generally, which materially affects the Bank's business, financial condition and results of operations and prospects and the value of the Notes. These risks are described below under "*Risk Factors Relating to Armenia*."

Market turmoil and economic deterioration in Armenia could also have a material adverse effect on the liquidity, businesses or financial condition of the Bank's borrowers, which could, in turn, increase the Bank's impaired loan ratios, impair its loans and other financial assets and result in decreased demand for the Bank's products. In such an environment, consumer spending may decline and the value of assets used as collateral for the Bank's secured loans, including real estate, could also decrease significantly. Any of these conditions could have a material adverse effect on the Bank, its business, financial condition and results of operations and prospects and on the value of the Notes.

The Bank may not correctly assess the creditworthiness of its customers

The Bank is exposed to credit risk related to loans and other credit products it provides to its customers. The Bank's business, financial condition, results of operations and prospects depend on an accurate assessment of the creditworthiness of its customers, the adequacy of its provisioning levels and the continued management and monitoring of the risks of its loan portfolio. Notwithstanding the Bank's credit risk evaluation procedures, the Bank may fail to adequately assess the current financial condition of existing or potential borrowers or to determine their ability to repay their loans extended by the Bank.

In its assessment of creditwothiness of borrowers, the Bank relies on the information obtained from CJSC "ACRA Credit Reporting" (the "**Armenian Credit Reporting Agency**") and on its own estimates. The Armenian Credit Reporting Agency maintains a database containing the credit histories of individuals and legal entities in Armenia pursuant to the law "On Circulation of Credit Information and Activities of Credit Bureaus" dated 22 October 2008. Credit providers in Armenia—including commercial banks, micro finance organisations, utility and telecommunication companies—are required under the law to provide information on their customers and their credit histories to the Armenian Credit Reporting Agency; which in turn provides credit histories, for a fee, to requesting potential or existing lenders. There can be no assurance that the information from the Armenian Credit Reporting Agency is reliable. In particular, the financial statements of corporate borrowers in Armenia may be incomplete, may not correctly reflect the financial position of the company and may be unaudited, making accurate credit assessment of such borrowers more difficult.

Limited availability of recent and reliable credit information on borrowers may result in the Bank's inability to assess and create necessary provisions for credit risk and, as a result, provisions for loan impairment may be insufficient to cover actual losses. Material additions to the provision for loan impairment could decrease the Bank's net profit. The actual amount of future provisions for loan losses cannot be determined in advance and may vary from the amounts of past provisions. Any increase in the provision for loan impairment might have a material adverse effect on the Bank's financial condition and results of operations. Furthermore, there can be no assurance that the Bank's current level of loan recovery will be maintained in the future and any failure to adequately assess the credit risk of potential borrowers or acceptance of a higher degree of credit risk in the course of lending operations may result in a deterioration of the Bank's loan portfolio and a corresponding increase in loan impairments, which would have a material adverse effect on the Bank's business, financial conditions, results of operations and prospects and on the value of the Notes.

There is significant competition in the Armenian banking market, in which significant consolidation may be expected

The Armenian market for retail banking services is competitive, and the Bank faces competition from a number of existing and prospective participants in the Armenian banking sector. The Bank is subject to competition from both domestic and foreign banks operating in Armenia. Foreign banks are generally free to open subsidiaries in Armenia, subject to CBA licensing and supervision.

As of 31 March 2015, there were 21 commercial banks operating in Armenia (which does not include the CBA itself or its wholly-owned development bank, OJSC "Panarmenian Bank"). As of 31 December 2014, the Bank's net assets constituted 10.8% of the total assets of all Armenian banks. Of the 21 banks, six are subsidiaries of foreign banks, including Areximbank (which is wholly-owned by Gazprombank, a Russian bank), HSBC Bank Armenia (in which HSBC, a global banking group, has a 70% shareholding), and VTB Bank Armenia (which is a wholly-owned subsidiary of VTB Bank, a Russian bank) (all such information as of 31 December 2014 per public filings). Foreign-owned banks present significant competition in the Armenian banking sector and may have greater resources and cheaper funding sources than the Bank, as well as greater international experience.

The Armenian banking system has grown rapidly in recent years (total assets of the Armenian banking sector increased by 118.6% from AMD 1,560.5 billion as of 31 December 2010 to AMD 3,403.6 billion as of 31 December 2014, according to the CBA). Ardshinbank's primary competition comes from the other four largest Armenian banks by assets as of 31 March 2015 (as per the KPMG Publication): CJSC ACBA-Credit Agricole Bank, CJSC Ameriabank, CJSC HSBC Bank Armenia and CJSC VTB Bank Armenia; Ardshinbank together with these four banks accounted for approximately 51% of total bank assets in Armenia.

In December 2014, the CBA announced that existing Armenian banks would be required, effective 1 January 2017, to have total capital (as measured by CBA methodology, which differs from IFRS) of at least AMD 30 billion (and any newly-licensed bank would have to comply with that threshold immediately). As of 31 December 2014 per the KPMG Publication, only five Armenian banks (including Ardshinbank) already satisfied this standard with some of the other banks falling significantly short of it. As a result, there may be a period of consolidation in the Armenian banking sector leading to intensified competition. If the Bank does not effectively compete with other banks, whether foreign or domestic, for business, or if competition leads to reduced margins or fee income for the Bank, this could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

The Bank may fail to manage its growth

The Bank's business has grown significantly in recent years, and the Bank seeks further growth with an emphasis on expansion of its retail and SME/micro business lines. The Bank's loans to customers (net of allowance for loan impairment) have increased from AMD 132.7 billion as of 31 December 2012 to AMD 172.3 billion as of 31 December 2013, AMD 219.9 billion as of 31 December 2014, and AMD 238.8 billion as of 31 March 2015.

Given the growth in the Bank's loan portfolio, the Bank's credit exposure has correspondingly increased. Continued growth of the Bank's loan portfolio entails active risk management, including loan monitoring and control procedures. See *"Risk Management—Credit Risk."* A failure by the Bank to manage its growing loan portfolio while maintaining the quality of its assets through effective credit risk policies could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

The Bank is also planning to introduce internet and mobile banking services in the next year, but there is no assurance that the roll-out of these services will be successful, or timely, and the introduction of these services adds new operational risks for the Bank.

Growth in the Bank's business may create significant operational challenges, including the recruitment, training, oversight and retention of suitable staff, the implementation of information technology systems to handle the rate of growth of the Bank's operations and the administration of risk management procedures in respect of a larger loan portfolio. Failure by the Bank to sustain its growth while at the same time maintaining adequate focus on existing business divisions may have a material adverse effect on its business, financial condition, results of operations and prospects and on the value of the Notes.

The Bank may not identify acquisition targets and any attempted acquisitions may not prove successful

The Bank's further expansion strategy may include acquisition of other banks or non-bank credit organisations. The Bank may not be able to identify suitable acquisition targets, or it may not be able to complete any transaction on acceptable terms, or at all. Any acquisitions the Bank may pursue could entail risks, including:

- Difficulties in realising cost, income or other anticipated benefits or synergies from the acquired entity or investment, including the loss of key employees from the acquired entity or investment;
- Costs of executing the acquisition or investment, including financial costs, business disruption and increased management attention;
- Potential for undermining the Bank's strategy, customer relationships or other elements critical to the success of the Bank's business;
- Errors in valuation or assessment of the acquisition target;
- Liabilities or losses resulting from the Bank's control of the acquired entity, including inherited legal claims; and
- Difficulty integrating the acquired business, including difficulty in adapting acquired technology to the Bank's own systems.

If the Bank pursues acquisitions in the future and experiences any of the above or other difficulties, its business, results of operations, financial condition and prospects and the value of the Notes could be adversely affected.

The Bank is exposed to liquidity risk, and its ability to incur new debt is constrained by the terms of existing financings

The Bank is exposed to liquidity risk arising out of the mismatches between the maturities of the Bank's assets and liabilities, which may result in the Bank being unable to meet its obligations in a timely manner.

The Bank meets a significant portion of its funding requirements using funds deposited in customer accounts. As of 31 December 2014, current accounts and deposits from retail client customers represented 51.5%, and corporate clients accounted for 48.5%, of the Bank's current accounts and deposits from customers; current accounts and demand deposits of corporate depositors comprised 17.7% of the Bank's current accounts and deposits from customers. Corporate depositors often have a contractual right to call term deposits prior to the scheduled end of their term. With respect to the retail accounts, under Armenian law individuals are entitled to withdraw their deposits at any time (in the case of term deposits, subject to forfeiting accrued interest thereon). The withdrawal of deposits, whether retail or corporate, may result in liquidity gaps that the Bank may not be able to cover through borrowing in domestic and international markets. Depositors may withdraw their deposits from the Bank for a wide variety of reasons, including the deterioration in general economic conditions in Armenia, the perceived creditworthiness of the Bank, and their own financing needs. See *"Risk Management—Liquidity Risk."* Withdrawals of deposits may result in liquidity gaps that the Bank may not be able to cover. The liquidity gap may affect the ability of the Bank to carry out its strategy effectively. This could lead to a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

The Bank's other funding resources are the interbank markets and international (and potentially, domestic) capital markets. The terms of the Bank's existing financings, including application of financial ratio covenants and negative pledge clauses, may act to constrain the Bank's ability to attract new financings. If the terms of current financings are breached, this may lead to demands for immediate repayment and cross-defaults to other financings. One of the Bank's existing financings restricts the ability of the Bank to incur and have outstanding more than U.S.$ 25 million of new, non-ordinary course financial indebtedness (a consent to the Bank's taking the Loan has been obtained under the terms of this financing in this regard), which absent consent would constrain the Bank's ability to attract new financings. The current Greek debt crisis might lead foreign lenders, especially European banks, to curtail lending activity or lend more conservatively. Lack of new financing may hinder the Bank's ability to pursue potential acquisitions. Adverse market conditions can also significantly reduce, and effectively eliminate, access by banks to funding from these markets at economical cost.

If the sources of short and long-term funding are not available, or if there are significant maturity mismatches between the Bank's assets and liabilities, this could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

The Bank's capital position may deteriorate

The Bank's total capital adequacy ratio calculated in accordance with the International Convergence of Capital Measurement and Capital Standards of 1988 and Basel II Framework of June 2004 ("**Basel II**") amounted to 16.9% as of 31 March 2015, above the recommended minimum threshold of 8%. The Bank's Tier 1 capital adequacy ratio as of 31 March 2015 was 15.2%. As for the capital requirements set by the CBA, which in some ways are more stringent than the Basel II framework, as of 31 December 2014 the Bank's total capital expressed as a percentage of risk-weighted assets (total capital ratio) as defined by the CBA stood at 13.5%, exceeding the 12% minimum requirement established by the CBA. Failure to comply with the CBA capital requirements could result in sanctions or enhanced CBA oversight of the Bank.

If the Bank requires additional capital in the future, there is no guarantee that it will be able to obtain this capital. If the Bank is unable to raise further capital to support its growth or if its capital position otherwise declines, its ability to implement its business strategy, and its expected lending expansion, may be materially adversely affected. The Bank's ability to obtain additional capital may be restricted by a number of factors, including the Bank's future financial condition, results of operations and cash flows, any necessary government regulatory approvals, and general market conditions for capital raising activities by commercial banks and other financial institutions. Failure to obtain additional capital may have a material adverse effect on Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

Client concentration in the Bank's loan and deposit portfolio could adversely affect the Bank's business and financial condition

As of 31 March 2015 and as of 31 December 2014, the Bank had seven borrowers or groups of connected borrowers whose loan balances exceed 10% of equity (10% of equity being AMD 4.7 billion both as of 31 March 2015 and as of 31 December 2014). The gross value of these loans as of 31 March 2015 was AMD 70.7 billion (as of 31 December 2014: AMD 70.7 billion). Of these seven borrowers, three are in the energy sector while the others are in the service, mining, chemicals and government sectors.

As of 31 March 2015, the Bank had three customers—one in the energy sector and two in the finance sector—whose deposit balances exceeded 10% of the Bank's equity, having an aggregate total balance of AMD 23.8 billion (13.4% of the Bank's total current accounts and deposits from customers). Any impairment in the ability of major borrowers of the Bank to repay their loans or any decision by major depositors to withdraw their funds from the Bank could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes. See "*—The Bank is exposed to liquidity risk, and its ability to incur new debt is constrained by the terms of existing financings*."

The Bank has non-performing loans for which it may not have established adequate reserves, and other loans in its portfolio may prove non-performing

As of 31 March 2015, the Bank had gross amount of overdue or impaired loans to corporate customers of AMD 5.6 billion for which it has established an impairment allowance of AMD 1.8 billion (a 32.7% impairment allowance to gross overdue or impaired loans ratio); for its loans to retail customers, for which the Bank estimates loan impairment based on its past historical loss experience on each type of loan, the Bank had established an impairment allowance of AMD 1.7 billion. The single largest outstanding non-performing loan (i.e., overdue by more than 90 days or individually impaired) had an outstanding balance of AMD 3.6 billion as of 31 March 2015 for which an impairment allowance of AMD 1.6 billion has been established; this loan was originated in 2008 (prior to the Bank revising its credit testing procedures) and restructured in 2012; it funded a poultry plant. The Bank currently has a loan to a borrower in the energy sector for which it expects to establish an impairment allowance of approximately AMD 700 million. Included in loans to corporate customers is a loan to an entity with a carrying amount of AMD 6.4 billion scheduled to be repaid in full in August 2015 secured by the plant and facilities of the borrower. Currently most of the plant and facilities are not being used for production. In assessing future cash flows from the loan, the Bank has contemplated extending the maturity date of this loan by one year, during which extension pledged property would be sold and its proceeds applied to repaying the loan; the Bank has estimated the selling price of the individual items of the plant and facilities pledged, deducting the cost of dismantling and transportation to the selling destination. The selling prices have been estimated based on scrap metal prices for non-usable items and market prices of items capable of being used. Based on such estimates, the Bank considers this loan to be currently fully collateralised (and thus has established no impairment allowance on this loan), but if such estimates prove inaccurate, then the Bank could suffer a significant loss on this loan.

The Bank's impairment allowances may prove less than actual losses on the impaired corporate loans or on the overall retail lending portfolio, and other loans in its portfolio may prove non-performing, which could materially and adversely affect the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

The Bank may face counterparty risk from other financial institutions

The Bank is subject to the risk of deterioration of the commercial soundness of other financial service institutions. Financial service institutions that transact with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This risk is known as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom the Bank interacts on a daily basis, all of which could have an adverse effect on the Bank's ability to raise new funding.

The Bank routinely executes transactions with counterparties in the financial services industry, including brokers and dealers and commercial banks. As a result, the Bank is exposed to counterparty risk and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the stability of, one or more financial service institutions could lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions which could materially and adversely affect the Bank's business, financial condition, results of operations and prospects and the value of the Notes.

The Bank's business is subject to market risks, including currency risk and interest rate risk

To the extent that the dram depreciates against foreign currencies, the Bank becomes subject to higher interest payments on its foreign currency denominated liabilities when calculated in dram terms. The accessing by the Bank of funding in the international capital markets, such as the offering of the Notes contemplated by this Prospectus, subjects it to risks inherent in currency fluctuations and the uncertainty of these markets as a reliable funding source. As of 31 December 2014, 58.4% of the Bank's loans of customers (net of allowance for impairment) were denominated in U.S. dollars, 3.2% in euros and 38.4% in drams. This is in keeping with highly dollarised Armenian economy, as discussed below under "*Risks Relating to Armenia—Dollarisation of the Economy*." Depreciation of the dram may affect the ability of the Bank's borrowers taking loans in foreign currencies to repay such loans; it possibly could lead to governmental action to assist borrowers by mandating a particular exchange rate or a right to repay in drams rather than the original currency of the borrowing. As of 31 December 2014, the Bank's foreign-currency-denominated financial assets had total value of AMD 207.3 billion and its total financial liabilities amounted to AMD 205.3 billion. While the Bank applies internal limits on its total open foreign currency position and in individual currencies, exchange rate fluctuations may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and the value of the Notes.

The Bank faces interest rate risk resulting from mismatches in the amounts, interest rates and maturities of its assets and liabilities. Interest rates for dram, U.S. dollar and euro obligations (the currencies of the Bank's assets and liabilities) can be volatile and reflect a wide range of domestic and international factors. Most of the Bank's lending is fixed rate. As of 31 December 2014, 2.8% of the Bank's loans to customers were floating rate loans (by principal amount) with 2.1% of the Bank's loans to customers being dollar-denominated floating rate loans and 0.7% being euro-denominated (and with no dram-denominated floating rate loans). An increase in interest rates in respect of the Bank's floating rate loans to customers may put stress on the ability of its customers to meet their interest payment obligations, in turn leading to a decrease in the quality of the Bank's loan portfolio and an increase in impairment provisions. An increase in market interest rates, or increase in interest rates offered by competing Armenian banks, can lead to the Bank increasing the interest it pays on customer deposits, squeezing its margins. Although the Bank monitors interest rate fluctuations and its asset liability tenor in order to mitigate interest rate risks, interest rate movements on both the domestic and international markets may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and the value of the Notes.

Changes in the regulation of the banking industry in Armenia may adversely affect the Bank's business

The Bank faces the risk of changes to the legislative and regulatory environment in Armenia that may have an adverse effect on its business, financial condition, results of operations and prospects and on the value of the Notes. The Government of Armenia and the CBA may introduce, with little or no advance notice, new regulations or policies—including with respect to taxation, interest rates, inflation and currency exchange controls—that materially affect how the Bank conducts its business. For example, under a regulation designed to reduce foreign currency-induced credit risk, Armenian banks are required to assign a risk weight to foreign currency-denominated loans that is 50% higher than the risk weight that would be attributed to an equivalent dram-denominated loan. When the dram lost value rapidly in early December 2014, on 17 December 2014 the CBA doubled (with immediate effect) its reserve requirement for Armenian banks on their exposure to foreign-currency liabilities from 12% to 24% (with the reserve to be held in drams), which had the effect of immediately stabilising the dram. It should also be understood that regulatory standards applicable to banks in Armenia and the oversight and enforcement thereof by regulators may differ from those applicable to banking operations in countries with more developed regulatory regimes. As a result, investors may not have the benefit of all of the protections available in such other countries.

The Bank's risk management methods may fail

Although the Bank invests substantial time and effort in its risk management strategies and procedures, such strategies and procedures for risk management may nevertheless fail, possibly due to risks that it has not accurately assessed or perceived. The Bank's risk management methods are based in part upon of historical market behavior and statistical modeling. See "*Risk Management*." If the Bank's measures to assess and mitigate risks prove insufficient, this could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

The interests of the Bank's principal shareholder may conflict with those of Noteholders

As of the date of this Prospectus, 97.52% of the Bank's outstanding shares are owned by LLC Center for Business Investments, a limited liability company organised under the laws of Armenia, the sole beneficial owner of which is Mr. Karen Safaryan. See "*Shareholders*." As a result of his indirect shareholding in the Bank, Mr. Safaryan is the Bank's controlling shareholder; he also serves as the chairman of the board of directors (the "**Board of Directors**") of the Bank. Accordingly, Mr. Safaryan has the ability to significantly influence the Bank's business, in part through his ability to determine all actions that require approval of the general shareholders' meeting of the Bank, including the election of the Board of Directors and any increase of the Bank's capital. The interests of Mr. Safaryan could conflict with the interests of the Noteholders, and the Noteholders could be in disadvantage if he takes action contrary to the Noteholders' interests. For example, although the Bank's current policy is not to distribute dividends, there are no legal restrictions on dividend distribution (other than certain contractual limitations on dividend payments) and no assurance can be given that the shareholder would not vote for distribution of dividends in the future. There are no measures in place to ensure that the control exercised by Mr. Safaryan is not abused.

The Bank may not be able to maintain its reputation and brand

The Bank's business is dependent, in part, upon the strength of its reputation and brand. The Bank operates in a client-oriented industry where client trust is of high importance, with clients having confidence in the Bank's probity and professionalism. The Bank could suffer damage to its reputation and brand as a result of adverse publicity (even from groundless allegations) or brand infringement. Adverse publicity and any damage to its brand and reputation could directly affect client willingness to use the Bank's products or deposit funds with the Bank, which may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

Volatility in gold pricing may have an adverse effect on the Bank's collateral value

A significant portion of the Bank's loans to retail customers are secured by deposits of gold. As of 31 December 2014 total gross retail loans of the Bank secured by gold stood at AMD 28.7 billion, comprising 43.9% of total gross loans to retail customers and 12.8% of total gross loans to customers. Gold loans increased significantly in the first quarter of 2015 with total gross retail loans secured by gold of AMD 37.6 billion as at 31 March 2015, comprising 47.1% of total gross loans to retail customers and 15.4% of total gross loans to customers. Under Bank policy, the maximum principal amount of a gold loan is U.S.$ 5,000 (or its equivalent in drams); gold loans have an average duration of 5.5 months. See *"Business—Principal Business Activities—Retail Banking—Retail*

Lending—Gold loans." The Bank's policy on the provision of gold collateral is for the borrower to deposit gold with value at least equal to the carrying amount of the loan based on the values determined at the loan inception date (with no requirement to make a top-up deposit if the price of gold falls). In practice, almost all the gold that is deposited is in the form of jewelry (with its value calculated solely based on its gold content, without, e.g., taking into account the value of other gems included in the jewelry). The price of gold, which reflects a global trading market, can be volatile. The collateral value ultimately realised by the Bank in the event of collection of these customer loans secured by gold will depend on the market value of gold at that time and may be materially different from the initial value. Accordingly, volatility in gold pricing may result in a material adverse impact on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

The credit quality of the Bank's credit cards (including overdraft balances of debit cards) used by its retail customers has recently deteriorated

The Bank's credit cards (including overdraft balances of debit cards) products were the second largest category of its loan products to retail customers as of 31 March 2015; this business consists of issuing debit cards and credit cards. Debit cards are used as part of Ardshinbank's payroll products and thus are sometimes issued to the employees of its corporate customers. As of 31 March 2015, there were in circulation approximately 154 thousand debit cards. The debit cards generally come with an overdraft facility, which may be up to 10x the employee's salary. Credit cards are selectively issued, generally only to high-net-worth customers, and as of 31 March 2015 there were approximately 600 credit cards in circulation.

In the first quarter of 2015, there was deterioration in the credit quality of the Bank's credit card (including overdraft balances of debit card) portfolio. From 31 December 2014 to 31 March 2015 for such portfolio: gross loans that were overdue less than 30 days increased from AMD 372 million to AMD 1.5 billion; total overdue gross loans increased from AMD 2.0 billion to AMD 3.5 billion; and the overall impairment allowance to gross loans ratio increased from 5.0% to 6.7%. Foreseeing this trend, Bank management acted prudentially in the first quarter of 2015 to improve the credit quality of the credit card (including overdraft balances of debit card) portfolio, decreasing the issuance of new cards, lowering available overdraft facilities and cancelling inactive debit cards (which had the result of decreasing the debit cards in circulation from 184 thousand as of 31 December 2014 to 154 thousand as of 31 March 2015). While Bank management believes it has taken the appropriate steps to ultimately reverse the first quarter 2015 trend in the deterioration in the credit quality of the Bank's credit card (including overdraft balances of debit card) portfolio, should such deterioration continue such could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and the value of the Notes.

The Bank's measures to prevent money laundering and/or terrorist financing may not be completely effective

The existence of "black" and "grey" market economies in Armenia (typical in developing countries), inconsistent legislation and the lack of administrative guidance on its interpretation increase the risk of Armenia's financial institutions being used as vehicles for money laundering in contravention of domestic regulation. The Bank has implemented measures to prevent it from being used as a conduit for money laundering, including "know your client" policies and the adoption of anti-money laundering and compliance procedures in all its branches. The Bank's Internal Monitoring Center is responsible for implementing the Bank's anti-money laundering policies and procedures. See "*Risk Management—Operational Risk—Procedures for Prevention of Money Laundering and Terrorist Financing*."

The Law on Combating Money Laundering and Terrorism Financing of Armenia (the "**AML Law**"), which was adopted on 21 June 2008 and came into force on 31 August 2008, is the current framework under which Armenia controls the movement of funds within the country, recognises and investigates suspicious business activities and freezes proceeds that are related to money-laundering or terrorism. The AML Law also sets out the entities, such as banks, that are required to disclose certain financial transactions, as well as regulates the scope of information that such reporting entities must provide. Under the AML Law, financial institutions, including all banks, are obliged to report all real estate-related transactions with a value in excess of AMD 50 million (or the foreign currency equivalent), any other transactions with a value in excess of AMD 20 million (or the foreign currency equivalent), any cash transaction in excess of AMD 5 million (or the foreign currency equivalent) and all suspicious transactions, irrespective of value, to the CBA. In addition, reporting entities are obliged to undertake measures for identifying and preventing any suspicious business relationships and transactions entered into by their clients by conducting due diligence as outlined in the law with respect to both the clients and the transactions.

In general, there can be no assurance that attempts to launder money through the Bank will not be made or that anti-money laundering measures implemented by the Bank will always be effective. If the Bank were associated with money laundering, albeit only through the failure of its anti-money laundering measures, or if it were unable to comply with all of the relevant laws and internal policies regarding financial assistance or money laundering, it could be subject to significant sanctions as well as harm to its reputation, and its business, financial condition, results of operations, prospects and the value of the Notes may be materially and adversely affected.

The Bank may face difficulties in recruiting and retaining experienced personnel

The banking industry is relatively new in Armenia, and there are limited number of experienced banking managers in the country. There is also a high level of competition for the services of these individuals. While the Bank believes it has been successful in attracting skilled and motivated employees and officers, it may be at risk of losing qualified personnel in this increasingly competitive environment. The loss of the Bank's senior management for any reason could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

The Bank's business entails operational risks

The Bank is exposed to manifold operational risks, including the risk of fraud, negligence or unauthorised transactions by employees as well as operational errors such as clerical or record keeping errors and IT failures. The Bank maintains a system of controls designed to maintain oversight of operational risk and has insured its exposure to certain operational risks. However, there can be no assurance that the Bank will not suffer losses from failure of these controls to detect or contain operational risk. See "*Risk Management—Operational Risk.*" Such losses could have an adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

The Bank's IT systems may malfunction or be insufficient to support future operations

The Bank relies on information systems to conduct its business, and any failure of, interruption in, or breach in security of, the systems could result in failures or interruptions in the Bank's risk management, deposit servicing and/or loan origination systems or errors in its accounting books and records. The Bank's back-up IT services are located in Yerevan, the same city as its headquarters and central IT system, in a region prone to earthquakes. The introduction of internet and mobile banking services by the Bank expected in the next year will require new IT functionality and security systems. The occurrence of any failures or interruptions or the failure to properly implement or upgrade any of the Bank's IT systems could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

The Bank's IT systems include software or other intellectual property licensed from third parties. It may be necessary in the future for the Bank to renew licences relating to various aspects of these IT systems or to seek new licences. There can be no assurance that the necessary licences would be available on acceptable terms, if at all. The inability of the Bank to obtain certain licences or other rights, or to obtain such licences or rights on favourable terms, could adversely affect the Bank's IT systems until equivalent technology can be identified, licensed or developed, and integrated into the existing IT systems, which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

The preparation of the Bank's financial statements under IFRS requires the Bank's management to make judgments, estimates and assumptions

The preparation of the Bank's financial statements under IFRS requires the Bank's management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and of income and expenses during the relevant reporting period. These judgments, estimates and assumptions are based on a number of factors, including information available at the time and historical experience. Although estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates and such differences may be material. Should circumstances change, the outcome may be materially different from what was envisaged at the time such judgments, estimates and assumptions were made. Should this occur, the Bank's financial statements, including its reported net profit and balance sheet, may prove inaccurate, which in turn could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

Off-balance sheet credit related commitments may lead to potential losses

The Bank has outstanding credit-related commitments to extend loans. These credit-related commitments take the form of approved but undisbursed loans, credit and debit card limits and overdraft facilities. The Bank also provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. The Bank applies the same credit risk management policies and procedures when granting credit-related commitments, financial guarantees and letters of credit as it does for granting loans to customers. As of 31 December 2014, approved but undisbursed loans, credit and debit card exposure and undrawn overdraft facilities amounted to AMD 23.0 billion (as of 31 March 2015: AMD 15.3 billion), and financial guarantees and letters of credit to AMD 7.75 billion (as of 31 March 2015: AMD 7.74 billion). Although the Bank has established allowances for its off-balance sheet credit-related commitments which it believes are sufficient to cover actual losses on credit-related commitments that may be incurred by the Bank, there can be no assurance that these allowances will be sufficient to cover such losses that may be incurred by the Bank, which in turn could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

Risk Factors Relating to Armenia

Emerging market risks

Investing in securities involving emerging markets, such as Armenia, involves a higher degree of risk than investments in securities of issuers of more developed markets. This higher degree of risk reflects the exposure of emerging economies to higher volatility, limited liquidity, a narrow export base, and fiscal and current account deficits while they are also subject to sometimes sudden and unexpected changes in their political, economic, social, legal and regulatory environments. Emerging economies, such as the Armenian economy, are subject to rapid change and are vulnerable to market conditions and economic downturns elsewhere in the world. Emerging markets may also experience more instances of corruption of government officials and misuse of public funds than more mature markets.

In addition, international investors' reactions to events occurring in one emerging market country or region sometimes indicate a "contagion" effect, in which an entire region or class of investment is disfavoured by such investors. If such a contagion effect occurs, Armenia could be adversely affected by negative economic/financial developments in emerging markets generally, in neighbouring countries and/or in countries with similar credit ratings (e.g., Belarus, Georgia and Serbia). For example, a sustained disruption in the Russian economy, such as that which Russia is currently experiencing, has an adverse impact on Armenia's economy. Armenia has also been adversely affected by contagion effects in the past, such as the 2008 global financial crisis, and may be affected by similar effects in the future. The current Greek debt crisis, the resolution of which remains uncertain and which may lead to Greece exiting the Eurozone, could affect international bond markets, including emerging markets, and have a like contagion effect, and accordingly could materially adversely affect the liquidity, trading and pricing of the Notes.

Accordingly, an investment in the Notes carries risks that are not typically associated with investing in more mature markets. Prospective investors should also note that emerging economies such as Armenia's are subject to rapid change and that the information set out in this Prospectus may soon become outdated. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Investment in emerging markets is only suitable for sophisticated investors who appreciate the significance of the risks involved. Prospective investors are urged to consult with their legal, tax and financial advisers before making an investment decision.

Political risk associated with a transitional democracy

With its independence only re-established in 1991 and with no historic tradition of democratic rule, Armenia remains a transitional democracy, its political institutions still maturing. Presidential elections have in the past been marred by allegations of irregularities, the worst case of disputed elections taking place in 2008, when ten people died in violent protests, resulting in a declaration of a 20-day state of emergency. International election observers considered the February 2013 polling in which President Sargsyan was re-elected to a second, five-year term as well conducted, while also noting shortcomings such as the use of governmental resources to support the incumbent, irregularities in voting rolls and lack of sufficient redress for election violations, and there were some mass rallies to challenge the declared results, which the runner-up questioned.

As a transitional democracy, Armenia's political institutions may be less stable than political institutions in mature democracies, may not carry the same institutional legitimacy as in the case of mature democracies, and may be more prone to the effects of mass demonstrations and street protests. Although such has not happened in Armenia, other former members of the Soviet Union—such as Ukraine, Georgia and Kyrgyzstan—have had popular uprisings resulting in extra-constitutional transfers of power (most recently in Ukraine in February 2014) or contested elections being repeated. Economic hardship, increased unemployment, decreased remittances from Armenians abroad, increased food prices, perceived Governmental mismanagement or other events could provoke social unrest. Social unrest might arise, for example, upon any increases in utility fees or public transportation costs, or upon staff reductions in state-owned industries (possibly as part of their privatisations) or upon political developments (such as the current proposal to revise the Armenian constitution to establish a prime-minister-led, parliamentary republic, which would be subject to a public referendum) or in connection with the 2017 parliamentary or 2018 presidential elections. In June 2015, a 16% increase in electricity rates sparked protests and some civil unrest in Yerevan with calls made on the Government to decrease unemployment and poverty and improve transparency. While the Government is currently pursuing a course of political, economic and regulatory reforms, such may not continue. The pursuit of reforms and economic growth may be frustrated as a result of a change in Government or changes affecting the stability of the Government or as a result of a rejection or reversal of Governmental policies. Social unrest or the frustration of reforms which result in political or governmental instability in Armenia could have a negative effect on the economy, and this, in turn, could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

Regional tensions—Nagorno-Karabakh and relations with Azerbaijan

The dissolution of the Soviet Union not only allowed its constituent republics, including Armenia, to become sovereign nation states, but led other subnational jurisdictions to assert claims for independence, sometimes leading to violent clashes. Such has occurred, for example, in Russia's Chechnya region, in Moldova's Transdniester region and in Georgia's Abkhazia and South Ossetia regions.

A largely ethnic Armenian enclave, Nagorno-Karabakh during Soviet times was administered as the Nagorno-Karabakh Autonomous Oblast (within the Azerbaijan Soviet Socialist Republic) affording some degree of local autonomy. Azerbaijan's declaration of independence from the Soviet Union on 30 August 1991 led, in turn, to the declaration of independence by the Nagorno-Karabakh Autonomous Oblast in September 1991. In a December 1991 referendum the population of Nagorno-Karabakh voted in favour of the establishment of the Nagorno-Karabakh Republic. Thus, on the territory of the former Azerbaijan Soviet Socialist Republic, two equal state formations were created—the Nagorno-Karabakh Republic and the Republic of Azerbaijan. To date, no country (including Armenia) has recognised the Nagorno-Karabakh Republic. The Bank currently has six branches in the Nagorno-Karabakh Republic.

Full-scale hostilities broke out in 1991-1992, with Armenia supporting the Nagorno-Karabakh Republic. There were thousands of casualties. In May 1994, a Russian-brokered cease-fire signed by representatives of Azerbaijan, Armenia and Nagorno-Karabakh ended large-scale warfare and established truce lines that endure to this day. The truce line encompasses significant territory inside Azerbaijan beyond the borders of the Nagorno-Karabakh Republic as well as some territory within the Nagorno-Karabakh Republic. At present, negotiations are mediated by the Co-Chairs of the Minsk Group (France, Russia and the United States) under the auspices of the Organisation for Security and Co-operation in Europe. Despite ongoing efforts, a definitive settlement has yet to be reached, and skirmishes continue to break out from time to time along the truce line (as happened in the summer and fall of 2014).

The Government believes that the conflict should be settled according to the principles of a people's right to self-determination, uninterrupted land communication with Armenia, and internationally guaranteed security. Armenia is committed to protecting the territorial integrity of Nagorno-Karabakh and provides financial assistance to Nagorno-Karabakh. Armenia seeks the peaceful resolution of the conflict. Conversely, Azerbaijan has been significantly strengthening its military forces and does not rule out the use of force to re-assert control over Nagorno-Karabakh.

The Nagorno-Karabakh conflict has had serious repercussions for Armenia. In 1993, Turkey in solidarity with Azerbaijan closed its land border with Armenia, which remains closed to this day, and Azerbaijan has kept its borders closed, depriving Armenia of the benefits of significant mutual trade and severely limiting Armenia's access to international trade routes. Armenia is not well-integrated into the regional economy and has been effectively excluded from major cross-border infrastructure projects traversing the South Caucasus such as the Baku (Azerbaijan)-Tbilisi (Georgia)-Ceyhan (Turkey) oil pipeline, the Baku-Tbilisi-Erzurum (Turkey) natural gas pipeline and the Baku-Tbilisi-Kars (Turkey) railway (under construction), which are routed to circumvent the Armenian border.

An escalation in hostilities arising from the situation in Nagorno-Karabakh could materially disrupt the Armenian economy, require Armenia to make substantial expenditures to defend its positions, and have negative consequences for Armenia in its international diplomatic and trade relations. This in turn could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

Relations with Russia

Armenia has historically maintained good strategic relations with Russia. Maintaining good relations with Russia is vital for Armenia given the role that Russia plays in Armenia's trade and investment, workers' remittances, energy supply and distribution, and military security.

Russia is one of Armenia's significant trading partners, responsible for 24.9% of imports and 20.3% of exports in 2014. Russia has also been the largest single country source for FDI in Armenia since its independence; as of 31 December 2013, total Russian real sector FDI stock in Armenia was U.S.$ 2,424 million, 56.4% of total FDI stock. Thousands of Armenians work in Russia, and their remittances—approximately U.S.$ 1.2 billion in 2014 (part of the approximately U.S.$ 1.4 billion of total remittance flow)—help sustain private consumption and capital formation in Armenia. As a result of the current downturn in the Russian economy, worker remittances from Russia fell by 10.1% in 2014 and Armenia expects such remittances to fall by a further 20-30% in 2015. Accordingly, as Russia is Armenia's largest single-country export market and largest source of worker remittances, the health of the Russian economy, which is itself highly dependent on cyclical world energy and commodities prices, is of significant importance for the health of the Armenian economy. Any material adverse change in the health of the Armenian economy could in turn have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

On 2 January 2015, Armenia joined the EEU, which seeks to integrate the economies of its member states; the other current EEU member-states are Russia, Belarus, Kazakhstan and Kyrgyzstan. Accordingly, Armenia is part of the EEU's customs union. Armenia's entry into the EEU precluded further pursuit of a deep and comprehensive free trade area with the EU, as had been under consideration. Armenia's entry into the EEU entails a gradual transition (with scheduled completion by 2022) to the unified tariff system of the EEU, as a result of which some tariffs will increase (according to IMF statistics, the weighted average of EEU tariffs is 9.2% versus 3.1% for Armenia's current tariff regime) although no tariffs apply within the EEU. Armenia's entry into the EEU is expected to further tie the Armenian economy to the Russian economy. Armenia shares no contiguous border with any EEU member state, and goods transiting between Armenia and another EEU state through Georgia still need to undergo procedural formalities and incur road charges in connection with passage through Georgia (although no Georgian customs duties are payable on such goods). As a result, Armenia may not fully exploit the benefits of EEU membership.

Natural gas is Armenia's main source of primary energy (providing heat for all Armenian consumers and used to generate roughly one-third of its electricity), and Armenia imports roughly 80% of its natural gas supply (approximately two billion cubic metres per annum) from Russia (via a pipeline that crosses Georgia) with Gazprom Export (a subsidiary of Gazprom, Russia's national gas company) selling supply to Gazprom's subsidiary Gazprom Armenia, which in turn sells to end-customers in Armenia at tariff rates established by the Armenian Public Services Regulatory Commission. In January 2014, as part of a 30-year long-term supply contract, Gazprom agreed, taking into account a 30% discount (due to the waiver of Russian export duty to EEU members), to sell gas to Armenia at U.S.$ 189 per 1,000 cubic meters through 2018. According to the IMF, the discounted gas price yields annual savings of up to 1.5% of Armenia's GDP. If for any reason the Russian supply of natural gas to Armenia is interrupted (including due to any outbreak of hostilities or terrorist act damaging the gas pipeline or closure of the connecting pipeline across Georgia, which had a military conflict with Russia in 2008) or should Gazprom significantly increase the price at which it sells natural gas to Armenia (e.g., when current agreed pricing ends in 2018), such events could have a material adverse effect on Armenia's economy.

Likewise, Russian companies (including state-owned entities) provide a significant amount of the petroleum products used in Armenia. Further, Inter RAO UES, a state-controlled Russian energy company, owns and operates Armenia's electricity distribution network. Inter RAO UES also operates the Metsamor Nuclear Power Plant (the "**Metsamor Plant**"), the single most important producer of electricity in Armenia, for which Russian entities also provide the feedstock. In December 2014, it was announced that Rosatom, the Russian state-owned nuclear power company, would undertake a project to extend the operating lifetime of the Metsamor Plant to 2026, and in February 2015, Russia agreed to provide a U.S.$ 270 million financing (and also a U.S.$ 30 million grant to support safety upgrades) to finance this project. Russia has provided important economic support in past years, including a U.S.$ 500 million loan in 2009 to provide fiscal assistance (repaid in 2013).

Russia is also Armenia's principal military ally. Russia maintains a base in the country with roughly 3,000 troops under an arrangement that lasts to 2044. Russian guards help patrol Armenia's borders with Iran and Turkey. Russia is the chief supplier of arms to the Armenian military. Under a June 2011 agreement, Russia confirmed its 1995 commitment to assure the security of Armenia.

Although Russia is Armenia's traditional ally, any deterioration in their relations could, in light of Russia's vital economic, energy and military importance to Armenia, have a significant effect on Armenia's economy and security and this in turn could have a material adverse effect on the Bank's business, financial condition and results of operations and prospects and on the value of the Notes.

Regional tensions—the Ukraine crisis

Armenia's economy is dependent on regional economic growth patterns and thus can be significantly impacted by regional instability. As a result of the crisis in Ukraine, the European Union nations and the United States (as well as other countries such as Canada and Australia) have passed a variety of economic sanctions against Russia. One approach these sanctions have taken is to identify certain persons as 'designated nationals' with the basic practical consequences that EU and U.S. nationals cannot do business with them and their assets in the EU and United States are 'frozen' or immobilised. A number of Russian government officials, businessmen, banks and companies have been so designated. Another approach these sanctions have taken, with greater consequence for the Russian economy, are so-called 'sectoral' sanctions that effectively restrict access by Russia's leading banks and oil & gas companies (as specifically identified in the sanctions) to Western capital (as EU and U.S. persons are prohibited from extending them debt financing in excess of 30 days or subscribing to their equity issuances in the case of the banks or extending them debt financing in excess of 90 days in the case of the energy companies). These sectoral sanctions have had the effect, magnifying over time, of adding to the overall cost of capital in Russia and may be one factor in the downturn in the Russian economy, while also negatively impacting the Armenian economy, including growth prospects and FDI and remittance flows. If persons, including Armenian persons, conduct business with sanctioned Russian persons, there could be calls for such persons themselves to be directly sanctioned; more broadly, the U.S. Congress in December 2014 authorised the U.S. President to impose 'secondary sanctions' under which non-U.S. persons engaged in conduct sanctioned by the United States may become the subject of U.S. sanctions.

The crisis in Ukraine is ongoing and could escalate, which would cause further economic disruption across the region. Sanctions against Russian persons may continue in their current format or may be broadened, which would have follow-on consequences for, and could have a material adverse effect on, the Armenian economy and this in turn could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

Relations with the Islamic Republic of Iran

Armenia has generally enjoyed cordial relations with Iran since independence in 1991. While there is limited transport infrastructure between the two countries, there is some trade between them: in 2014, Armenia exported U.S.$ 84.6 million of goods to Iran (5.6% of value of total exports) and imported U.S.$ 206.5 million of goods from Iran (4.7% of value of total imports). The border with Iran is Armenia's only alternative open border to the rest of the world from routing via Georgia, and accordingly if for any reason the Georgian borders are effectively closed, as happened in connection with the August 2008 Georgian-Russian conflict, then the Iranian trade route would become a vital supply route for Armenia. Iran is subject to sanctions imposed by the United Nations. Other jurisdictions, including the EU and the United States, also have imposed sanctions against Iran.

The closure of the border with Iran (especially at a time when Armenia's principal trade route via Georgia is effectively closed) due to international sanctions or the outbreak of hostilities involving Iran could have a material adverse impact on the Armenian economy as could a further tightening of sanctions that have the effect of curbing existing trade relations between the countries. This in turn could have a material adverse effect on the Bank's financial condition and results of operations.

Vulnerability to an expected Russian recession and to global/regional economic conditions and commodities markets

Armenia has a relatively small economy (nominal GDP in 2014 of U.S.$ 10.9 billion); low nominal GDP per capita (U.S.$ 3,452 in 2013); and a high poverty rate (32% of the population in 2013, according to state statistics). As such, the Armenian economy is sensitive to exogenous economic developments.

Armenia's vulnerability to economic downturns is illustrated by the impact of the 2008 global financial crisis, which resulted in decreased demand for Armenia's metals exports and lowered workers' remittances, yielding a fall in domestic demand, especially in the construction sector. In 2009 (in each case, in comparison to 2008): nominal GDP declined from U.S.$ 11.7 billion to U.S.$ 8.6 billion (in 2013: U.S.$ 10.4 billion); the current account deficit increased from 11.8% of GDP to 15.8% of GDP (in 2013: 8.0%); and total public debt as a percentage of GDP increased from 16.3% to 44.1% (in 2013: 43.6%). Armenia has yet to return to its 2008 nominal GDP level in dollar terms. Other effects of the 2008 global economic crisis included a decrease in industrial production, increased inflation and pressure on foreign exchange rates for the dram.

Armenia's economy remains vulnerable to further external shocks, which in turn poses risks to the financial condition of the Bank. Decreased demand of any of Armenia's major trading partners, such as Russia (which is Armenia's largest single-country export market) and the EU member states, could have a material adverse impact on Armenia's balance of trade and on the export-oriented sectors of Armenia's economy. In particular, the fall in global oil prices—which are a key factor in Russian economic performance given the importance of the oil and gas sector in Russia—together with the effects of Western sanctions imposed on Russia as a result of the Ukraine crisis are expected to put the Russian economy into recession during the course of 2015 with Russian GDP widely predicted to fall 3-5% in 2015 and continue to contract in 2016 (e.g., the IMF in May 2015 predicted Russian real GDP contracting by 3.4% in 2015). The impact of a weakening Russian economy on the economy of Armenia might prove to be of at least the magnitude as the 2008 global financial crisis had on the Armenian economy. Thousands of Armenians work in Russia, and their remittances to friends, family and businesses in Armenia help sustain the Armenian economy. A Russian recession may significantly decrease the employment of Armenians in Russia. The significant fall in the rouble over the past nine months means that the value of such remittances has also fallen significantly while also making Armenian exports to Russia more expensive and, as there is some correlation between the trading value of the rouble and the dram, has put pressure on the dram. Significantly for the Bank, the decline in remittances may also contribute to an increase in non-performing loans in the Armenian banking sector.

Mining and base metals accounted for 48.4% of Armenia's exports in 2013 and 45.8% in 2014, and the Bank extends financing to metal and mining companies. Accordingly, Armenia has a relatively narrow export base and is particularly vulnerable to global demand for mining and metals products, which tends to be cyclical, reflecting global production and demand. A sustained downturn in metals prices, in particular for Armenia's chief metal exports—copper, aluminium, molybdenum, precious and ferrous metals—could have a material adverse impact on the Armenian economy, which could in turn have a material adverse impact on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

Slowing of the Armenian economy and sovereign ratings downgrade

The Armenian economy is now unlikely to enjoy the 4.1% GDP growth that was the basis of the 2015 State Budget. In January 2015, the World Bank revised its forecast 2015 GDP growth for Armenia from 5.0% to 3.3%; other commentators have predicted lower or flat or negative growth in 2015. The leading reason for this revision is Armenia's exposure to the economic downturn in Russia, as discussed above, in particular (1) the prospect of lower remittances from Armenians working in Russia (in 2013, such remittances as measured by net non-commercial transfers through the banking system by individuals from Russia totalled U.S.$ 1,604 million, comprising 15.4% of GDP) both because of the steep decline in the rouble and decreased employment prospects for Armenians in Russia and (2) the prospect of reduced exports to Russia, in part because the steep decline in the rouble has made Armenian goods more expensive in Russia (on 30 September 2014 the exchange rate was AMD 10.32/RUB 1, on 31 December 2014 AMD 8.15/RUB 1 and on 31 March 2015 AMD 8.13/RUB 1). According to the CBA, fourth quarter 2014 net non-commercial transfers through the banking system by individuals from Russia to Armenia were U.S.$ 330.3 million, compared to U.S.$ 475.4 million for fourth quarter 2013, and in first quarter 2015 were U.S.$ 144.4 million compared to U.S.$ 263.7 million in first quarter 2014. In January 2015, Moody's and Fitch downgraded Armenia's ratings: in the case of Moody's, its government bond rating, from Ba2 to Ba3 (negative outlook) and in the case of Fitch, its long-term foreign currency issuer default rating from BB- to B+ (stable outlook). In announcing the downgrades, the agencies highlighted the linkage of Armenia's economy to the faltering Russian economy, citing as possible consequences the fall in remittances, a decline in Armenian exports to Russia and uncertain FDI, in turn leading to a deterioration in Armenia's balance of payments and currency reserves. This in turn could lead to material adverse effects on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

Limited routes for exports

Armenia's borders with Azerbaijan and land border with Turkey remain closed as a consequence of the Nagorno-Karabakh conflict. While Armenia's border with Iran is open, the host of international sanctions on Iran, and the lack of modern transport infrastructure between the countries, severely constrains Armenia's ability to trade with Iran and to export its goods via Iran (especially during the winter months). As such, Armenia's single practical export route is via Georgia. Georgia itself has suffered periods of instability and civil insurrections since achieving independence, and two of its regions—Abkhazia and South Ossetia—hold themselves out as independent. Georgia's relations with Russia have sometimes been strained, in 2008 to the point of armed conflict, and at times resulted in trade largely halting across the Georgian-Russian frontier. When that occurred, emergency deliveries of wheat, diesel fuel and other goods from Iran were organised, but such deliveries may not be possible in the future due to sanctions or a conflict involving Iran. The lack of practical export routes other than via Georgia increases the cost of transport of Armenia's exports which can have a material adverse effect on Armenia's economy. This, in turn, could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

Lack of economic diversification and competition

The lack and uncertainty of export routes for Armenian goods, together with a relatively small domestic base and geopolitical concerns, has discouraged investment into and development of the Armenian economy, which helps explain Armenia's lack of economic diversification and outdated technological base. FDI in Armenia is relatively low: total FDI was U.S.$ 304.4 million in 2013 and U.S.$ 840.5 million in 2014. In turn, this has allowed a relatively small number of exporters and importers to dominate certain markets, decreasing competition and fostering oligopolistic behaviour. The World Economic Forum has ranked Armenia 85th out of 144 countries in terms of the intensity of local competition in its Global Competitiveness Report for 2014-2015. Furthermore, these circumstances contribute towards the relatively high unemployment rate in Armenia (17.6% in 2014). As the IMF has remarked, further structural reform must be carried out to further the transformation of the Armenian economy from a growth model that involved capital accumulation in construction with strong positions of well-connected business interests to a more open, integrated, competitive and diversified emerging market economy.

Depreciation of dram and consequences for foreign exchange reserves and public finances

There has been significant volatility in the dram/dollar exchange rate, in particular in the spring of 2009, which was mainly due to the consequences of the global economic crisis, and in late 2014, which was mainly due to the faltering Russian economy together with public concern about the strength of the dram in light of the fall of the rouble. In addition, a contraction of net capital inflows to the economy that would lead to further pressure on the dram could arise from changes in the expectations of monetary intervention by the central banks of developed countries (e.g., by the U.S. Federal Reserve or the European Central Bank).

In March 2009, the dram/dollar exchange rate fell from AMD 305.8/U.S.$1 to AMD 367.7/U.S.$ 1, a 20% decline. Between September 2008 and March 2009, the CBA expended significant amounts of foreign reserves to defend the dram, which was intended to allow banks, and more specifically their customers, time to adjust to the depreciating dram to help lessen the impact of the crisis and prevent runs on the banks by depositors. More recently, and in keeping with the recommendation of the IMF, the CBA has allowed greater exchange rate flexibility.

The dram/dollar exchange rate experienced significant depreciation from 17 November 2014 at AMD415.7/dollar to 17 December at AMD 527.2/U.S.$ 1, a 27% decline. See "—*Slowing of the Armenia Economy*" and "—*Relations with Russia*." On 17 December 2014, the CBA doubled its reserve requirement for Armenian banks on their exposure to foreign-currency liabilities from 12% to 24% (with the reserve to be held in drams), which had the effect of immediately stabilising the dram, which has since traded at approximately AMD 475/U.S.$ 1 (January 2015 average: AMD 475.73/U.S.$ 1; April 2015 average: AMD 474.07/U.S.$ 1); the reserve requirement currently stands at 20%. The dram is susceptible to pressure in the winter months as payments for imported gas (which are made in dollars) comprise a significant portion of the balance of payments during the winter, when gas use increases to provide heat.

In part due to efforts to support the dram, Armenia's foreign exchange reserves fell, by 34.1%, from U.S.$ 2,250 million as of 31 December 2013 to U.S.$ 1,438 million as of 31 December 2014. Should further pressure develop on the dram and the CBA expend reserves in its defence, Armenia's foreign exchange reserves may be further depleted, which may adversely affect Armenia's ability to service its public external debt as well as the financial and economic condition of Armenia. This could in turn have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

As of 31 December 2014, the share of foreign currency denominated loans (including loans indexed to foreign currency) in private lending was 67.4% as of 31 December 2014 so that private Armenian borrowers are also exposed to exchange rate risk. Furthermore, depreciation of the dram increases prices of imported goods. Accordingly, an abrupt and significant fall of the dram against foreign currencies (and in particular against the dollar), as was experienced during 2009 and late 2014, may adversely affect the financial and economic condition of Armenia, which could in turn have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

Current account deficit

Armenia's current account deficit was U.S.$ 1.1 billion in 2012 (11.1% of GDP); in 2013 it was U.S.$ 0.8 billion (8.0% of GDP), reflecting, *inter alia*, total imports (goods and services) of U.S$ 4.9 billion, total exports of U.S.$ 2.7 billion and remittances (as measured by compensation of employees and private transfers, including estimated physical cash transfers) of U.S.$ 1.75 billion, and in 2014 it was U.S.$ 0.9 billion (8.1% of GDP). In recent years, the current account deficit has been financed, in part, by increased borrowing especially funding from multilateral institutions. A widening current account deficit, which is not accompanied by a recovery in net FDI inflows, may result in a further increase in the levels of Government borrowing to finance the current account deficit and a depreciation of the dram; and it may affect the capacity of Armenia's economy to generate foreign currency assets sufficient to cover liabilities arising from private external debt and external public debt. As the IMF has observed, the combination of the current account deficit and high dollarisation of the Armenian economy leave it vulnerable to shocks. A widening current account deficit could have a material adverse effect on the financial and economic condition of Armenia which could in turn have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

Dollarisation of the economy

Reflecting concerns over the stability of the dram, the Armenian economy has become highly dollarised, with foreign currency deposits accounting for approximately 71.6% of all deposits at Armenian banks held as of 31 December 2014. Foreign currency loans accounted for 66.5% of all loans by Armenian banks as of 31 December 2014, in part reflecting foreign-parent ownership of much of the Armenian banking sector. The dollarisation rate tempers the effectiveness of the CBA's monetary and exchange rate policies and may circumscribe the ability of the CBA to take remedial action in the case of a banking crisis. While the CBA is taking steps to decrease dollarisation, there can be no assurance that such efforts will be successful.

Inflation

Annual inflation, as measured by the end-of-period Consumer Price Index ("**CPI**"), in Armenia was 3.2% in 2012 increasing to 5.6% in 2013 and was 4.6% in 2014. In the 1990s, Armenia suffered from hyperinflation. In 2013, increases in energy prices (when Gazprom had increased its selling price for national gas to Armenia prior to the new pricing agreed in January 2014 discussed above under "—*Relations with Russia*") and food prices (due to severe spring weather conditions destroying crops) led to higher than expected annual inflation; in 2014, despite the increase in prices of certain imported goods due to the fall in the dram in the last months of the year, annual inflation for 2014 stood at 4.6%. Inflation remains volatile in Armenia in part because food comprises roughly half of the CPI basket. While the CBA has in recent years been able to manage supply-side driven inflation, it may not be able to do so in the future. Sustained high inflation could lead to market instability, a reduction in consumer purchasing power and erosion of consumer confidence. Any of these events could have a material adverse impact on the financial and economic condition of Armenia, which could in turn have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

Corruption

Corruption has been identified as a problem in Armenia. In Transparency International's 2014 Corruption Perceptions Index survey of 175 countries, Armenia was ranked 94th. Tackling corruption has been identified as a key area for reform by international organisations advising Armenia. Corruption, and allegations of corruption, in Armenia may have a negative impact on Armenia's economy and reputation abroad, especially on its ability to attract foreign investment and this may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

Developing legal system

While Armenia has undergone a transformation from being a Soviet socialist republic to an independent sovereign state with a market economy, its legal framework is still evolving. The recent nature of much of Armenian legislation and the rapid evolution of the Armenian legal system place the quality and the enforceability of laws in doubt and result in ambiguities and inconsistencies in their application.

Armenia's court system is understaffed and has been undergoing significant reforms. Judges and courts in Armenia are generally less experienced in the area of business and corporate law than is the case in many Western jurisdictions. Enforcement of contractual rights as well as court judgments may, in practice, be slow and difficult in Armenia (according to the 2015 World Bank "Doing Business" Survey, Armenia ranked 119 out of 189 countries in terms of efficacy of enforcing contracts), which could make an investment in the Notes subject to greater risks and uncertainties than an investment in a country with a more mature legal system. Improving the judicial system—including addressing corruption, assuring the independence of the judiciary and improving the training of the judges—has been identified as a key area for reform by international organisations advising Armenia and by the Government. Nevertheless, existing inadequacies of the Armenian judicial system may generally deter foreign and domestic investment in Armenia, and materially adversely affect its economic growth. This in turn could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

Earthquakes, Armenia's ageing nuclear power plant, weather and global warming

Armenia straddles two tectonic plates, a geology conducive to earthquakes occurring from time to time. In December 1988, a powerful earthquake struck in northwestern Armenia as a result of which an estimated 25,000 people died and 500,000 were rendered homeless. It is not possible to predict when earthquakes may recur.

Armenia operates the Soviet-built Metsamor Plant, located 36 km outside Yerevan, using a reactor that came into use in 1980, which generates over 25% of Armenia's electricity supply. This reactor was mothballed after the 1988 earthquake, but re-opened in 1995 to help address electricity shortages. In April 2012, it was announced that the plant would remain in operation for the next decade, and in practice the old plant is likely to remain in operation until a new plant can replace its output. The EU has previously requested the earliest possible closure of the Metsamor Plant, taking the view that it cannot be upgraded to meet internationally recognised safety standards. However, in December 2014, it was announced that Rosatom, the Russian state-owned nuclear power company, would undertake a project to extend the operating lifetime of the Metsamor Plant by ten years, to 2026.

Global warming and climate change could have a material impact on Armenia's economy, given the high vulnerability of mountain ecosystems such as Armenia's to these phenomena. As discussed in a 2009 report prepared by the United Nations Development Programme, without effective remedial actions the projected rise in average temperatures is expected to eventually result in: heat waves and droughts; a fall in river flows, lake levels and water supply; de-forestation, landslides and mudflows; and increased flooding. This could be especially harmful to Armenia given its topography and geography, an arid zone with no access to the sea, and taking into account the importance of agriculture to its economy. A single strong weather extreme—such as the spring 2013 hail storms which destroyed much of the season's crops—can cause a sharp rise in food prices, inflation and hardship to the rural poor.

Catastrophes, whether natural or man-made, and remedial efforts carried out in their aftermath can have a material adverse impact on the Armenian economy which could in turn have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and on the value of the Notes.

Statistical information

Although a number of government ministries, including the Ministry of Finance, the CBA and Armstat produce statistics relating to Armenia and its economy, there can be no assurance that these statistics are as accurate or reliable as those produced by the relevant bodies in more developed countries. Potential investors in the Notes should be aware that the data on Armenia's GDP and other data referred to in this Prospectus may not have been prepared in accordance with international standards and/or to the same degree of accuracy as equivalent statistics produced by the relevant bodies in more developed countries.

In addition, the accuracy of statistical data can vary from one institution to another or from one period to another, due to various factors, including different methodologies having been applied. In this Prospectus, the data is presented as having been provided by the relevant responsible ministry or agency to which it relates, and there has been no attempt to reconcile this data with the data collected by other ministries or other organisations, such as the IMF or World Bank.

The existence of a substantial unofficial or unrecorded economy may also affect the accuracy and reliability of statistical data. Potential investors should also be aware that none of the third-party statistical data presented in this Prospectus has been independently verified.

Risk Factors Relating to the Notes and Trading Market

The Issuer is a special purpose vehicle and payments under the Notes are limited to amounts of certain payments received under the Loan Agreement

The Issuer is a special purpose vehicle with no business other than issuing the Notes and advancing the loan under the Loan Agreement and has no assets other than the Loan. The Issuer has an obligation under the Conditions and the Trust Deed to pay such amounts of principal, interest and additional amounts (if any) as are due in respect of the Notes. However, the Issuer's obligation to pay is limited to the amount of principal, interest and additional amounts (if any) actually received and retained (net of tax) from the Bank by or for the account of the Issuer pursuant to the Loan Agreement. Consequently, if the Bank fails to meet its payment obligations under the Loan Agreement in full, this will result in the Noteholders receiving less than the scheduled amount of principal, interest or other amounts, if any.

Noteholders have no direct recourse to the Bank

Except as otherwise expressly provided in the Conditions and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder can enforce any provision of the Loan Agreement or have direct recourse to the Bank as borrower except through an action by the Trustee pursuant to the rights granted to the Trustee in the Trust Deed. Under the Trust Deed and the Conditions, the Trustee shall not be required to take proceedings to enforce payment under the Loan Agreement unless (i) it has been directed by an Extraordinary Resolution (as defined in the Trust Deed) or so requested in writing by Noteholders whose Notes constitute at least 25% in aggregate principal amount of the Notes then outstanding; and (ii) it has been indemnified and/or secured and/or pre-funded to its satisfaction. Negotiating and agreeing to such an indemnity and/or security and/or prefunding can be a lengthy process and may have an impact on when such proceedings can be taken. It is only in cases where the Trustee is required to take proceedings, but fails to do so within a reasonable period of time, that Noteholders may take actions directly to enforce their rights under the Notes. In addition, neither the Issuer nor the Trustee is required to monitor the Bank's financial performance. See "*Terms and Conditions of the Notes*." Payment in full as described in Condition 7 shall operate as good discharge of the Issuer's obligations in respect of the Notes. Consequently, the Noteholders will have no further recourse against the Issuer or the Bank after such payment in full is made.

There may be withholding from payments under the Notes under the EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income ("**EU Savings Directive**"), each Member State of the European Union is required to provide to the tax authorities of another such Member State details of payments of interest or other similar income paid or secured by a person within its jurisdiction to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entities established in, that other Member State. However, for a transitional period, Austria will (unless during such period it elects otherwise) instead operate a withholding system in relation to such payments. The rate of withholding is 35%. However, the beneficial owner of the interest (or similar income) payment may elect that certain provision of information procedures should be applied instead of withholding, provided that certain conditions are met. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange information procedures relating to interest and other similar income.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures to the EU Savings Directive.

The Council of the European Union has adopted a Directive amending the EU Savings Directive (the "**Amending Directive**") which, if implemented, would broaden the Saving Directive's scope. The Member States will have until 1 January 2016 to adopt national legislation necessary to comply with the Amending Directive, which legislation must apply from 1 January 2017. The changes made under the Amending Directive include expanding the scope of the EU Savings Directive to payments made to, or secured for, certain other entities and legal arrangements (including certain trusts and partnerships), where certain conditions are satisfied. They also broaden the definition of "interest payment" to cover certain additional types of income. Investors who are in any doubt as to their position should consult their professional advisers.

However, the European Commission has proposed the repeal of the EU Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the EU Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The proposal also provides that, if it proceeds, Member States will not be required to apply the new requirements of the Amending Directive.

If a payment under a Note were to be made and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the EU Savings Directive (as amended from time to time) or any law implementing or complying with, or introduced in order to conform to, such Directive, none of the Issuer, the Bank, Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a paying agent in an EU member state that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive (as amended from time to time).

Tax laws may be changed or certain tax positions taken with respect to the Issuer, the Borrower and/or the Noteholders may be challenged

The Issuer will be subject to Dutch tax laws. The tax position of the Issuer, the Borrower and the Noteholders will be determined based on the interpretation of applicable tax laws and regulations in such countries as well as the interpretation of the applicable tax treaties and European Union directives and regulations. These tax laws, applicable tax treaties and regulations may be subject to change, including retroactively, and there may be changes in interpretation and enforcement of such laws, regulations or treaties. Tax controls, audits, change in controls and changes in tax laws or regulations or the interpretation given to them may result in adverse tax consequences, including interest payments and potentially penalties to the Issuer. In addition, the tax authorities may disagree with the positions taken with regard to the tax treatment or characterisation of any of the transactions, including the tax treatment or characterisation of indebtedness, existing and future intercompany loans or the deduction of interest expenses. As a result, the Issuer, the Borrower and the Noteholders may face increases in taxes payable if tax laws and regulations are modified or interpreted by the competent authorities in an adverse manner.

The liquidity of the market for the Notes may be diminished if the proposed financial transactions tax or any similar tax were adopted

On 14 February 2013, the European Commission published a proposal for a Directive for a common financial transactions tax (the "**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The proposed FTT has a very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the current proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be "established" in a participating Member State in a broad range of circumstances, including: (a) by transacting with a person established in a participating Member State; or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016. However, the FTT proposal remains subject to negotiation between the participating Member States and the legality of the proposal is uncertain. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate and/or certain of the participating Member States may decide to withdraw. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;

(ii) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;

(iii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iv) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

(v) understand thoroughly the terms of the Notes; and

(vi) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

The Notes may be redeemed prior to maturity for tax reasons

As discussed under "*Taxation—Armenia*," interest payments under the Loan Agreement by the Bank to the Issuer are subject to non-resident Armenian profit tax withholding at the source, in practice to be deducted by the Bank as the Armenian tax agent. The rate of such withholding on interest under current Armenian law is 10% absent reduction or elimination under the terms of an applicable tax treaty. In the case of interest payments on the Loan, the Bank expects a reduced, 5%, rate of withholding to apply, under the terms of the Armenia-Netherlands Double Tax Treaty (and the Bank under the terms of the Loan is to accordingly increase payment to the Issuer so that the Issuer receives the sum which it would have received had no such withholding been required). Under the terms of such treaty, this reduced rate of 5% is predicated, inter alia, on the Issuer, as a Dutch resident, being considered the beneficial owner of the interest received from the Bank. There has been very little application in practice of the Armenia-Netherlands Double Tax Treaty to date. It is possible that the Armenian tax authorities could contest the application of the Armenia-Netherlands Double Tax Treaty, or that the Armenia-Netherlands Double Tax Treaty could be amended, revised or terminated, so that the reduced 5% withholding rate would not apply, in which case, under the terms of the Loan, the Bank is entitled to prepay the Loan and the Issuer redeem the Notes. See "*Terms and Conditions of the Notes—Redemption*."

If the Bank is obliged to increase any payments on the Loan or to make additional payments on the Loan for withholding taxes, it may (without premium of penalty), subject to certain conditions, prepay the Loan in full. In such case, all outstanding Notes corresponding to such received prepayment would be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of redemption.

Modification and waivers

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, certain provisions of the

Notes or the Trust Deed or (ii) any modification of the Notes or of the Trust Deed which is not materially prejudicial to the interests of the Noteholders and which is of a formal, minor or technical nature or to correct a manifest or proven error.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to the depreciation of the dollar or appreciation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Investors in the Notes must rely on DTC, Euroclear and Clearstream procedures

The Regulation S Notes will be represented on issue by a Regulation S Global Certificate that will be delivered to a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Regulation S Global Certificate, investors will not be entitled to receive Notes in definitive form. Euroclear and Clearstream, Luxembourg and their respective participants will maintain records of the beneficial interests in the Regulation S Global Certificate. While the Notes are represented by the Regulation S Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

The Rule 144A Notes will be represented on issue by a Rule 144A Global Certificate that will be deposited with a nominee for DTC. Except in the circumstances described in the Rule 144A Global Certificate, investors will not be entitled to receive Notes in definitive form. DTC and its direct and indirect participants will maintain records of the beneficial interests in the Rule 144A Global Certificate. While the Notes are represented by the Rule 144A Global Certificate, investors will be able to trade their beneficial interests only through DTC.

While the Notes are represented by the Global Certificates, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in either Global Certificate. Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

There is no public market for the Notes

There is no existing market for the Notes, and there can be no assurance regarding the future development of a market for the Notes. Application has been made to the Irish Stock Exchange for admission of the Notes to the Official List and to trading on the Main Securities Market. However, an active trading market in the Notes may not develop or be maintained after listing. No assurance can be made as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell the Notes or the price at which Noteholders may be able to sell the Notes. The liquidity of any market for the Notes will depend on the number of Noteholders, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and the Bank's financial condition, performance and prospects, as well as recommendations of securities analysts. Disruptions in the global capital markets can lead to reduced liquidity and increased credit risk premiums and therefore result in a reduction in investment in securities globally. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes.

The Notes may be delisted in the future

Application has been made to the Irish Stock Exchange for the Notes to be listed on the Official List and admitted to trading on the Main Securities Market. The Notes may subsequently be delisted despite the efforts of the Issuer and the Bank to maintain such listing and, although no assurance is made as to the liquidity of the Notes as a result of listing, any delisting of the Notes may have a material effect on a Noteholder's ability to resell the Notes in the secondary market.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Bank's operating results and those of the Bank's competitors, adverse business developments, changes to the regulatory environment in which the Bank operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations and if like events recur, as a result of the current Greek debt crisis, or otherwise, such could adversely affect the market price of the Notes without regard to the Bank's operating results, financial condition or prospects.

Any downgrade in the credit ratings of the Bank could adversely affect the market price of the Notes

The credit ratings of the Bank may not reflect the potential impact of all risks related to structure and other factors on any trading market for, or trading value of, the Notes. In addition, real or anticipated changes in the Bank's credit ratings will generally affect any trading market for, or trading value of, the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. There is no assurance that a credit rating will remain for any given period of time or that a credit rating will not be lowered or withdrawn by the relevant rating agency if, in its judgment, circumstances so warrant. The impact of other activities that the Bank undertakes, including increases in its debt levels, mergers and acquisitions, could also result in future declines in its credit ratings. In the event that a credit rating assigned to the Notes or the Bank is subsequently lowered for any reason, no person or entity is obliged to provide any additional support or credit enhancement with respect to the Notes, and the market value of the Notes is likely to be adversely affected.

Enforceability of judgments

Judgments rendered by a court in any jurisdiction outside the Republic of Armenia will be recognised by courts in the Republic of Armenia only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Republic of Armenia and the country where the judgment is rendered. Such treaties do not exist between the Republic of Armenia and many foreign countries, including the United States and the United Kingdom. In the absence of established court practice, it is difficult to predict whether an Armenian court will be inclined in any particular instance to recognise and enforce a foreign court judgment. Consequently, judgments against Ardshinbank and Ardshinbank's officers or directors predicated upon the civil liability provisions of foreign securities laws, may not be enforced against Ardshinbank and such persons in the courts of the Republic of Armenia without re-examination of the issues in the Republic of Armenia whether they are brought in original actions or in actions to enforce judgments. Moreover, a court of the Republic of Armenia may refuse or limit enforcement of a foreign judgment, *inter alia,* on public policy grounds. See "*Enforceability of Judgments*."

Armenian courts may not enforce foreign arbitral awards

Notwithstanding that Armenia is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**") in accordance with which an award of the LCIA should be recognised and enforced by the courts of Armenia, it may not be possible as a practical matter to enforce foreign arbitral awards against Armenia possibly due to Armenian courts interpreting widely "public policy" as a ground for refusing recognition and enforcement of the award (there being no established court practice in this regard). Furthermore, it may be difficult to enforce arbitral awards in Armenia due to a number of other factors, including the lack of experience of Armenian courts in international commercial transactions, certain procedural ambiguities, resistance in Armenia to the enforcement of awards against Armenia in favour of foreign investors, Armenian courts' inability to enforce such orders and corruption, thereby introducing delay and unpredictability into the process of enforcing any foreign arbitral award in Armenia. See "*Enforceability of Judgments*."

The Issuer may be considered a covered fund pursuant to the Volcker Rule

Section 619 of Dodd-Frank Wall-Street Reform and Consumer Protection Act added a provision (commonly referred to as the "**Volcker Rule**") to federal banking laws in the United States, which generally prohibits various covered banking entities from engaging in proprietary trading, or from acquiring or retaining an "ownership interest" in, or sponsoring or having certain relationships with, certain private funds (referred to as "covered funds"), subject to certain exemptions. The Volcker Rule also provides for certain supervised nonbank financial companies that engage in such activities or have such interests or relationships to be subject to additional capital requirements, quantitative limits or other restrictions. The Volcker Rule became effective 21 July 2012 and regulations implementing the Volcker Rule were adopted on 10 December 2013. The Federal Reserve issued an order giving banking entities until 21 July 2015 to bring any existing activities and investments into full conformance, subject to up to two one-year extensions granted at the discretion of the Federal Reserve upon a consideration of a variety of factors, including a determination that an extension would not be detrimental to the public interest. On 18 December 2014, the Federal Reserve granted a one-year extension of the conformance period for legacy covered fund interests (i.e., those acquired on or before 31 December 2013), and announced its intention to grant a further one-year extension until 21 July 2017. Only covered fund interests in place as of 31 December 2013 would be eligible for such additional conformance period extensions.

The Volcker Rule and the implementing regulations contain an exclusion from the definition of "covered fund" commonly referred to as the "loan securitization exemption," which applies to an asset-backed security issuer the assets of which, in general, consist only of loans, assets or rights designed to assure the servicing or timely distribution of proceeds to holders or that are related or incidental to purchasing or otherwise acquiring and holding the loans. The Issuer expects to qualify for the loan securitization exemption and the Issuer's activities are limited to issuing securities such as the Notes. Notwithstanding such a requirement, no assurance can be made and there is no guarantee that the Issuer will qualify for the loan securitization exemption or for any other exclusion or exemption that might be available under the Volcker Rule and its implementing regulations. Moreover, no assurance can be given as to the effect of the Volcker Rule and its implementing regulations on the ability of certain investors subject to the Volcker Rule to acquire or retain certain the Notes. Depending on market conditions, and the impact of the Volcker Rule on the Notes, if any, the Volcker Rule may significantly and negatively affect the liquidity and market value of the Notes.

Risks Factors Relating to the Issuer

Risks related to insolvency laws of The Netherlands

Insolvency laws of The Netherlands

As The Netherlands is an EU Member State, the EU Insolvency Regulation (Council Regulation (EC) No 1346/2000 of 29 May 2000 on insolvency proceedings) determines certain aspects of Dutch insolvency law. The EU Insolvency Regulation stipulates that the courts of the Member State in which a debtor has its centre of main interests have jurisdiction to open a "main proceeding" under the law of that Member State relating to that debtor. Absent of proof to the contrary, the centre of main interests of a debtor is presumed to be in the jurisdiction in which the debtor has its registered office (*statutaire zetel*). The Issuer is organised under the laws of The Netherlands and has its statutory seat in The Netherlands. Therefore, it is likely that the courts of The Netherlands will have jurisdiction over the main insolvency proceeding of the Issuer. If the Issuer has an establishment (within the meaning of the EU Insolvency Regulation) in one or more EEA jurisdictions (with the exception of Denmark), a "secondary proceeding" could be opened in such jurisdiction. The effects of these secondary proceedings are restricted to assets of a debtor situated in that EEA jurisdiction. Dutch insolvency laws differ from insolvency laws of other EEA jurisdictions. This difference may further limit the ability of holders of Notes to recover payments due on the Notes due to limitations arising under other insolvency laws.

Under Dutch law, there are two insolvency regimes relating to companies. The first, suspension of payments (*surseance van betaling)*, is intended to facilitate the reorganisation of a debtor's debts to enable the debtor to continue as a going concern. The second, bankruptcy (*faillissement*), is designed to liquidate a debtor's assets and distribute the proceeds thereof to the debtor's creditors. In practice, a suspension of payments often serves as a gateway to bankruptcy proceedings, and in a bankruptcy, the receiver (*curator*) may continue the activities of the company before selling the company or parts of it. Both insolvency regimes are set forth in the Dutch Bankruptcy Act. A general description of the principles of both insolvency regimes is set out below.

Suspension of payments

Only the debtor itself can file a request for suspension of payments, and only if it foresees that it will not be able to continue to pay its debts as they come due. Upon commencement of a suspension of payments proceeding, the court receiving such a request will: (i) immediately (*dadelijk*) grant a provisional suspension of payments, (ii) appoint an administrator (*bewindvoerder*) to oversee the reorganisation of the debtor's debts and the (partial) payment of (known) creditors' claims through a composition, and (iii) call a creditors' meeting of all known creditors of the debtor. In addition the court may (and in practice will) appoint a delegated judge (*rechter-commissaris*). If a draft composition (*ontwerp akkoord*) is filed simultaneously with the application for suspension of payments, the court can order that the composition be dealt with before a decision about a definitive suspension of payments is made. By law, the managing board of the debtor and the administrator must act together; however the administrator often de facto controls payments to creditors. The court will typically grant a definitive suspension of payments, unless: (i) a qualified minority (being either, more than one-quarter in the amount of claims held by creditors represented at a creditors' meeting, or one-third in number of creditors represented at a creditors' meeting) of the debtor's unsecured and non-preferential creditors (including subordinated creditors) withholds its consent, or (ii) the court finds that there is no prospect for the debtor to pay its debts as they fall due. In the latter case the debtor will generally be declared bankrupt (see below). During both a provisional and a definitive suspension of payments, unsecured and non-preferential creditors (including subordinated creditors) are precluded from recovering their claims in existence at the moment of the commencement of the suspension of payments from the assets of the debtor. The suspension is only effective with regard to unsecured non-preferential creditors. Secured and preferential creditors (including tax and social security authorities) may enforce their rights against assets of the company to satisfy their claims as if there were suspension of payments. The court may order a stay (*afkoelingsperiode*) for a maximum period of four months during which enforcement actions by secured or preferential creditors are barred unless these creditors obtain leave for enforcement from the delegated judge.

In a suspension of payments, the debtor may propose a composition (*akkoord*) to its creditors. Such composition will be binding if: (i) it is approved by a simple majority of the recognized and admitted creditors present or represented at the relevant meeting that represents at least 50 percent of the total amount of the recognised and admitted claims, and (ii) it is subsequently ratified (*gehomologeerd*) by the court. Under certain conditions, the court or the delegated judge (as the case may be) may derogate from these requirements. Consequently, Dutch insolvency laws could preclude or inhibit the ability of the holders of the Notes to effectuate a restructuring. An approved and ratified composition is binding on all unsecured and non-preferential creditors (including subordinated creditors), irrespective of such creditors' vote(s), in favour or against the composition, or their representation at the creditors' meeting called for the purpose of voting on such composition. If a composition in the suspension of payments of the Issuer is approved and ratified, this could reduce the recovery of the holders of Notes. Interest payments that fall due after the date on which a suspension of payments is granted cannot be taken into account in a composition.

Bankruptcy

If a debtor has ceased to pay its debts as they fall due, either the debtor itself or a creditor can apply for the bankruptcy of that debtor. The petition must provide facts and circumstances presenting prima facie evidence that the debtor ceased to pay its debts. A debtor is considered to have ceased paying its debts if one of at least two creditors has a due and payable claim that the debtor has left unpaid. A debtor has no statutory duty to file for its own bankruptcy. However, the managing board of a debtor (to avoid directors' liability) may be required to take appropriate measures if it realises that the debtor is or will be unable to pay its debts as they come due. Such measures could consist of a cessation of the debtor's business activities, notification to the debtor's creditors of its inability to continue to pay its debts or filing for either bankruptcy or suspension of payments (as described above). Simultaneously with the opening of a bankruptcy proceeding, a liquidator in bankruptcy (*curator*) is appointed by the court and the debtor loses all rights to administer and dispose of its assets. With the exclusion of the debtor, the liquidator will be authorised to administer and dispose of (*beheer en beschikking*) all assets that are part of the bankruptcy estate. During a Dutch bankruptcy proceeding, the assets of an insolvent debtor are generally liquidated and the proceeds are distributed to the debtor's creditors in accordance with the ranking and priority of the creditors' respective claims. This general principle of Dutch bankruptcy law is the paritas creditorum (principle of the equal treatment of creditors) which means that the net proceeds from the liquidation of the debtor's assets in bankruptcy are distributed to unsecured and non-preferential creditors pro rata to their claims and in priority to any subordinated creditors. Subordinated creditors will only receive payment if the net proceeds of the debtor's assets exceed the claims of the unsubordinated creditors. Certain creditors, such as secured and preferential creditors, have special rights under Dutch insolvency law. For example, secured creditors may generally take recourse against encumbered and certain other assets of the insolvent debtor to satisfy their secured claims. The rights of secured and preferential creditors, once invoked, may adversely affect the interests of holders of Notes.

As set out above, Dutch insolvency laws could reduce the potential recovery of a holder of Notes in Dutch insolvency proceedings. As a general rule, to obtain payment on unsecured and non-preferential claims (including subordinated claims), such claims must be submitted to the liquidator in bankruptcy in order to be recognized. The liquidator in bankruptcy determines whether a claim can be provisionally recognized for the purpose of the distribution of the net proceeds, and at what value and ranking. The valuation of claims that are not by their terms payable at the time of the opening of a bankruptcy proceeding will be based on their net present value. Interest payments that fall due after the date debtor has been declared bankrupt will not be recognised. At a creditors' meeting (*verificatievergadering*) a liquidator in bankruptcy, the insolvent debtor and all represented creditors may contest the provisional recognition of claims of other creditors. Creditors whose claims or part thereof are disputed in the creditors' meeting will be referred to a separate court proceeding (*renvooiprocedure*). Due to, among other things, the valuation procedure and a possible contestation as set out above, a Dutch bankruptcy procedure of the Issuer could result in holders of Notes receiving a right to be able to recover less than, if any of, the principal amount of their Notes. Moreover, such separate court proceedings could cause payments to the holders of the Notes to be delayed compared with holders of undisputed claims.

As in a suspension of payments proceeding, in a bankruptcy, a composition may be offered to the unsecured and non-preferential creditors (including subordinated creditors). Such composition will be binding upon all unsecured and non-preferential creditors (including subordinated creditors), if: (i) it is approved by a simple majority of unsecured non-preferential creditors (including subordinated creditors) with recognised and provisionally admitted claims representing at least 50% of the total amount of the recognised and provisionally admitted unsecured non-preferential claims (including subordinated claims), and (ii) it is subsequently ratified (*gehomologeerd*) by the court.

In Dutch insolvency proceedings, secured or preferential creditors (including tax and social security authorities) may enforce their security rights against all or certain assets of the debtor to satisfy their claims as if such debtor was not declared bankrupt or had not been granted a suspension of payments. As, in suspension of payment proceedings the court may order a stay for a maximum period of four months in bankruptcy, during which period enforcement actions by secured or preferential creditors are barred unless such creditors obtain leave for enforcement from the delegated judge. A liquidator in bankruptcy can also force a secured creditor to enforce its security interest within a reasonable period of time, failing which, the liquidator in bankruptcy will be entitled to sell the secured assets (if any) and the secured creditor will have to share in the bankruptcy costs, which may be significant. Excess proceeds of enforcement by a secured creditor must be returned to the bankrupt estate; they may not be set off against an unsecured claim of the secured creditor in the bankruptcy. Such set-off is allowed prior to the bankruptcy, but may be subject to claw back in the case of fraudulent conveyance or bad faith in obtaining the claim used for set-off.

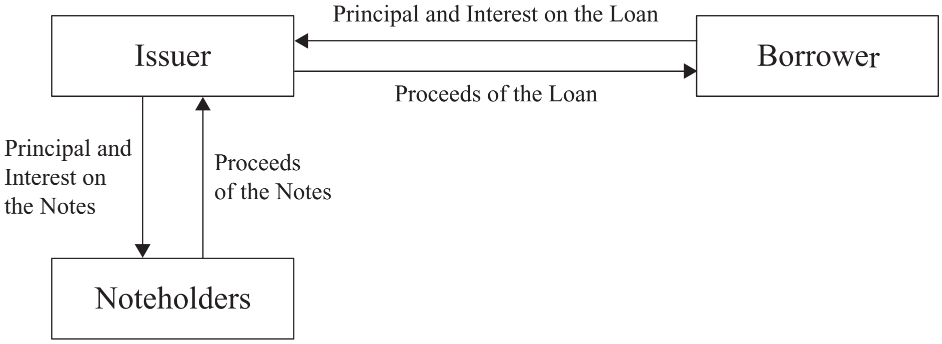
Under Dutch law, the moment a debtor is declared bankrupt, all pending enforcements of judgments against such debtor and all attachments on that debtor's assets terminate by operation of law. Litigation pending against a debtor on the date on which that debtor is declared bankrupt will automatically be suspended. Insofar as claims are recognised at the creditor's meeting, they must be satisfied from the proceeds from the liquidation in bankruptcy.

Voluntary payments (*onverplichte betalingen*) made by a debtor to a creditor before its bankruptcy may be successfully contested by the liquidator in bankruptcy if the debtor and creditor, at the time the payments were made, knew or should have known that any other creditor would be prejudiced by such payment. In the absence of evidence to the contrary, the debtor and the creditor are presumed to have knowledge of prejudice by virtue of law in a number of situations, if voluntary payments were made within one year before the bankruptcy. Payment obligations that were due and payable (including an obligation to provide security for any of the debtor's or a third party's obligations) to a creditor may be successfully contested by the liquidator in bankruptcy if: (i) the creditor receiving the payment knew that an application for bankruptcy had been filed at the time the payment was made, or (ii) the performance of the obligation was the result of consultation between the debtor and the payee with a view to give preference of the latter over of the debtor's other creditors.

The proceeds resulting from the liquidation of the bankrupt estate may not be sufficient to satisfy the unsecured creditors of a bankrupt debtor, including creditors under guaranteed granted by a bankrupt guarantor after the secured and the preferential creditors have been satisfied. It is not uncommon in Dutch bankruptcy proceedings that the proceeds was even insufficient to discharge the claims of preferential and secured creditors.

DESCRIPTION OF THE TRANSACTION

The following summary contains basic information about the Notes and the Loan and should be read in conjunction with, and is qualified in its entirety by, the information set out under "The Loan Agreement" and the Conditions appearing elsewhere in this Prospectus.



The transaction will be structured as a loan from the Issuer to the Borrower. The Issuer will issue the Notes, which will be secured limited recourse loan participation notes issued for the sole purpose of funding the Loan to the Borrower. The Notes are limited recourse obligations, and the Issuer will not have any obligation to the Noteholders other than the obligation to account to the Noteholders for payment of principal, interest and additional amounts (if any) received by it under the Loan. In the event that the amount due and payable by the Issuer under such Notes exceeds the sums so received or recovered, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and the Noteholders may take no further action against the Issuer to recover such amounts.

The Notes will have the benefit of, and be constituted by, the Trust Deed. As provided in the Trust Deed, the Issuer will charge, by way of a charge in favour of the Trustee, for the benefit of the Noteholders as continuing security for its payment obligations in respect of the Notes:

- all rights to principal, interest and additional amounts (if any) payable to the Issuer by the Borrower under the Loan Agreement;
- the right to receive all sums that may be or become payable by the Borrower under any claim, award or judgment relating to the Loan Agreement; and
- all the rights, title and interest in and to all sums of money held from time to time in an account specified in the Loan Agreement, together with the debts represented thereby (including interest earned on the account, if any),

provided, in each case, that the Reserved Rights, and any amounts in respect thereof, are excluded from the Charge. See "*Terms and Conditions of the Notes*."

In addition, the Issuer with full title guarantee will assign absolutely to the Trustee for the benefit of the Trustee and the Noteholders all the rights, title, interest and benefits, both present and future, that may accrue to the Issuer as lender under or pursuant to the Loan Agreement (including, without limitation, the right to declare the Loan immediately due and payable and to commence proceedings to enforce the Borrower's obligations thereunder), other than any rights, interests or benefits that are subject to the Charge and other than the Reserved Rights, and any amounts relating thereto. As a consequence of such assignment, the Trustee will assume the rights of the Issuer under the Loan Agreement, as set out in the relevant provisions of the Trust Deed.

The Issuer will agree in the Trust Deed not to agree to any amendments to or modification or waiver of, and not to authorise any breach of, the Loan Agreement unless the Trustee has given its prior written consent or unless authorised to do so by a resolution passed at a duly convened meeting of the Noteholders by the affirmative vote of Noteholders present in person or represented by proxy or representative owning in the aggregate not less than two-thirds in aggregate principal amount of the outstanding Notes owned by the Noteholders who are so present or represented at the meeting. The Issuer will agree to act at all times in accordance with any instructions of the Trustee with respect to the Loan Agreement, except as provided in the Trust Deed. The Issuer will notify the Noteholders of any amendments, modifications, waivers or authorisations made with the Trustee's consent in accordance with "*Terms and Conditions of the Notes—Notices*," which amendments, modifications, waivers or authorisations will be binding on the Noteholders. The Issuer does not intend to provide post-issuance transaction information regarding the Notes or the performance of the Loan.

Subject to certain exceptions, payments in respect of the Notes by or on behalf of the Issuer will be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or other governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of The Netherlands or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law. In the event any such deduction or withholding is imposed, the sum payable by the Issuer (subject to the receipt of additional amounts pursuant to the Loan Agreement) will be required (subject to certain exceptions) to be increased to the extent necessary to ensure that the Noteholders receive the sum which they would have received had no such deduction or withholding been required. See "*Terms and Conditions of the Notes—Taxation*."

All payments of interest and principal under the Loan by the Borrower will be made free and clear of and without deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, unless the deduction or withholding of such taxes or duties is required by law. In such event the sum payable by the Borrower will be required to be increased to the extent necessary to ensure that after such deduction or withholding, the Issuer receives the sum which it would have received had no such deduction or withholding been required. It is expected that withholding of 5% will be applied to payments of interest by the Borrower under the Loan Agreement (under the terms of the existing Armenia-Netherlands Double Tax Treaty), and the Borrower will accordingly increase payment to the Issuer so that the Issuer receives the sum which it would have received had no such withholding been required.

The Borrower may prepay the Loan at its principal amount, together with accrued and unpaid interest and additional amounts (if any), if it must increase the amount payable or pay additional amounts on account of the Taxes in respect of which it is required to pay additional amounts under the Loan Agreement or if it must pay additional amounts on account of certain costs incurred by the Issuer (and, accordingly, the Borrower may prepay the Loan if Armenian withholding on interest payments under the Loan would exceed 5%). As set out in the Loan Agreement, the Issuer may, at its own discretion, require the Borrower to prepay the Loan if it becomes unlawful for the Loan or the Notes to remain outstanding. The Loan has characteristics that demonstrate a capacity to produce funds to service any payments due and payable on the Notes. The Issuer does not intend to provide any post-issuance transaction information regarding the Notes or the Loan.

ENFORCEABILITY OF JUDGMENTS

The Issuer and certain of its managing directors are residents of The Netherlands. As a result, save as provided below, it may not be possible for investors to (a) effect service of process upon the Issuer or any such person outside The Netherlands, (b) enforce against any of them, in courts of jurisdictions other than The Netherlands, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (c) enforce against any of them, in the courts of The Netherlands, judgments obtained in jurisdictions other than The Netherlands.

The United Kingdom and The Netherlands are both a party to the Council Regulation (EU) No. 1215/2012 of 12 December 2012 on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters (recast) (OJ 2012, L 351, 1), as amended (the "**Jurisdiction Regulation**"), and monetary judgments against the Issuer rendered by a court in England which is enforceable in a court of England will be recognised and enforced by the courts of The Netherlands without review of its merits, according and subject to the Jurisdiction Regulation.

Furthermore, a final and binding monetary arbitral award rendered in arbitration proceedings in a foreign state, such as England, which is enforceable in such foreign state will be recognised and enforced by the courts of The Netherlands without review of its merits, according and subject to section 1075 of the Dutch Code on Civil Proceedings (*Wetboek van Burgerlijke Rechtsvordering*, the "**DCCP**"), if enforcement is being sought pursuant to an applicable treaty such as the New York Convention or subject to section 1076 of the DCCP if enforcement is sought without reliance on an applicable treaty, which grounds are largely similar to those of the New York Convention.

Ardshinbank is a closed joint-stock company incorporated under the laws of the Republic of Armenia. Substantially all of Ardshinbank's directors and executive officers named in this Prospectus reside in the Republic of Armenia. Moreover, virtually all of Ardshinbank's assets and most of the assets of Ardshinbank's directors and officers are located in the Republic of Armenia. As a result, it may not be possible for the Noteholders to:

- effect service of process within the United Kingdom or the United States upon any of Ardshinbank's directors or executive officers named in this Prospectus; or
- enforce, in the English or U.S. courts, judgments obtained outside English or U.S. courts against Ardshinbank or any of its directors and executive officers named in this Prospectus in any action.

In addition, it may be difficult for the Noteholders to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom and the United States, liabilities predicated upon English laws or U.S. federal securities laws. Courts in the Republic of Armenia will generally recognise judgments rendered by a court in any jurisdiction outside the Republic of Armenia if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Republic of Armenia and the country where the judgment is rendered. No such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the Republic of Armenia and certain other jurisdictions (including the United Kingdom and the United States), as a result of which new proceedings may have to be brought in the Republic of Armenia in respect of a judgment already obtained in any such jurisdiction against Ardshinbank or Ardshinbank's officers or directors. In addition, Armenian courts have limited experience in the enforcement of foreign court judgments. The limitations described above, including the general procedural grounds set out in Armenian legislation for the refusal to recognise and enforce foreign court judgments in the Republic of Armenia, may significantly delay the enforcement of such judgment or deprive the Issuer and/or the Noteholders of effective legal recourse for claims related to the investment in the Notes.

The Loan Agreement will be governed by English law and will provide for disputes, controversies and causes of action brought by any party thereto against Ardshinbank to be settled by arbitration in accordance with the rules of the LCIA (formerly the London Court of International Arbitration) (the "**LCIA Rules**"). The legal place of such arbitration shall be London, England. The Republic of Armenia and the United Kingdom are parties to the New York Convention. Consequently, Armenian courts should generally recognise and enforce in the Republic of Armenia an arbitral award from an arbitral tribunal in the United Kingdom on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Armenian procedural regulations and other procedures and requirements established by Armenian legislation).

The Law No. 55-N on Commercial Arbitration, dated 25 December 2006, of the Republic of Armenia (the "**Armenian Arbitration Act")** sets out the procedure for the recognition and enforcement of foreign arbitral awards by Armenian courts. Article 36 of the Armenian Arbitration Act also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Armenian courts, which grounds are broadly similar to those provided by the New York Convention.

The Armenian Arbitration Act and other Armenian procedural legislation could change, and other grounds for Armenian courts to refuse the recognition and enforcement of foreign court judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of an Armenian courts or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Republic of Armenia.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the LCIA Rules and the application of English law to the Loan Agreement may be limited by the mandatory provisions of Armenian laws relating to the exclusive jurisdiction of Armenian courts and the application of Armenian laws with respect to bankruptcy and the winding up or liquidation of Armenian companies and financial institutions, including banks.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information of Ardshinbank

The financial information set out herein has, unless otherwise indicated, been derived from (a) the audited financial statements of Ardshinbank as of and for the year ended 31 December 2014 (the "**2014 Financial Statements**"), as of and for the year ended 31 December 2013 (the "**2013 Financial Statements**") and as of and for the year ended 31 December 2012 (the "**2012 Financial Statements,**" and together with the 2014 Financial Statements and 2013 Financial Statements, the "**Audited Financial Statements**"), prepared in accordance with International Financial Reporting Standards ("**IFRS**") and included elsewhere in this Prospectus (together with the notes thereto) and (b) the reviewed unaudited interim condensed financial statements as of and for the three-month period ended 31 March 2015, including comparative information for the three-month period ended 31 March 2014 (the "**Interim Financial Statements,**" and together with the Audited Financial Statements, the "**Financial Statements**"). The dram is the presentation currency for the Financial Statements.

Market Data

Market data used in this Prospectus, including statistics in respect of Ardshinbank's and its competitors' market shares, assets, loans, deposits and ownership, have been extracted (where so identified) from the KPMG publication titled "Armenian Banking Sector Overview" for the year 2014 or for the first quarter 2015 (collectively, the "**KPMG Publication**") (which, in turn, relies on bank public disclosure), and from other sources Ardshinbank believes to be reliable (including the public disclosures of other Armenian banks). Such information, data and statistics may be approximations or estimates or use rounded numbers. Each of the Issuer and Ardshinbank has relied on the accuracy of this information without independent verification and only accepts responsibility for accurately reproducing such information. So far as the Issuer and Ardshinbank are able to ascertain from this publicly available information, no facts have been omitted which would render the reproduced information misleading or inaccurate.

In addition, some of the information contained in this Prospectus has been derived from the official data of Armenian state agencies and the CBA. The official data published by Armenian state bodies is substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Armenia in this Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information. Not all official data released by the Armenian government may prove accurate. The Issuer and Ardshinbank only accept responsibility for accurately reproducing such information. So far as the Issuer and Ardshinbank are able to ascertain from this publicly available information, no facts have been omitted which would render the reproduced information misleading or inaccurate.

Definitions

In this Prospectus, references to:

"**CAGR**" is to compound annual growth rate, per the formula: $(\text{Ending value}/\text{Beginning value})^{\frac{1}{\text{number of years}}} - 1$;

"**drams**" and "**AMD**" are to the lawful currency of the Republic of Armenia;

"**roubles**" and "**RUB**" are to the lawful currency of the Russian Federation;

"**SME**" are to small and medium-sized enterprises;

"**U.S. dollars**," "**dollars**," "**$**" or "**U.S.$**" are to the lawful currency of the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia (the "**United States**" or the "**U.S.**"); and

"**€**," "**euro**" or "**EUR**" are to the lawful currency of the member states of the European Union that adopted a single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended by the Treaty on the European Union, signed at Maastricht on 7 February 1992.

Exchange Rates

The following tables show, for the periods indicated, certain information regarding the exchange rate between the drams and the U.S. dollar, based on the official exchange rates quoted by the CBA:

	Drams per U.S. dollar			
Years ended 31 December	**High**	**Low**	**Average**	**Period End**
2010	404.36	357.98	373.46	363.44
2011	385.77	362.26	372.76	385.77
2012	418.66	386.15	402.12	403.58
2013	419.08	403.87	409.59	405.64
2014	527.20	405.95	416.42	474.97

	Drams per U.S. dollar			
Month	**High**	**Low**	**Average**	**Period End**
January 2015	478.45	471.02	475.88	476.74
February 2015	479.48	476.23	478.39	478.76
March 2015	481.75	471.13	477.65	471.13
April 2015	476.42	471.33	474.07	476.42
May 2015	482.90	477.36	480.25	478.54
June 2015	478.05	472.53	475.12	472.53

The exchange rate between the drams and the U.S. dollar quoted by the CBA on 24 July 2015 was 477.85 drams per U.S. dollar.

No representation is made that the U.S. dollar amounts referred to in this Prospectus could be converted into drams at the above exchange rates or at all.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus includes forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Bank's control and all of which are based on its current beliefs and expectations about future events. Forward-looking statements are sometimes identified by the use of forward-looking terminology such as "believes," "forecasts," "expects," "may," "will," "could," "should," "shall," "intends," "estimates," "aims," "plans," "predicts," "continues," "assumes," "positioned," "anticipates," the negatives thereof, other variations thereon or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include statements regarding the intentions, beliefs or current expectations of the Bank concerning, among other things, the risks, results of operations, financial condition, prospects, growth, strategies, capital expenditure and development plans of the Bank and the banking sector in which the Bank operates.

These forward-looking statements and other statements contained in this Prospectus regarding matters that are not historical facts involve predictions. No assurance can be given that such future results will be achieved and actual events or results may differ materially as a result of risks and uncertainties facing the Bank. Such risks and uncertainties could cause actual results to vary materially from the future results indicated, expressed, or implied in such forward-looking statements. Such forward-looking statements contained in this Prospectus speak only as of the date of this Prospectus. The Bank, the Issuer and the Lead Manager expressly disclaim any obligation or undertaking to update the forward-looking statements contained in this Prospectus to reflect any change in their expectations or any change in the events, conditions or circumstances on which such statements are based.

All subsequent written and oral forward-looking statements attributable to the Bank and those acting on behalf of the Bank are expressly qualified in their entirety by this section. Before making an investment decision prospective investors should specifically consider the factors identified in this Prospectus that could cause actual results to differ. See "*Risk Factors*."

None of the Bank, the Issuer or the Lead Manager give any assurance as to the accuracy of the opinions set out herein or as to the actual occurrence of any predicted developments.

USE OF PROCEEDS

The gross proceeds from the Notes will be used by the Issuer for the sole purpose of financing the Loan to Ardshinbank. The net proceeds of the Loan (after deduction of any commissions and expenses payable by Ardshinbank in connection with the Notes, the Loan and the Tender Offer and Consent Solicitation), which are expected to amount to approximately U.S.$ 97,000,000, will be used by Ardshinbank for the following purposes:

(i) to finance the purchase of U.S.$ 59,000,000 aggregate principal amount of the 2017 Notes tendered and accepted for purchase in accordance with the Tender Offer and Consent Solicitation and the payment of accrued interest to the date of payment on such 2017 Notes in the amount of U.S.$ 983,333.34;

(ii) to finance the payment of a consent fee to holders of 2017 Notes who have delivered consents in accordance with the Tender Offer and Consent Solicitation in the amount of U.S.$ 750,000;

(iii) to finance the payment of an incentive fee in the amount of U.S.$ 116,500 to holders of 2017 Notes whose 2017 Notes have been tendered and accepted in accordance with the Tender Offer and Consent Solicitation;

(iv) to finance the payment of Armenian withholding tax applicable to the payment of accrued interest to holders of the 2017 Notes tendered and accepted for purchase per item (i) above, the payment of the consent fee per item (ii) above and the payment of the incentive fee per item (iii) above, such withholding at the rate of 10% on the amount paid (subject to possible reduction if relevant double tax treaties can be applied);

(v) to refinance up to U.S.$ 39,000,000 of Ardshinbank's indebtedness under an existing U.S.$ 71,300,000 facility provided by a large international financial institution; and

(vi) to the extent net proceeds remain, for general lending to corporate and retail clients.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Bank's capitalisation as of 31 March 2015 and 31 December 2014 and is extracted from the Interim Financial Statements. For further information regarding the Bank's financial position, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Interim Financial Statements included elsewhere in this Prospectus.

	As of 31 March 2015		As of 31 December 2014
	(USD thousands)[1]	(AMD thousands)	(AMD thousands)
Liabilities			
Deposits and balances from banks and other borrowings	221,489	104,350,015	98,691,929
Debt securities issued	73,710	34,726,910	34,935,669
Current accounts and deposits from customers	378,191	178,177,233	182,811,439
Current tax liability	468	220,541	346,071
Deferred tax liabilities	2,286	1,076,870	1,156,704
Other liabilities	2,661	1,253,498	1,332,042
Total liabilities	**678,804**	**319,805,067**	**319,273,854**
Equity			
Share capital	38,047	17,925,200	17,925,000
Share premium	3,632	1,711,179	1,711,179
Revaluation surplus for land and buildings	9,324	4,392,623	4,392,623
Revaluation reserve for available-for-sale financial assets	(2,044)	(963,052)	(507,249)
Retained earnings	51,244	24,142,410	23,610,513
Total equity	**100,202**	**47,208,360**	**47,132,266**
Total liabilities and equity	**779,007**	**367,013,427**	**366,406,120**

Note:

(1) Converted into dollars using the exchange rate of AMD 471.13 per U.S.$ 1.00, being the official dram to dollar exchange rate reported by the CBA on 31 March 2015.

Since 31 March 2015, there have been no material changes in the total liabilities and equity of the Bank, except that on 9 July 2015 Ardshinbank launched the Tender Offer and Consent Solicitation. Subject to the satisfaction of the conditions to the Tender Offer and Consent Solicitation, which include the issuance of the Notes, the net proceeds of the Loan will be applied, *inter alia*, to finance the purchase of U.S.$ 59,000,000 aggregate principal amount of the 2017 Notes tendered and accepted for purchase in accordance with the Tender Offer and Consent Solicitation and accrued interest to the date of payment on such 2017 Notes in the amount of U.S.$ 963,666.67. See *"Use of Proceeds."*

SELECTED FINANCIAL INFORMATION

The financial information set forth below as of and for the three months ended 31 March 2015 and for the years ended 31 December 2014, 2013 and 2012 has been extracted without material adjustment from the Financial Statements. The financial data set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements and related notes included elsewhere in this Prospectus and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*."

Selected Income Statement Information

	Three months ended 31 March	Three months ended 31 March		
	2015	2015	2014	Change(1)
	(USD thousands)(2)	(AMD thousands)		(%)
Interest income	19,033	8,966,913	6,204,319	44.5
Interest expense	(13,279)	(6,256,004)	(3,563,142)	75.6
Net interest income	**5,754**	**2,710,909**	**2,641,177**	**2.6**
Fee and commission income	1,433	675,174	856,002	(21.1)
Fee and commission expense	(312)	(146,800)	(139,142)	5.5
Net fee and commission income	**1,122**	**528,374**	**716,860**	**(26.3)**
Net foreign exchange income	1,092	514,625	337,970	52.3
Net gain on available-for-sale financial assets	121	57,079	1,005,242	(94.3)
Other operating income	142	66,983	126,250	(46.9)
Operating income	**8,231**	**3,877,970**	**4,827,499**	**(19.7)**
Impairment losses	(2,135)	(1,005,815)	(985,517)	2.1
Personnel expenses	(2,433)	(1,146,414)	(1,060,763)	8.1
Other general administrative expenses	(2,269)	(1,069,166)	(1,109,652)	(3.6)
Profit before income tax	**1,394**	**656,575**	**1,671,567**	**(60.7)**
Income tax expense	(265)	(124,678)	(343,739)	(63.7)
Profit for the period	**1,129**	**531,897**	**1,327,828**	**(59.9)**
Other comprehensive income, net of income tax				
Items that are or may be reclassified subsequently to profit or loss:				
Revaluation reserve for available for sale financial assets:				
—Net change in fair value	(871)	(410,140)	(198,967)	106.1
—Net change in fair value transferred to profit or loss	(97)	(45,663)	(804,194)	(94.3)
Total items that are or may be reclassified subsequently to profit or loss	(967)	(455,803)	(1,003,161)	(54.6)
Other comprehensive loss for the period, net of income tax	**(967)**	**(455,803)**	**(1,003,161)**	**(54.6)**
Total comprehensive income for the period	**162**	**76,094**	**324,667**	**(76.6)**

Notes:

(1) Percentage change between amounts in drams for the three months ended 31 March 2015 and the three months ended 31 March 2014.

(2) Converted into dollars using the exchange rate of AMD 471.13 per U.S.$ 1.00, being the official dram to dollar exchange rate reported by the CBA on 31 March 2015.

	Year ended 31 December	Year ended 31 December			Change	
	2014	2014	2013	2012	2014 against 2013	2013 against 2012
	(USD thousands)(1)	(AMD thousands)			(%)	
Interest income	57,897	27,499,158	26,973,386	19,889,377	1.9	35.6
Interest expense	(33,925)	(16,113,474)	(12,694,694)	(8,421,325)	26.9	50.7
Net interest income	**23,971**	**11,385,684**	**14,278,692**	**11,468,052**	**-20.3**	**24.5**
Fee and commission income	7,547	3,584,553	3,012,201	1,951,823	19.0	54.3
Fee and commission expense	(1,281)	(608,280)	(465,344)	(379,227)	30.7	22.7
Net fee and commission income	**6,266**	**2,976,273**	**2,546,857**	**1,572,596**	**16.9**	**62.0**
Net foreign exchange income	5,355	2,543,357	1,727,993	1,363,755	47.2	26.7
Net gain on available-for-sale financial assets	3,514	1,668,990	867,844	28,257	92.3	2,971.3
Other operating income	1,220	579,532	650,499	701,654	(10.9)	(7.3)
Operating income	**40,326**	**19,153,836**	**20,071,885**	**15,134,314**	**(4.6)**	**32.6**
Impairment losses	(10,228)	(4,857,894)	(3,654,918)	(2,527,913)	32.9	44.6
Personnel expenses	(9,643)	(4,580,069)	(3,942,017)	(3,607,523)	16.2	9.3
Other general administrative expenses	(10,225)	(4,856,752)	(4,420,856)	(3,578,960)	9.9	23.5
Profit before income tax	**10,230**	**4,859,121**	**8,054,094**	**5,419,918**	**(39.7)**	**48.6**
Income tax expense	(2,000)	(950,143)	(1,633,714)	(1,186,539)	(41.8)	37.7
Profit for the period	**8,230**	**3,908,978**	**6,420,380**	**4,233,379**	**(39.1)**	**51.7**
Other comprehensive income, net of income tax						
Items that are or may be reclassified subsequently to profit or loss:						
Revaluation reserve for available for sale financial assets:						
—Net change in fair value	(2,701)	(1,282,810)	2,557,411	112,383	(150.2)	2,175.6
—Net change in fair value transferred to profit or loss	(2,811)	(1,335,192)	(694,275)	(22,606)	92.3	2,971.2
Total items that are or may be reclassified subsequently to profit or loss	*(5,512)*	*(2,618,002)*	*1,863,136*	*89,777*	*(240.5)*	*1,975.3*
Items that will not be reclassified to profit or loss:						
Revaluation of buildings	3,630	1,724,243	0.0	0.0	0.0	0.0
Total items that will not be reclassified to profit or loss	*3,630*	*1,724,243*	0.0	0.0	0.0	0.0
Other comprehensive income/ (loss) for the period, net of income tax	**(1,882)**	**(893,759)**	**1,863,136**	**89,777**	**(148.0)**	**1,975.3**
Total comprehensive income for the period	**6,348**	**3,015,219**	**8,283,516**	**4,323,156**	**(63.6)**	**91.6**

Note:

(1) Converted into dollars using the exchange rate of AMD 474.97 per U.S.$ 1.00, being the official dram to dollar exchange rate reported by the CBA on 31 December 2014.

Selected Statement of Financial Position Information

	As of 31 March 2015 (thousands of US dollars)[1]	As of 31 March 2015 (thousands of AMD)	As of 31 December 2014 (thousands of AMD)
Cash and cash equivalents	171,552	80,823,245	85,009,721
Available-for-sale financial assets			
Held by the Bank	7,375	3,474,399	5,483,967
Pledged under sale and repurchase agreements	35,038	16,507,529	11,714,195
Loans and advances to banks and financial institutions	22,555	10,626,536	27,675,617
Loans to customers	506,805	238,770,993	219,882,757
Repossessed property	12,197	5,746,561	5,597,154
Property, equipment and intangible assets	19,082	8,990,116	9,038,769
Other assets	4,402	2,074,048	2,003,940
Total assets	**779,007**	**367,013,427**	**366,406,120**
Deposits and balances from banks and other borrowings	221,489	104,350,015	98,691,929
Debt securities issued	73,710	34,726,910	34,935,669
Current accounts and deposits from customers	378,191	178,177,233	182,811,439
Current tax liability	468	220,541	346,071
Deferred tax liabilities	2,286	1,076,870	1,156,704
Other liabilities	2,661	1,253,498	1,332,042
Total liabilities	**678,804**	**319,805,067**	**319,273,854**
Share capital	38,047	17,925,200	17,925,200
Share premium	3,632	1,711,179	1,711,179
Revaluation surplus for land and buildings	9,324	4,392,623	4,392,623
Revaluation reserve for available-for-sale financial assets	(2,044)	(963,052)	(507,249)
Retained earnings	51,244	24,142,410	23,610,513
Total equity	**100,202**	**47,208,360**	**47,132,266**
Total liabilities and equity	**779,007**	**367,013,427**	**366,406,120**

Note:

(1) Converted into dollars using the exchange rate of AMD 471.13 per U.S.$ 1.00, being the official dram to dollar exchange rate reported by the CBA on 31 March 2015.

Selected Financial Ratios and Other Information

	As of or for the three months ended 31 March		As of or for the year ended 31 December		
	2015	2014	2014	2013	2012
			(%)		
Profitability(1)					
Return on assets(2)	0.6	1.9	1.2	2.7	2.4
Return on equity(3)	4.5	12.0	8.6	16.1	12.6
Cost-to-income(4)	57.1	45.0	49.3	41.7	47.5
Net interest margin(5)	3.1	4.1	4.1	6.4	6.9
Liquidity					
Net loans to customers/current accounts and deposits from customers	134.0	91.3	120.3	108.3	116.0
Total liquid assets(6)/total assets	27.5	28.8	27.9	27.0	24.0
Capital Adequacy					
Total capital (BIS Guidelines)	16.9	19.6	16.3	19.8	21.6
Tier 1 capital (BIS Guidelines)	15.2	17.4	14.6	17.1	19.0
Total equity/total assets(7)	12.9	16.2	14.4	17.1	18.8
Credit Quality					
Non-performing loans(8)/total loans to customers	2.9	5.0	3.0	4.5	2.2
Total impairment allowance/overdue loans	40.5	50.1	48.6	60.1	106.6

Notes:

(1) Profitability ratios for three month periods are annualised.

(2) Profit as a percentage of average total assets. For the three months ended 31 March 2015 and 2014, average total assets are calculated as the simple average of total assets as of the start and end of the quarter. For the years ended 31 December 2014, 2013 and 2012, average total assets are calculated as the simple average of total assets as of 31 December of the prior year and 31 December of the relevant year.

(3) Profit as a percentage of average equity. Average equity is calculated in the same manner as average total assets (as described in note (2)).

(4) Personnel expenses plus other general administrative expenses divided by operating income.

(5) Net interest margin is calculated as the ratio of net interest income before provision for loan impairment, as a percentage of the average interest-earning assets (which are calculated for the three months ended 31 March 2015 and 2014, as the simple average of the quarter-start and quarter-end figures, and, for each of the years ended 31 December 2014, 2013 and 2012, as the simple average of the balance as of 31 December of the prior year and as of the end of each quarter of the relevant year).

(6) Liquid assets are the sum of cash and cash equivalents, financial instruments at fair value through profit or loss and investments available for sale.

(7) Average equity as a percentage of average total assets, in each case taking the simple average as of period open and period close.

(8) Non-performing loans represent loans which are 90 days overdue or otherwise determined by the Bank to be individually impaired.

SELECTED STATISTICAL INFORMATION

The following tables present certain of Ardshinbank's selected statistical information and ratios for the periods indicated. The following information should be read in conjunction with the Financial Statements included elsewhere in this Prospectus, as well as "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Selected Financial Information." The statistical information and discussion and analysis presented below for the three months ended 31 March 2015 and 2014 and the years ended 31 December 2014, 2013 and 2012 are presented solely for the convenience of the reader for analytical purposes and on the basis of Industry Guide 3 under the Securities Act (Statistical Disclosure by Bank Holding Companies). Certain information herein differs from and is not comparable to the presentation in the Financial Statements, as the basis for calculating such information differs from that used in the Financial Statements.

Certain amounts and percentages included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different contexts may vary slightly and figures in certain other contexts may not be an exact arithmetic result of the figures shown herein.

AVERAGE BALANCE SHEET DATA

The following tables set out, for the periods indicated, (i) the average balances of assets and liabilities, (ii) the interest income received on each interest-earning asset and the interest expense paid on each interest-bearing liability, and (iii) the collective average yield for all interest-earning assets and the collective average rate paid on all interest-bearing liabilities. For the three months ended 31 March 2015 and 2014, the average balance is calculated as the simple average of the quarter-start and quarter-end figures, and, for each of the years ended 31 December 2014, 2013 and 2012, the average balance is calculated as the simple average of the balance as of 31 December of the prior year and as of the end of each quarter of the relevant year. Interest income (expense) is the cumulative amount of interest (expense) earned (or incurred) during the relevant period, and the average yield (rate paid) is calculated as the cumulative interest income (expense) divided by the average balance.

	For the three months ended 31 March					
	2015			2014		
	(AMD millions, except percentages)					
	Average balance	Interest income/ (expense)	Average yield/ (rate paid) (annualised)	Average balance	Interest income/ (expense)	Average yield/ (rate paid) (annualised)
Loans to customers	229,327	7,947	14.1%	169,456	5,503	13.2%
Loans and advances to banks and financial institutions	19,151	452	9.6%	13,636	180	5.3%
Cash and cash equivalents	82,916	20	0.1%	57,277	28	0.2%
Available-for-sale financial assets	18,590	548	11.9%	18,954	494	10.6%
Total Interest Earning Assets	**349,984**	**8,967**	**10.4%**	**259,323**	**6,204**	**9.7%**
Property, equipment and intangible assets	9,015	—	—	6,877	—	—
Other assets	7,711	—	—	7,200	—	—
Total assets	**366,710**	**—**		**273,400**	**—**	**—**
Current accounts and deposits from customers	180,494	3,082	6.9%	170,631	2,884	6.9%
Deposits and balances from banks and other borrowings	101,521	2,072	8.3%	55,898	679	4.9%
Debt securities issued	35,831	1,102	12.8%	0	0	—
Total Interest Bearing Liabilities	**316,846**	**6,256**	**8.0%**	**226,529**	**3,563**	**6.4%**
Other liabilities	2,693	—	—	2,481	—	—
Total liabilities	319,539	—	—	229,010	—	—
Net interest earnings(1)	**—**	**2,711**	**—**	**—**	**2,641**	**—**
Net interest spread(2)	**—**	**—**	**2.4%**	**—**	**—**	**3.3%**
Net interest margin(3)	**—**	**—**	**3.1%**	**—**	**—**	**4.1%**

Notes:

(1) Net interest earnings is defined as the difference between total interest earned on interest-earning assets and total interest paid on interest-bearing liabilities

(2) Net interest spread is defined as the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities, calculated on an annualised basis.

(3) Net interest margin is calculated as net interest income as a percentage of the average balance of total interest-earning assets.

	For the year ended 31 December								
	2014			2013			2012		
	(AMD millions, except percentages)								
	Average balance	Interest income / (expense)	Average yield/ (rate paid)	Average balance	Interest income/ (expense)	Average yield/ (rate paid)	Average balance	Interest income/ (expense)	Average yield/ (rate paid)
Loans to customers	184,196	24,297	13.2%	152,159	23,987	15.8%	111,404	18,117	16.3%
Loans and advances to banks and financial institutions	20,467	1,299	6.3%	12,607	421	3.3%	10,649	218	2.0%
Cash and cash equivalents	55,373	138	0.2%	38,565	32	0.1%	32,177	16	0.0%
Available-for-sale financial assets	17,500	1,765	10.1%	19,471	2,533	13.0%	12,430	1,538	12.4%
Total Interest Earning Assets	**277,536**	**27,499**	**9.9%**	**222,802**	**26,973**	**12.1%**	**166,660**	**19,889**	**11.9%**
Property, equipment and intangible assets	7,279	—	—	7,302	—	—	7,983	—	—
Other assets	7,523	—	—	7,087	—	—	3,252	—	—
Total assets	**292,338**	**—**	**—**	**237,191**	**—**	**—**	**177,895**	**—**	**—**
Current accounts and deposits from customers	176,196	12,666	7.2%	136,996	9,511	6.9%	105,438	6,730	6.4%
Deposits and balances from banks and other borrowings	60,806	3,169	5.2%	58,242	3,184	5.5%	37,380	1,691	4.5%
Debt securities issued	6,987	278	4.0%	0	0	0.0%	0	0	0.0%
Total Interest Bearing Liabilities	**243,989**	**16,113**	**6.6%**	**195,238**	**12,695**	**6.5%**	**142,818**	**8,421**	**5.9%**
Other liabilities	2,569	—	—	2,652	—	—	1,806	—	—
Total liabilities	**246,558**	**—**	**—**	**197,890**	**—**	**—**	**144,624**	**—**	**—**
Net interest earnings(1)	**—**	**11,386**	**—**	**—**	**14,279**	**—**	**—**	**11,468**	**—**
Net interest spread(2)	**—**	**—**	**3.3%**	**—**	**—**	**5.6%**	**—**	**—**	**6.0%**
Net interest margin(3)	**—**	**—**	**4.1%**	**—**	**—**	**6.4%**	**—**	**—**	**6.9%**

Notes:

(1) Net interest earnings is defined as the difference between total interest earned on interesting-earning assets and total interest paid on interest-bearing liabilities.

(2) Net interest spread is defined as the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities.

(3) Net interest margin is calculated as net interest income as a percentage of the average balance of total interest-earning assets.

CHANGES IN INTEREST INCOME AND INTEREST EXPENSE

The following table allocates changes in interest income and interest expense between changes in volume and changes in rates for the year ended 31 December 2014 compared to the year ended 31 December 2013 and for the year ended 31 December 2013 compared to the year ended 31 December 2012. Volume variances are calculated as a change in average balance multiplied by current period average rate and rate variances are calculated as a change in rate multiplied by prior period average balance.

	2014/2013			2013/2012		
	Change in interest income/ expense	Changes in volume(1)	Changes in rates(2)	Change in interest income/expense	Changes in volume(1)	Changes in rates(2)
	(AMD millions)					
Loans to customers	311	4,226	(3,915)	5,869	6,426	(556)
Available for sale financial assets	(768)	(199)	(570)	995	916	79
Due from banks and financial institutions	878	499	379	204	65	138
Cash and cash equivalents	105	42	63	16	5	11
Total Interest-Earning Assets	**526**	**4,568**	**(4,042)**	**7,084**	**7,412**	**(328)**
Current Accounts and deposits from customers	3,156	2,817	338	2,780	2,191	589
Deposits and balances from banks and other borrowings	(15)	134	(148)	1,493	1,140	353
Debt securities issued	278	278	0	0	0	0
Total Interest-Bearing Liabilities	**3,419**	**3,229**	**189**	**4,273**	**3,331**	**942**

Note:
(1) Change in average balance multiplied by current period average rate.
(2) Change in rate multiplied by prior period average balance.

SECURITIES HELD—MATURITY PROFILE

The following table sets out the maturity range of Ardshinbank's investments in securities as of 31 March 2015. For the average yield of the available-for-sale financial assets held by Ardshinbank for the three months ended 31 March 2015 and 2014 and for the years ended 31 December 2014, 2013 and 2012, see "—*Average Balance Sheet Data*."

	As of 31 March 2015						
	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No Stated Maturity	Total
	(AMD millions)						
Held by Ardshinbank							
Government securities of the Republic of Armenia	148	17	71	2,017	1,111	0	**3,364**
Corporate bonds	0	0	0	0	0	0	**0**
Corporate shares	0	0	0	0	0	110	**110**
Pledged under sale and repurchase agreements							
Government securities of the Republic of Armenia	131	1,344	156	1,604	11,896	0	**15,131**
Corporate bonds	33	5	0	1,339	0	0	**1,377**
Total securities portfolio	**312**	**1,366**	**227**	**4,960**	**13,007**	**110**	**19,982**

PORTFOLIO OF LOANS AND ADVANCES

The following table sets forth, for the periods indicated, the gross amount of Ardshinbank's loans and advances in total and divided by category:

	As of 31 March				As of 31 December			
	2015		2014		2013		2012	
	Amount	% of Portfolio	Amount	% of Portfolio	Amount	% of Portfolio	Amount	% of Portfolio
	(in millions of AMD, except percentages)							
Loans and advances to banks and financial institutions	**10,627**	**4.2%**	**27,676**	**11.0%**	**10,490**	**5.6%**	**5,525**	**3.9%**
Loans to retail customers	**79,773**	**31.4%**	**65,294**	**25.9%**	**52,110**	**27.8%**	**46,156**	**32.6%**
Gold loans	37,570	14.9%	28,663	11.4%	24,149	12.9%	23,530	16.6%
Credit cards[1]	19,578	7.7%	18,141	7.2%	14,503	7.7%	9,398	6.7%
Mortgage loans	11,793	4.6%	9,918	3.9%	6,451	3.4%	4,140	2.9%
Agricultural loans	4,645	1.8%	3,901	1.5%	1,368	0.7%	584	0.4%
Other	6,187	2.4%	4,670	1.9%	5,640	3.1%	8,504	6.0%
Loans to corporate customers	**163,827**	**64.4%**	**159,074**	**63.1%**	**124,972**	**66.6%**	**89,909**	**63.5%**
Energy	65,331	25.7%	58,565	23.2%	59,206	31.6%	39,094	27.6%
Mining/metallurgy	13,187	5.2%	18,908	7.5%	4,256	2.3%	639	0.4%
Trade	19,565	7.7%	15,217	6.0%	14,206	7.6%	7,938	5.6%
Government and municipal authorities	11,896	4.7%	12,026	4.8%	2,314	1.2%	1,116	0.8%
Construction	12,236	4.8%	11,796	4.7%	9,335	5.0%	8,722	6.2%
Hotel and hospitality	7,653	3.0%	10,309	4.1%	2,040	1.1%	0	0
Manufacturing	14,029	5.5%	9,907	3.9%	9,472	5.0%	8,536	6.0%
Agriculture, forestry and timber	4,127	1.6%	4,216	1.7%	4,408	2.3%	6,864	4.8%
Food and beverage	2,200	0.9%	5,483	2.2%	4,284	2.4%	3,173	2.2%
Foundations	2,008	0.8%	1,177	0.5%	2,994	1.6%	2,440	1.7%
Transportation	1,933	0.8%	1,450	0.6%	5,828	3.0%	2,639	1.9%
Loans to financial institutions	1,794	0.7%	574	0.2%	959	0.5%	1.635	1.2%
Education	388	0.1%	620	0.2%	1,420	0.8%	1,898	1.4%
Other	7,478	2.9%	8,828	3.5%	4,250	2.2%	5,215	3.7%
Total	**254,226**	**100%**	**252,044**	**100%**	**187,573**	**100%**	**141,590**	**100%**

Note: Includes debit card overdrafts.

The following table sets forth the amount of Ardshinbank's loans by loan category and maturity and, in respect of loans to corporate customers, by type of interest rate, as of 31 March 2015. Loan maturities are based on contractual maturity (for fixed-rate instruments) and repricing dates (for floating-rate instruments). However, due to the short-term nature of loans issued by Ardshinbank, it is likely that many of the loans will be renewed at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the contractually agreed term.

	As of 31 March 2015					
	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
Type of loan	(in millions of AMD)					
Loans and advances to banks and financial institutions[1]	7,290	650	621	1,463	603	10,627
Loans to retail customers[1]	24,330	15,021	20,063	2,222	16,423	78,059
Loans to corporate customers	38,370	28,074	24,385	18,122	51,761	160,712
Fixed interest rate	38,370	27,419	22,045	15,746	51,761	155,341
Floating interest rate	0	655	2,340	2,376	0	5,371

Note:

(1) All loans and advances to banks and financial institutions and loans to retail customers as of 31 March 2015 bear fixed interest rates.

The following table sets forth, as of 31 March 2015, Ardshinbank's gross loans, impairment allowance, net loans and impairment allowance to gross loans by loan type and credit quality:

	Gross loans (AMD millions)	Impairment allowance (AMD millions)	Net loans (AMD millions)	Impairment allowance to gross loans (%)
Loans to corporate customers				
Loans without individual signs of impairment:				
—Loans secured by cash, deposits or state and municipal guarantees	42,710	0	47,710	0.0%
—Other loans to corporate customers	115,501	1,277	114,224	1.1%
Overdue or impaired loans:				
—overdue less than 90 days	598	72	526	12.0%
—overdue more than 90 days and less than 270 days	477	94	383	19.6%
—overdue more than 270 days	4,542	1,673	2,869	36.8%
Total overdue or impaired loans	5,616	1,838	3,778	32.7%
Total loans to corporate customers	**163,827**	**3,115**	**160,712**	**1.9%**
Loans to retail customers				
Gold loans				
—not overdue	36,071	12	36,059	0.0%
—overdue less than 30 days	818	22	797	2.7%
—overdue 30-89 days	354	31	323	8.8%
—overdue 90-179 days	291	44	246	15.3%
—overdue 180-270 days	36	25	11	69.0%
Total gold loans	**37,570**	**134**	**37,436**	**0.4%**
Credit cards[(1)]				
—not overdue	16,056	105	15,951	0.7%
—overdue less than 30 days	1,547	263	1,284	17.0%
—overdue 30-89 days	603	181	423	29.9%
—overdue 90-179 days	709	336	373	47.4%
—overdue 180-270 days	663	421	243	63.4%
Total credit cards	**19,578**	**1,306**	**18,273**	**6.7%**
Mortgage loans				
—not overdue	11,431	5	11,426	0.0%
—overdue less than 30 days	158	4	154	2.7%
—overdue 30-89 days	147	13	134	8.8%
—overdue 90-179 days	50	12	38	24.4%
—overdue 180-270 days	6	3	3	46.5%
Total mortgage loans	**11,793**	**38**	**11,755**	**0.3%**
Agricultural loans				
—not overdue	4,301	12	4,289	0.3%
—overdue less than 30 days	145	20	125	13.6%
—overdue 30-89 days	94	39	56	40.9%
—overdue 90-179 days	71	39	32	54.4%
—overdue 180-270 days	34	29	5	85.9%
Total agricultural loans	**4,645**	**138**	**4,507**	**3.0%**
Other loans to retail customers				
—not overdue	5,611	9	5,603	0.2%
—overdue less than 30 days	192	8	185	4.0%
—overdue 30-89 days	162	19	143	11.9%
—overdue 90-179 days	125	30	95	24.0%
—overdue 180-270 days	96	32	64	33.7%
Total other loans to retail customers	**6,187**	**98**	**6,089**	**1.6%**
Total loans to retail customers	**79,773**	**1,714**	**78,059**	**2.1%**
Total loans to customers	**243,600**	**4,829**	**238,771**	**2.0%**

Note:
(1) Includes debit card overdrafts.

LOAN LOSS EXPERIENCE

The following table sets forth certain information on Ardshinbank's total non-performing loan portfolio (i.e., loans overdue by more than 90 days or otherwise individually impaired) and allowances:

	As of 31 March		As of 31 December					
	2015		2014		2013		2012	
	Loan Amount	Total Allowances	Loan Amount	Total Allowances	Loan Amount	Total Allowances	Loan Amount	Total Allowances
			(in millions of AMD)					
Non-performing loan by product:								
Loans and advances to banks and financial institutions	0	0	0	0	0	0	0	0
Loans to retail customers	**2,082**	**1,714**	**1,653**	**1,206**	**1,754**	**1,303**	**800**	**749**
Gold loans	327	134	201	101	256	87	45	25
Credit cards[(1)]	1,372	1,306	1,131	911	1,106	961	347	360
Mortgage loans	56	38	58	26	24	37	80	30
Agricultural loans	105	138	56	80	17	12	5	13
Other	222	98	207	88	351	206	323	321
Loans to corporate customers	**5,018**	**3,115**	**4,998**	**3,280**	**6,146**	**3,493**	**2,239**	**2,580**
Energy	0	516	0	514	1,421	1,063	12	490
Mining/metallurgy	0	111	2	94	0	45	155	129
Trade	518	282	513	269	107	279	46	401
Construction	744	189	705	381	42	128	0	173
Service	28	148	8	109	525	95	534	441
Manufacturing	103	158	103	177	122	157	105	249
Agriculture, forestry and timber	3,625	1,638	3,667	1,676	3,927	1,576	1,387	540
Other	0	73	0	60	2	150	0	157
Total non-performing loan portfolio and allowances	**7,100**	**4,829**	**6,651**	**4,486**	**7,900**	**4,796**	**3,039**	**3,329**

Note:

(1) Includes debit card overdrafts.

The following table sets forth an analysis of Ardshinbank's allowance for loan losses, including movements in the balance of such allowances, as well as amounts of loans written off:

	For the three months ended 31 March	For the year ended 31 December		
	2015	2014	2013	2012
		(in millions of AMD)		
Balance of loan loss allowance at beginning of period	**4,486**	**4,796**	**3,329**	**3,740**
Plus:				
Charge for loan loss allowance	1,045	3,953	3,643	2,442
Currency effect	(39)	905	12	86
Total charges	1,006	4,858	3,655	2,528
Less:				
Loan write-offs	663	5,168	2,188	2,939
Balance of loan loss allowance at end of period	**4,829**	**4,486**	**4,796**	**3,329**

DEPOSITS

In respect of customer current accounts and deposits at Ardshinbank, the following table sets forth, for the periods indicated, the average amount of current accounts and term deposits (defined as the simple average of daily balances) and the average rate paid thereon:

	Three months ended 31 March		Year ended 31 December					
	2015		2014		2013		2012	
	Average amount(1)	Average rate paid	Average amount(1)	Average rate paid	Average amount(1)	Average rate paid	Average amount(1)	Average rate paid
	(in millions of AMD, except percentages)							
Current accounts and demand deposits	44,417	1.8%	48,030	1.8%	38,952	1.4%	26,368	1.4%
Term deposits	130,375	8.9%	124,960	9.2%	96,810	9.3%	73,550	8.6%

Note:
(1) Calculated as simple averages of daily balances.

RETURN ON ASSETS AND EQUITY

The following table presents selected financial data and ratios of Ardshinbank for the periods indicated:

	Three months ended 31 March		Year ended 31 December		
	2015	2014	2014	2013	2012
			(%)		
Return on assets(1)	0.6	1.9	1.2	2.7	2.4
Return on equity(2)	4.5	12.0	8.6	16.1	12.6
Total equity/total assets(3)	12.9	16.2	14.4	17.1	18.8

Notes:
(1) Profit as a percentage of average total assets. For the three months ended 31 March 2015 and 2014, average total assets are calculated as the simple average of total assets as of the start and end of the quarter. For the years ended 31 December 2014, 2013 and 2012, average total assets are calculated as the simple average of total assets as of 31 December of the prior year and 31 December of the relevant year.
(2) Profit as a percentage of average equity. Average equity is calculated in the same manner as average total assets (described in note 1).
(3) Average equity as a percentage of average total assets, in each case taking the simple average as of period open and period close.

BORROWINGS

The following table sets forth information on Ardshinbank's borrowings for the periods indicated:

	Three months ended 31 March		Year ended 31 December					
	2015		2014		2013		2012	
	Amount	Weighted average interest rate (annualised)	Amount	Weighted average interest rate	Amount	Weighted average interest rate	Amount	Weighted average interest Rate
	(in millions of AMD, except percentages)							
Loans from banks and other financial institutions								
At end of period	83,157	6.9	84,715	6.4	42,509	6.0	31,951	5.7
Average indebtedness during period(1)	83,936	—	63,612	—	37,230	—	29,231	—
Debt securities issued								
At end of period	34,727	15.3	34,936	15.3	—	—	—	—
Average indebtedness during period(1)	34,831	—	17,468	—	—	—	—	—

Note:
(1) Average indebtedness during the period is determined by taking the sum of indebtedness as of the first day of the relevant period and the last day of such period and dividing by two.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of Ardshinbank's financial condition and results of operations should be read in conjunction with the Financial Statements and the other information included elsewhere in this Prospectus. This section contains forward-looking statements that involve risks and uncertainties. Ardshinbank's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors" and "*Cautionary Note Regarding Forward-Looking Statements*."

Overview of the Bank

Ardshinbank has established itself as the second-leading bank in Armenia by a variety of measures: ranking second amongst Armenian banks in terms of total assets (with an 11.3% market share), loans (11.5%) and deposits (11.0%), as of 31 March 2015 based on bank public disclosures. Ardshinbank is seeking to complement its traditional strength in lending to Armenian corporate borrowers by emphasising growth in its lending to SME and micro businesses and retail customers. As of 31 March 2015, Ardshinbank had a total of approximately 212,000 customers, of which approximately 9,000 were corporate customers (including SME and micro businesses) and the remainder individuals.

Ardshinbank offers a wide range of banking products and services to its corporate and retail customers. Ardshinbank's lending activities include providing business, consumer, mortgage and micro loans, as well as guarantees and letters of credit. Loans secured by gold jewellery are an important part of its retail lending. Ardshinbank offers current and savings accounts, on demand and term deposits, debit and credit cards, currency exchange facilities and other products.

Ardshinbank's operations are entirely focused on the Armenian banking market (including Nagorno-Karabakh). The Bank is headquartered in the Armenian capital of Yerevan and has the second largest national branch network with 55 branches, as of 31 March 2015. In addition, Ardshinbank has a large network of ATMs and points-of-sale terminals, consisting of 96 ATMs and 196 points-of-sale terminals, as of 31 March 2015.

As of 31 March 2015, Ardshinbank had: total assets of AMD 367.0 billion, including total loans to customers of AMD 238.8 billion (of which 67% represented corporate loans and 33% retail lending); total current accounts and deposits from customers of AMD 178.2 billion; and total equity of AMD 47.2 billion. Ardshinbank's profit was AMD 531.9 million for the three months ended 31 March 2015 and AMD 3.9 billion for the year ended 31 December 2014. Ardshinbank's cost to income ratio (i.e., the ratio of its personnel expenses and other general administrative expenses to its operating income) was 57.1% for the three months ended 31 March 2015 and 49.3% for the year ended 31 December 2014, while its return on equity (ROE) for such periods was 4.5% and 8.6%, respectively. See "*Selected Financial Information—Selected Financial Ratios and Other Information*." As of 31 March 2015 Ardshinbank had 1,093 employees.

Ardshinbank has a stable balance sheet, with a ratio of net loans to customers to current accounts/deposits from customers of 134.0%, an impairment allowance to gross loans ratio of 2.0% and a non-performing loan (being any loan for which payment is overdue by more than 90 days or that otherwise is deemed individually impaired by the Bank) to total loans to customers ratio of 2.9% as of 31 March 2015. Its total capital ratio calculated in accordance with Basel II exceeds the recommended minimum of 8%, standing at 16.9% as of 31 March 2015 and 16.3% as of 31 December 2014.

As of the date of this Prospectus, Ardshinbank has Ba3 long-term and Not-prime short-term local currency deposit ratings and B1 long-term and Not-prime short-term foreign currency deposit ratings and a "D-" financial stability rating from Moody's, in each case with a "negative" outlook, B+ long term issuer default rating and B short term issuer default rating from Fitch with a "negative" outlook.

As of the date of this Prospectus, Ardshinbank is controlled by Mr. Karen Safaryan, who effectively controls the 97.52% of Ardshinbank's outstanding shares held by Center for Business Investments LLC. Mr. Safaryan has other business interests in Armenia, notably in the insurance and real estate sectors, and also in Russia. The remaining 2.48% shares in Ardshinbank were distributed to management before 2011. See "*Shareholders*."

Significant Factors Affecting Results of Operations

Economic Conditions in Armenia

Virtually all of the Bank's operations are conducted in Armenia (including Nagorno-Karabakh). As a result, the Bank's results of operations are and will continue to be significantly affected by economic conditions in Armenia, including the country's gross domestic product, inflation rate, exchange rate, interest rates and inflows of FDI and remittances from Armenians working abroad.

Armenia has a relatively small economy, with a nominal GDP of $ 10.9 billion in 2014, according to Armstat. As such, the Armenian economy is sensitive to exogenous economic developments, particularly economic conditions in Russia (Armenia's largest single-country export market and partner in the Eurasian Economic Union).

In 2012, the Armenian economy exhibited relatively positive trends. According to Armstat, real GDP grew by 7.2% and the unemployment rate declined to 17.3% (from 18.4% in 2011). Net remittance inflows from Armenians abroad, an important source of funding for the Armenian economy, rose in 2012 to $1,395 million from 1,282 million in 2011 (according to the CBA), largely driven by an increase in remittances from Armenians working in Russia. The average inflation rate (as measured by CPI) fell to 2.6% in 2012 from 7.7% in 2011 (according to Armstat), and the dram weakened against the dollar by 7.3% (in nominal terms, based on average rates) (according to the CBA).

These developments affected the Bank's results of operations. In 2012, the Bank's profit increased by 79.4% to AMD 4.2 billion from AMD 2.4 billion in 2011, driven mainly by an increase in interest income, which, in turn, was largely due to an increase in the balance of loans to both corporate and retail customers. The AMD 25.3 billion, or 39.1%, increase in the Bank's gross corporate loan portfolio was largely the result of loans to companies in the energy sector (including loans to companies active in gas distribution; electricity and heat generation and transmission; and hydro and electric power), which sector grew by 29% in 2012 (according to Armstat). The AMD 15.6 billion, or 51.0%, increase in gross retail loans was driven in part by growth in disposable income, which in turn reflected a 6.9% year-on-year increase in real GDP per capita (according to Armstat), as well as lower unemployment levels and the growth in net remittance inflows.

The Armenian economy continued to grow in 2013, although at a slower rate than in 2012. According to Armstat, real GDP grew by 3.5% and the unemployment rate declined to 16.2% (from 17.3% in 2012). Net remittance inflows rose in 2013 to $ 1,546 million from $ 1,395 million in 2012 (according to the CBA), largely driven by an increase in remittances from Armenians working in Russia. The average inflation rate (as measured by CPI) increased to 5.8% in 2013 from 2.6% in 2012, and the dram weakened against the dollar by 1.9% (in nominal terms, based on average rates) (according to the CBA). The Bank continued to expand its operations in 2013, with profits increasing by 51.7% to AMD 6.4 billion from AMD 4.2 billion in 2012. The corporate loan portfolio expanded by AMD 35.1 billion, or 39.0% reflecting an increase in loans to energy companies and companies involved in trade, while the retail loan portfolio grew by AMD 5.9 billion, or 12.9%, reflecting the 3.6% increase in real GDP per capita (according to Armstat) as well as lower unemployment levels and the growth in net remittance inflows.

Although the Armenian economy grew in 2014, the slowdown in the Russian economy, especially in the second half of 2014, had an overall negative impact on the Armenia's macroeconomy and on Ardshinbank's results of operations. According to Armstat, real GDP grew by 3.4%, but the unemployment rate increased to 17.6% (from 16.2% in 2013). The average inflation rate (as measured by CPI) declined to 3.0% in 2014 from 5.8% in 2013. Net remittance inflows declined in 2014 to $ 1,221 million from $ 1,450 million in 2013 (according to the CBA), largely driven by a 10.1% fall in remittances from Russia. Remittances from Russia are expected to fall by a further 20-30% in 2015, according to Armenian Government forecasts. The dram weakened against the dollar by 1.7% (in nominal terms, based on average rates) and by 17.1% (in nominal terms, based on year-end data) (according to the CBA), largely in line with the weakening of the rouble against the dollar. The Bank's results of operations deteriorated in 2014 in part due to the negative impact that the slowdown in the Russian economy has had on the Armenian economy. In 2014, net profits declined to AMD 3.9 billion from AMD 6.4 billion in 2013. The decline in net profits was due, in part, to a 32.9% increase in impairment losses, particularly with respect to retail loans, mainly attributable to the depreciation of the dram in the second half of 2014.

Interest Rate Environment

Ardshinbank generates most of its revenue from interest income, while interest expense constitutes its single largest cost item. As a result, changes in interest rate levels may have a significant effect on the Bank's results of operations. Rising interest rates can lead to higher or lower interest margins, depending on whether the Bank's interest earning assets re-price at a faster rate than its interest bearing liabilities. An analysis of the sensitivity of the Bank's net profit or loss to changes in interest rates based on a simplified scenario of a 100 basis point increase in all yield curves and positions of interest-bearing assets and liabilities existing as of 31 March 2015 indicates Ardshinbank's net profit would fall upon such an increase of interest rates (while it would rise upon a symmetrical decrease of interest rates). See "*Risk Management—Market Risk—Interest Rate Risk*."

The Bank earns most of its interest income on loans to corporate and retail customers, loans and advances to banks and financial institutions and financial assets available-for-sale. Higher interest rates earned on the Bank's interest-earning assets will have a positive impact on the Bank's results of operations, to the extent such higher rates improve the Bank's net interest margin. For the three months ended 31 March 2015, the average rate paid on the Bank's interest-earning assets increased to 10.4%, compared to 9.7% for the three months ended 31 March 2014, as a result of the growing share of retail loans (which typically command higher interest rates than corporate loans) in the Bank's total loan portfolio. For the three months ended 31 March 2015, compared to the three months ended 31 March 2014, the average rate paid on loans to customers increased to 14.1% from 13.2%; the average rate paid on loans and advances to banks and financial institutions increased to 9.6% from 5.3%; and the average rate paid on financial assets available-for-sale increased to 11.9% from 10.6%.

For the year ended 31 December 2014, the average rate paid on the Bank's interest-earning assets declined to 9.9% from 12.1% for the year ended 31 December 2013, mainly as a result of a decline in the average rates on loans to customers (due to increasing competition) and on financial assets available-for-sale. For the year ended 31 December 2014, compared to the year ended 31 December 2013, the average rate paid on loans to customers declined to 13.2% from 15.8% and the average rate paid on financial assets available-for-sale fell to 10.1% from 13.0%; the average rate paid on loans and advances to banks and financial institutions increased to 6.3% from 3.3% as a result of an increase in interbank loan rates as part of the CBA's policy to curtail dram depreciation.

Historically, the Bank's principal funding sources have been corporate and retail current accounts and deposits and borrowings from banks and other borrowings. As of 31 March 2015 and 31 December 2014, current accounts and deposits from customers comprised 56.2% and 57.8%, respectively, of the Bank's total funding (i.e., the sum of current accounts and deposits from customers, deposits and balances from banks and other borrowings and debt securities issued). As of 31 March 2015 and 31 December 2014, deposits and balances from banks and other borrowings comprised 32.9% and 31.2%, respectively, of the Bank's total funding. Since 2014, financing from foreign banks (including multilateral institutions such as the Asian Development Bank, the Eurasian Development Bank and the Black Sea Trade and Development Bank) and the issuance of debt securities, such as the 2017 Notes, has become a growing source of funding for the Bank. Consequently, higher interest rates on any of these funding sources will have a negative impact on the Bank's results of operations to the extent they reduce the Bank's net interest margin.

For the three months ended 31 March 2015, the average rate paid on the Bank's interest-bearing liabilities increased to 8.0% from 6.4% for the three months ended 31 March 2014, mainly due to an increase in dram rates reflecting the rise of the CBA's key interest rates and to the issuance of the 2017 Notes. For the three months ended 31 March 2015, compared to the three months ended 31 March 2014, the average rate paid on deposits and balances from banks and other borrowings increased to 8.3% from 4.9% (due to higher rates on repo transactions and on the Bank's dollar borrowings from foreign banks), while the average rate paid on current accounts and deposits from customers remained unchanged at 6.9%. In addition, in the three months ended 31 March 2015, the Bank paid an average rate paid of 12.8% on debt securities issued, i.e., the 2017 Notes. For the year ended 31 December 2014, the average rate paid on the Bank's interest-bearing liabilities remained relatively unchanged at 6.6%, compared to 6.5% for the year ended 31 December 2013.

For the three months ended 31 March 2015, the Bank's net interest spread (defined as the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities) was 2.4 percentage points, compared to 3.3 percentage points for the three months ended 31 March 2014 as there was a relatively greater increase in interest rates on liabilities than on assets for the reasons cited above. Also, the Bank acted prudentially in the second half of 2014 and the first quarter of 2015 to create a liquidity cushion (in part resulting from the issuance of the 2017 Notes in December 2014) in view of its concerns about potential adverse changes in the Armenian economy in the second half of 2014 and accordingly increased its lending into lower-margin products, such as interbank loans, while decreasing new lending to customers. The Bank's net interest margin (i.e., net interest income as a percentage of average interest-earning assets) decreased to 3.1% for the three months 31 March 2015 from 4.1% for the three months ended 31 March 2014. Operating income declined to AMD 3.9 billion in the three months ended 31 March 2015 from AMD 4.8 billion in the three months ended 31 March 2014 largely as a result of a tighter net interest spread and net interest margin.

For the year ended 31 December 2014, the Bank's net interest spread was 3.3 percentage points, compared to 5.6 percentage points for the year ended 31 December 2013. The Bank's net interest margin decreased to 4.1% for the year ended 31 December 2014 from 6.4% for the year ended 31 December 2013. Operating income declined to AMD 19.2 billion in the year ended 31 December 2014 from AMD 20.1 billion in the year ended 31December 2013 consistent with a lower net interest spread and net interest margin.

In this context, U.S. dollar-denominated deposits and borrowings represent a significant and growing share and currently a majority of the Bank's total funding base (i.e., the sum of current accounts and deposits from customers, deposits and balances from banks and other borrowings and debt securities issued). As of 31 March 2015, U.S. dollar-denominated instruments accounted for 60.2% of the Bank's total funding base, as compared to 60.2%, 42.9% and 52.5% as of 31 December 2014, 2013 and 2012, respectively. As a result, the Bank's cost of funding is affected by changes in interest rates on U.S. dollar-denominated funding sources. Likewise, dollar-denominated instruments currently account for a majority of the Bank's financial assets: 54.8% as of 31 March 2015, and 55.1%, 38.1% and 46.2% as of 31 December 2014, 2013 and 2012, respectively. During these periods, the Bank's net interest spread in respect of its dollar-denominated financial assets/liabilities tended to be less than in respect of its dram-denominated financial assets/liabilities. Accordingly, when the Bank increased its relative proportion of dollar-denominated financial assets and financial liabilities during this period, such acted to compress its overall net interest spread. At the same time, if the dollar appreciates against the dram, then when interest is paid on dollar-denominated assets or liabilities, such amount paid becomes larger in dram terms.

The following table sets for the average interest rates paid on the financial assets and liabilities of the Bank for the periods indicated:

	For the three months ended 31 March 2015		For the year ended 31 December					
			2014		2013		2012	
	AMD-denominated	**USD-denominated**	**AMD-denominated**	**USD-denominated**	**AMD-denominated**	**USD-denominated**	**AMD-denominated**	**USD-denominated**
Cash/cash equivalents(1)	—	0.1%	—	0.2%	—	0.1%	—	0.0%
Available for sale assets(2)	13.9%	6.5%	12.1%	—	14.4%	—	13.4%	—
Loans/advances to banks and financial institutions(3)	—	7.6%	20.0%	5.4%	8.5%	8.4%	—	11.0%
Loans to customers(3)	17.6%	11.2%	16.5%	11.9%	16.6%	11.5%	18.9%	11.4%
Corporate customers	*12.0%*	*10.6%*	*10.7%*	*11.6%*	*11.7%*	*11.2%*	*12.5%*	*11.2%*
Retail customers	*20.1%*	*14.7%*	*20.1%*	*14.7%*	*20.8%*	*14.5%*	*21.1%*	*14.4%*
Interest earning assets	**12.3%**	**8.7%**	**11.6%**	**8.6%**	**12.2%**	**9.9%**	**13.3%**	**10.1%**
Current accounts/ deposits from customers(3)	9.5%	6.3%	9.0%	6.8%	7.5%	7.6%	7.6%	7.5%
Corporate customers	*7.1%*	*4.5%*	*6.5%*	*5.6%*	*4.6%*	*7.2%*	*4.4%*	*7.1%*
Retail customers	*12.7%*	*7.6%*	*12.2%*	*7.7%*	*11.5%*	*7.9%*	*11.0%*	*7.8%*
Deposits and balances from banks and other borrowings(3)	7.0%	6.9%	7.0%	6.2%	7.0%	5.1%	6.6%	5.4%
Debt securities issued(3)	—	12.6%	—	12.6%	—	—	—	—
Interest bearing liabilities	**9.0%**	**7.7%**	**8.6%**	**7.7%**	**7.5%**	**6.9%**	**7.5%**	**6.9%**

Notes:

(1) Calculated by dividing cumulative interest income to period average balance. Average balance is calculated as the simple average of period start and period end.

(2) Yield to maturity rate.

(3) Calculated as period end weighted average nominal interest rates.

See "*Selected Statistical Information—Average Balance Sheet Data*" for further discussion on the movements of interest rates on the Bank's assets and liabilities.

Impact of International Financial Markets

While Ardshinbank's assets and customers are located in Armenia (and Nagorno-Karabakh) and the Bank's business is focused on the Armenian market, the Bank is also affected by volatility in the international financial markets, particularly as such volatility affects two of the Bank's growing sources of funding—debt securities issued on international markets and loans received from international financial institutions—as well as the Bank's dollar-denominated assets. As discussed above, the Bank is increasingly relying on international sources of funding as well as deposits denominated in foreign currencies, particularly the dollar. Similarly, a growing proportion of the Bank's assets are denominated in dollars. As a result, international events, such as the European sovereign debt crisis, which lead to higher borrowing costs or otherwise restrict access to liquidity for banks, may have an adverse impact on the Bank's results of operations.

Recent Developments

In 2015, Ardshinbank commenced a programme to optimise its personnel headcount. The objective of the programme is to reduce the number of its branch staff by up to 10% during 2015 with a view to increase productivity and decrease personnel expenses.

On 9 July 2015, Ark Finance B.V. launched the Tender Offer and Consent Solicitation. Upon the final expiration of the Tender Offer and Consent Solicitation, tenders in respect of U.S.$ 59,000,000 aggregate principal amount of 2017 Notes, and consents representing 100% of the aggregate outstanding principal amount of 2017 Notes, had been received. Subject to the satisfaction of the conditions to the Tender Offer and Consent Solicitation, which include the issuance of the Notes, Ark Finance B.V. shall acquire the tendered 2017 Notes for a total aggregate purchase price of U.S.$ 59,983,333.34 representing the principal amount of and accrued interest on such tendered and accepted 2017 Notes, whereupon an aggregate principal amount of U.S.$ 16,000,000 of 2017 Notes shall remaining outstanding. Ark Finance B.V. shall also pay U.S.$ 750,000 to the holders of 2017 Notes giving their consent and U.S.$ 116,500 to the holders of 2017 Notes in respect of 2017 Notes tendered and accepted in the Tender Offer and Consent Solicitation. These payments made for the purchase of 2017 Notes pursuant to the Tender Offer and Consent Solicitation and such consent and exchange payments to holders of 2017 Notes shall be financed by proceeds from the offering of the new Notes. See *"Use of Proceeds."*

Explanation of Key Income Statement Line Items

Interest Income

Interest income is primarily composed of income earned on loans to corporate and retail customers, loans and advances to banks located in Armenia, reverse repurchase agreements with Armenian financial institutions and available-for-sale financial assets consisting primarily of Armenian Government securities held by the Bank (which may be subject to repurchase agreements). The Bank also earns interest income on its own securities pledged as part of repurchase agreements.

Corporate customers include legal entities with an annual turnover of AMD 1,200 million, as well as SMEs (which the Bank defines as legal entities with annual turnover of AMD 60-1,200 million) and micro loan recipients (defined as legal entities and sole proprietorships with less than AMD 60 million in annual turnover). Retail customers are individuals.

Loans and advances to banks located in Armenia mainly consist of interbank loans with an average maturity of up to six months.

Reverse repurchase agreements with Armenian financial institutions consist of the Bank purchasing securities from medium-sized Armenian financial institutions and reselling such securities back to them at an agreed price, reflecting interest accrual. The maturity of such agreements is typically up to 21 days.

Interest Expense

Interest expense is primarily composed of interest payable by the Bank on: current accounts and deposits from both retail and corporate customers; deposits and balances from banks and other borrowings, including amounts payable under repurchase agreements (under which the Bank sells securities, typically to the CBA, and repurchases such securities back from them at an agreed price, reflecting interest accrual); vostro accounts (which are deposits of other banks held with the Bank); and debt securities issued.

Fee and Commission Income

Fee and commission income is primarily composed of income earned on cash withdrawals, plastic card servicing, remittances and guarantees and letters of credit.

Fee and Commission Expense

Fee and commission expense is primarily composed of fees payable by the Bank on correspondent accounts, plastic card operations, transfer operations, guaranties and letters of credit.

Net foreign exchange income

Net foreign exchange income is primarily composed of gains on spot transactions and, to a lesser extent, net gains from the revaluation of financial assets and liabilities. Spot transactions are foreign exchange transactions between Ardshinbank and a counterparty. Financial assets and liabilities denominated in foreign currencies on the reporting date are converted into drams at the exchange rate prevailing on that date; a revaluation of such assets and liabilities arises when there is a difference between the value in drams of such assets and liabilities at the beginning of the period and at the end of the period (adjusted for interest and other payments).

Net gain on available-for-sale financial assets

Available-for-sale financial assets are securities, primarily Armenian Government securities and, to a lesser extent, corporate bonds (typically issued by Armenian quasi-sovereign entities, such as the state mortgage agency) held by the Bank, including securities subject to repurchase agreements. Gains arise upon the derecognition of such available-for-sale financial assets. Derecognition of a financial asset occurs when Ardshinbank (i) no longer has the contractual rights to the cash flows from the asset; (ii) transfers the asset as a result of which it no longer retains substantially all of the risks and rewards of ownership over the asset; or (iii) otherwise no longer controls the asset.

Impairment losses

Impairment losses are incurred to the extent there is objective evidence that a financial asset (or group of financial assets) has been impaired, including as a result of default, borrower delinquency, a breach of loan covenants or conditions, indications that a borrower will enter bankruptcy, deterioration in the value of collateral as well as other adverse changes in the payment status of borrowers or overall economic conditions.

Ardshinbank estimates the impairment of loans to corporate customers (including SMEs) based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment have been identified. The Bank makes the following key assumptions when assessing loan impairment for loans to corporate customers:

- an historic annual loss rate of 1.1%;
- a loss rate of 0% for loans secured by cash and deposits or state and municipal guarantees;
- a discount of between 20-40% to the originally appraised value if the property pledged is sold; and
- a delay of 12-36 months for obtaining proceeds from the foreclosure of collateral.

Impairment of loans to retail customers is assessed by group (e.g., mortgage loans, gold loans, debit card overdrafts) and is based on the Bank's historical loss experience for each loan group.

See "*Risk Management—Credit Risk—Lending Policies and Procedures—Loan Classification, Provisioning and Write-offs*" for a description of the Bank's loan classification system.

Personnel expenses

Personnel expenses comprise employee compensation, including payroll taxes and medical insurance.

Other general administrative expenses

Other general administrative expenses are primarily composed of depreciation and amortisation, taxes other than on income and advertising, marketing and agent expenses, and, to a lesser extent, operating lease expenses and expenses on security, communications and information services, insurance, repairs and maintenance and utilities and contributions to Armenia's deposit insurance fund.

Income tax expense

Income tax expense comprise current income tax expense, which is the expected tax payable on the taxable income for the period and any adjustment to tax payable in respect of previous years, and movements in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. For the periods under review, Ardshinbank's income tax rate was 20%.

Results of Operations for the Three Month Periods Ended 31 March 2015 and 2014

Ardshinbank generated net profit of AMD 0.5 billion during the three months ended 31 March 2015, compared to AMD 1.3 billion during the three months ended 31 March 2014.

The following table sets forth the Bank's results of operations for the periods indicated:

	Three months ended 31 March	
	2015	2014
	(AMD thousands)	
Interest income	8,966,913	6,204,319
Interest expense	(6,256,004)	(3,563,142)
Net interest income	**2,710,909**	**2,641,177**
Fee and commission income	675,174	856,002
Fee and commission expense	(146,800)	(139,142)
Net fee and commission income	**528,374**	**716,860**
Net foreign exchange income	514,625	337,970
Net gain on available-for-sale financial assets	57,079	1,005,242
Other operating income	66,983	126,250
Operating income	**3,877,970**	**4,827,499**
Impairment losses	(1,005,815)	(985,517)
Personnel expenses	(1,146,414)	(1,060,763)
Other general administrative expenses	(1,069,166)	(1,109,652)
Profit before income tax	**656,575**	**1,671,567**
Income tax expense	(124,678)	(343,739)
Profit for the quarter	**531,897**	**1,327,828**
Other comprehensive income, net of income tax		
Items that are or may be reclassified subsequently to profit or loss:		
Revaluation reserve for available-for-sale financial assets:		
—Net change in fair value	(410,140)	(198,967)
—Net change in fair value transferred to profit or loss	(45,663)	(804,194)
Total items that are or may be reclassified subsequently to profit or loss	*(455,803)*	*(1,003,161)*
Other comprehensive income/ (loss) for the period, net of income tax	**(455,803)**	**(1,003,161)**
Total comprehensive income for the quarter	**76,094**	**324,667**

Interest Income

For the three months ended 31 March 2015, Ardshinbank's interest income increased by 44.5% to AMD 9.0 billion, compared to AMD 6.2 billion for the three months ended 31 March 2014. The following table sets forth the principal components of the Bank's interest income for the periods indicated:

	For the three months ended 31 March			
	2015		2014	
	AMD thousands	% of total	AMD thousands	% of total
Interest income				
Loans to customers	7,931,377	88.4	5,477,989	88.3
Available-for-sale financial assets	547,733	6.1	494,290	8.0
Loans and advances to banks and financial institutions	471,851	5.3	207,233	3.3
Other	15,952	0.2	24,807	0.4
Total interest income	**8,966,913**	**100.0**	**6,204,319**	**100.0**

The increase in the Bank's interest income for the three months ended 31 March 2015 resulted mainly from an increase in interest income on loans to customers and on loans and advances to banks and financial institutions.

Interest income on loans to customers for the three months ended 31 March 2015 increased by 44.8% to AMD 7.9 billion, compared to AMD 5.5 billion for the three months ended 31 March 2014, mainly due to an increase in the balance of loans to customers and in the average interest rate. The Bank's balance of loans to customers (net of allowance for impairment losses) increased by AMD 72.4 billion, or 43.5%, to AMD 238.8 billion as of 31 March 2015 from AMD 166.3 billion as of 31 March 2014, primarily due to the following factors: (i) a AMD 49.6 billion, or 44.6%, increase in the balance of loans to corporate customers; (ii) an AMD 11.0 billion, or 41.6%, increase in the balance of gold loans to retail customers; (iii) an AMD 4.0 billion, or 28.4%, increase in the balance of credit/debit card loans to retail customers; and (iv) AMD 4.0 billion, or 52.5%, increase in the balance of mortgage loans to retail customers. The average interest rate paid on loans to customers increased to 14.1% for the three months ended 31 March 2015 from 13.2% for the three months ended 31 March 2014, mainly due to an increase in the dram rates reflecting the rise of the CBA's key interest rates. As of 31 March 2015, net loans to corporate customers and net loans to retail customers accounted for 67.3% and 32.7%, respectively, of Ardshinbank's net loans to customers.

Interest income on loans and advances to banks and financial institutions for the three months ended 31 March 2015 increased by 127.7% to AMD 0.5 billion, compared to AMD 0.2 billion for the three months ended 31 March 2014 mainly due to an increase in the average interest rate, partially offset by a decline in the balance of loans and advances to banks and financial institutions. The average interest rate paid increased to 9.6% for the three months ended 31 March 2015 from 5.3% for the three months ended 31 March 2014. The balance of loans and advances to banks and financial institutions declined by AMD 6.2 billion, or 36.7%, to AMD 10.6 billion as of 31 March 2015 from AMD 16.8 billion as of 31 March 2014, primarily due to decrease in reverse repurchase agreements with Armenian financial institutions which was partly offset by increase of AMD 1.6 billion in the balance of loans and deposits with the 10 largest banks in Armenia and AMD 3.5 billion in the balance of loans and deposits with other Armenian banks.

Interest Expense

For the three months ended 31 March 2015, Ardshinbank's interest expense increased by 75.6% to AMD 6.3 billion, compared to AMD 3.6 billion for the three months ended 31 March 2014. The following table sets forth the principal components of the Bank's interest expense for the periods indicated:

	For the three months ended 31 March			
	2015		2014	
	AMD thousands	% of total	AMD thousands	% of total
Interest expense				
Current accounts and deposits from customers	3,081,431	49.3	2,884,460	81.0
Deposits and balances from banks and other borrowings	2,072,411	33.1	678,682	19.0
Debt securities issued	1,102,162	17.6	0.0	0.0
Total interest expense	**6,256,004**	**100.0**	**3,563,142**	**100.0**

The increase in the Bank's interest expense for the three months ended 31 March 2015 mainly resulted from an increase in interest expense on deposits and balances from banks and other borrowings and on debt securities issued.

Interest expense on deposits and balances from banks and other borrowings for the three months ended 31 March 2015 increased by 205.4% to AMD 2.1 billion, compared to AMD 0.7 billion for the three months ended 31 March 2014, mainly due to an increase in the volume of deposits and balances from banks and other borrowings and in the average interest rate. The volume of deposits and balances from banks and other borrowings increased by AMD 56.1 billion, or 116.2%, to AMD 104.4 billion as of 31 March 2015 from AMD 48.3 billion as of 31 March 2014, primarily due to a AMD 4.2 billion increase in the balance of amounts in vostro accounts and a AMD 16.9 billion increase in the balance of amounts payable under repurchase agreements. The increase in the balance of vostro accounts was mainly due to a single interbank transaction in March 2015. Amounts payable under repurchase agreements reflects the obligation to repay the cash received in exchange for securities sold by Ardshinbank under repurchase agreements (which, for purposes of Ardshinbank's accounts, are treated as secured lending obligations). The increase in amounts payable under repurchase agreements was mainly due to repurchase agreements with the CBA. The average interest rate paid on deposits and balances from banks and other borrowings increased to 8.3% for the three months ended 31 March 2015 from 4.9% for the three months ended 31 March 2014 as a result of higher interest rates paid on repurchase transactions and on the Bank's international borrowings. The following table sets forth the average interest rate by type of deposit:

	Three months ended 31 March	
	2015	**2014**
	(%)	
Current account and demand deposits	1.8	1.9
Retail	4.8	4.6
Corporate	0.9	1.2
Term deposits	8.8	9.2
Retail	8.9	9.6
Corporate	8.7	8.5

Interest expense on debt securities issued totaled AMD 1.1 billion for the three months ended 31 March 2015 on account of the issuance of the 2017 Notes in December 2014.

Net Interest Income

The following table sets forth the Bank's net interest income for the periods indicated:

	For the three months ended 31 March	
	2015	**2014**
	AMD thousands, except percentages	**AMD thousands, except percentages**
Interest income	8,966,913	6,204,319
Interest expense	6,256,004	3,563,142
Net interest income	2,710,909	2,641,177
Net interest margin(1)	**3.1%**	**4.1%**

Note:
(1) Net interest margin is net interest income as a percentage of average interest earning assets. See "*Selected Statistical Information.*"

For the reasons set forth above, net interest income increased by AMD 0.1 billion, or 2.6%, to AMD 2.7 billion for the three months ended 31 March 2015 from AMD 2.6 billion for the three months ended 31 March 2014. For the three months ended 31 March 2015, net interest margin decreased to 3.1% from 4.1% for the three months ended 31 March 2014, primarily due to interest expense increasing at a faster rate than interest income, which, in turn, was due to the combination of excess liquidity at the end of 2014 continuing into the first quarter of 2015 (which was partially attributable to the management's decision to create a liquidity cushion (in view of its concerns about potential adverse changes in the Armenian economy in the second half of 2014) and which also resulted in an increase in lending on the part of the Bank into lower-margin, lower-credit-risk products, such as interbank loans, which are effectively guaranteed by the CBA), an increase in borrowings from international financial institutions and the issuance of the 2017 Notes.

Fee and Commission Income

For the three months ended 31 March 2015, the Bank's fee and commission income decreased by 21.1% to AMD 0.7 billion, compared to AMD 0.9 billion for the three months ended 31 March 2014. The following table sets forth the principal components of the Bank's fee and commission income for the periods indicated:

	For the three months ended 31 March			
	2015		2014	
	AMD thousands	% of total	AMD thousands	% of total
Plastic card servicing	167,110	24.8	364,772	42.6
Cash withdrawal	298,826	44.2	256,574	30.0
Remittances	151,181	22.4	170,738	19.9
Guarantee and letter of credit issuance	43,864	6.5	45,612	5.4
Other	14,193	2.1	18,306	2.1
Total fee and commission income	**675,174**	**100.0**	**856,002**	**100.0**

The decrease in the Bank's fee and commission income for the three months ended 31 March 2015 resulted mainly from a decline in fees and commissions earned on plastic card servicing, partially offset by an increase in fees and commissions earned on cash withdrawals.

Fees and commissions from plastic card servicing for the three months ended 31 March 2015 decreased by 54.2% to AMD 0.2 billion, compared to AMD 0.4 billion for the three months ended 31 March 2014, as in the first quarter of 2015 the Bank both tightened its requirements for issuing new debit cards and the overdraft facility available and also cancelled inactive debit cards (so that the total number of debit cards in issuance fell from approximately 186 thousand as of 31 December 2014 to 154 thousand as of 31 March 2015).

Fees and commissions earned on cash withdrawals for the three months ended 31 March 2015 increased by 16.5% to AMD 298.8 million, compared to AMD 256.6 million for the three months ended 31 March 2014, as customers made more cash withdrawals.

Fee and Commission Expense

For the three months ended 31 March 2015, compared to the three months ended 31 March 2014, the Bank's fee and commission expense remained largely unchanged, equaling AMD 0.1 billion in both periods.

Net Fee and Commission Income

For the reasons set forth above, net fee and commission income decreased by AMD 0.2 billion, or 26.3%, to AMD 0.5 billion for the three months ended 31 March 2015 from AMD 0.7 billion for the three months ended 31 March 2014. The net interest, fee and commission income margin (calculated as annualised net interest, fee and commission income as a percentage of average interest-earning assets for the quarter (using the simple average of such assets as of the start and end of the quarter)) for the three months ended 31 March 2015 was 3.7%, compared to 5.2% for the three months ended 31 March 2014.

Net Foreign Exchange Income

For the three months ended 31 March 2015, the Bank's net foreign exchange income increased by 52.3% to AMD 0.5 billion, compared to AMD 0.3 billion for the three months ended 31 March 2014, as a result of a AMD 0.2 billion, or 58.0%, increase in gains on spot transactions.

Net gain on Available-for-Sale Financial Assets

For the three months ended 31 March 2015, Ardshinbank's net gain on available-for-sale financial assets declined by AMD 0.9 billion to AMD 0.1 billion, compared to AMD 1.0 billion for the three months ended 31 March 2014. The net gain on available-for-sale financial assets for the three months ended 31 March 2014 was mainly due to the Bank's sale of Armenian Government bonds.

Operating Income

For the reasons set forth above, the Bank's operating income decreased by AMD 0.9 billion, or 19.7%, to AMD 3.9 billion for the three months ended 31 March 2015 from AMD 4.8 billion for the three months ended 31 March 2014.

Impairment Losses

For the three-month periods ended 31 March 2015 and 2014, the Bank's impairment losses amounted to AMD 1 billion. For the three months ended 31 March 2015 and 2014, the Bank's cost of risk related to its loan portfolio (i.e., annualised impairment losses as a percentage of the period-end gross loan portfolio) was 1.7% and 2.3%, respectively.

For the three months ended 31 March 2015, the Bank recovered on an impaired loan to a corporate customer, which amount more than offset the Bank's impairment losses on loans to corporate customers for the quarter. For the three months ended 31 March 2014, impairment losses in connection with loans to corporate customers totaled AMD 0.4 billion. Impairment losses in connection with loans to retail customers totaled AMD 1.1 billion for the three months ended 31 March 2015, compared to AMD 0.6 billion for the three months ended 31 March 2014.

The positive movement in the Bank's impairment allowance on loans to corporate customers for the three months ended 31 March 2015 reflected not only the recovery of an impaired loan, but also the Bank's decision, in response to the depreciation of the dram, to reevaluate its credit risk rating system and client scoring methods in an effort to lend to less risky clients. This is in line with the Bank's strategy to limit its lending in respect of large corporate clients to those existing clients whose credit quality is well understood by the Bank, while only quite selectively taking on new large corporate clients. See "*Business—Strategy—Nurturing its existing corporate relationships while expanding its retail, SME and micro lines of business*." The increase in impairment losses on loans to retail customers for the three months ended 31 March 2015, compared to the three months ended 31 March 2014, was due to deterioration of the Armenian economy beginning in the second half of 2014, including the depreciation of the dram and the decline in remittances, which has contributed to an increase in impaired retail loans.

Personnel Expenses

For each of the three-month periods ended 31 March 2015 and 2014, the Bank's personnel expenses totaled AMD 1.1 billion. For the three months ended 31 March 2015, Ardshinbank recorded an increase in salaries for certain managers, which was largely offset by a reduction in personnel headcount, compared to the three months ended 31 March 2014.

Other General Administrative Expenses

For each of the three month periods ended 31 March 2015 and 2014, Ardshinbank's other general administrative expenses were AMD 1.1 billion.

The following table sets forth the principal components of the Bank's other general administrative expenses for the periods indicated:

	For the three months ended 31 March			
	2015		2014	
	AMD thousands	% of total	AMD thousands	% of total
Depreciation and amortisation	166,214	15.6	250,163	22.5
Taxes other than on income	149,705	14.0	97,523	8.8
Advertising, marketing and agent expenses	140,047	13.1	205,906	18.6
Security	79,325	7.4	69,125	6.2
Operating lease expense	70,621	6.6	58,096	5.2
Deposit insurance fund	47,128	4.4	42,171	3.8
Communications and information services	40,626	3.8	38,874	3.5
Insurance	34,568	3.2	39,357	3.6
Repairs and maintenance	33,897	3.2	28,786	2.6
Utilities and office maintenance	30,973	2.9	39,545	3.6
Cash transportation expenses	29,878	2.8	26,676	2.4
Office supplies	20,623	1.9	16,260	1.5
Professional services	17,065	1.6	17,920	1.6
Travel expenses	14,231	1.3	8,698	0.8
Other(1)	194,265	18.2	170,552	15.3
Total general administrative expenses	**1,069,166**	**100.0**	**1,109,652**	**100.0**

Note:

(1) Other general administrative expenses mainly consist of expenses for IT software services, correspondent accounts services and rating agency services.

Depreciation and amortisation for the three months ended 31 March 2015 decreased by 33.6% to AMD 0.2 billion, compared to AMD 0.3 billion for the three months ended 31 March 2014, mainly as a result of a change in the estimated useful lives of certain assets.

Taxes other than on income totaled AMD 0.1 billion for each of the three month periods ended 31 March 2015 and 2014.

Advertising, marketing and agent expenses for the three months ended 31 March 2015 decreased by 32.0% to AMD 0.1 billion, compared to AMD 0.2 billion for the three months ended 31 March 2014, mainly as a result of a decrease in marketing and promotion activities for the Bank's plastic card products as the Bank curtailed efforts to increase issuance of its debit cards.

Profit before Income Tax

For the reasons set forth above, Ardshinbank's profit before income tax decreased by AMD 1.0 billion, or 60.7%, to AMD 0.7 billion for the three months ended 31 March 2015 from AMD 1.7 billion for the three months ended 31 March 2014.

Income Tax Expense

For the three months ended 31 March 2015, Ardshinbank's income tax expense decreased by AMD 0.2 billion, or 63.7%, to AMD 0.1 billion, compared to AMD 0.3 billion for the three months ended 31 March 2014.

The decrease in the Bank's income tax expense for the three months ended 31 March 2015, compared to the three months ended 31 March 2014, resulted mainly from lower profits.

The Bank's effective tax rate for the three months ended 31 March 2015 was 19%, compared to 21% for the three months ended 31 March 2014.

Profit for the Quarter

For the reasons set forth above, Ardshinbank's profit for the quarter decreased by AMD 0.8 billion, or 59.9%, to AMD 0.5 billion for the three months ended 31 March 2015 from AMD 1.3 billion for the three months ended 31 March 2014.

Results of Operations for the Years Ended 31 December 2014, 2013 and 2012

Ardshinbank generated net profit of AMD 3.9 billion for the year ended 31 December 2014, compared to AMD 6.4 billion for the year ended 31 December 2013 and AMD 4.2 billion for the year ended 31 December 2012.

The following table sets forth the Bank's results of operations for the years indicated:

	Year ended 31 December		
	2014	2013	2012
	(AMD thousands)		
Interest income	27,499,158	26,973,386	19,889,377
Interest expense	(16,113,474)	(12,694,694)	(8,421,325)
Net interest income	**11,385,684**	**14,278,692**	**11,468,052**
Fee and commission income	3,584,553	3,012,201	1,951,823
Fee and commission expense	(608,280)	(465,344)	(379,227)
Net fee and commission income	**2,976,273**	**2,546,857**	**1,572,596**
Net foreign exchange income	2,543,357	1,727,993	1,363,755
Net gain on available-for-sale financial assets	1,668,990	867,844	28,257
Other operating income	579,532	650,499	701,654
Operating income	**19,153,836**	**20,071,885**	**15,134,314**
Impairment losses	(4,857,894)	(3,654,918)	(2,527,913)
Personnel expenses	(4,580,069)	(3,942,017)	(3,607,523)
Other general administrative expenses	(4,856,752)	(4,420,856)	(3,578,960)
Profit before income tax	**4,859,121**	**8,054,094**	**5,419,918**
Income tax expense	(950,143)	(1,633,714)	(1,186,539)
Profit for the year	**3,908,978**	**6,420,380**	**4,233,379**
Other comprehensive (loss) income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
—Net change in fair value	(1,282,810)	2,557,411	112,383
—Net change in fair value transferred to profit or loss	(1,335,192)	(694,275)	(22,606)
Total items that are or may be reclassified subsequently to profit or loss	*(2,618,002)*	*1,863,136*	*89,777*
Items that will not be reclassified to profit or loss:			
Revaluation of land and buildings	1,724,243	0.0	0.0
Total items that will not be reclassified to profit or loss	*1,724,243*	*0.0*	*0.0*
Other comprehensive (loss) income for the year, net of income tax	**(893,759)**	**1,863,136**	**89,777**
Total comprehensive income for the year	**3,015,219**	**8,283,516**	**4,323,156**

Interest income

For the year ended 31 December 2014, Ardshinbank's interest income increased by 1.9% to AMD 27.5 billion from AMD 27.0 billion for the year ended 31 December 2013. For the year ended 31 December 2013, interest income increased by 35.6% to AMD 27.0 billion from AMD 19.9 billion for the year ended 31 December 2012. The following table sets forth the principal components of the Bank's interest income for the years indicated:

	For the year ended 31 December					
	2014		2013		2012	
	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total
Interest income						
Loans to customers	24,217,976	88.1	23,859,507	88.4	18,085,324	90.9
Available-for-sale financial assets	1,764,546	6.4	2,532,962	9.4	1,538,355	7.7
Loans and advances to banks and financial institutions	1,436,064	5.2	453,753	1.7	233,760	1.2
Other	80,572	0.3	127,164	0.5	31,938	0.2
	27,499,158	**100**	**26,973,386**	**100**	**19,889,377**	**100**

Year ended 31 December 2014 compared to year ended 31 December 2013

The increase in the Bank's interest income for the year ended 31 December 2014, compared to the year ended 31 December 2013, resulted from an increase in interest income on loans and advances to banks and financial institutions and on loans to customers, partially offset by a decrease in income earned on available-for-sale financial assets.

Interest income on loans and advances to banks and financial institutions for the year ended 31 December 2014 increased by 216.5% to AMD 1.4 billion, compared to AMD 0.5 billion for the year ended 31 December 2013, mainly due to an increase in the balance of such loans and advances and in the average interest rate. The balance of loans and advances to banks and financial institutions increased by AMD 17.2 billion, or 163.8%, to AMD 27.7 billion as of 31 December 2014 from AMD 10.5 billion as of 31 December 2013, primarily due to a AMD 15.7 billion increase in the balance of loans and deposits with several of the 10 largest banks in Armenia and the Bank's decision to place loans and deposits with other Armenian banks beyond those in the top 10 (the balance with such banks equaling AMD 5.9 billion as of 31 December 2014). Intra-bank loans in the Armenian market are effectively guaranteed by the CBA. The increase in the balance of loans to banks was mainly the result of a sharp increase in the Bank's borrowings from international financial institutions as well as the issuance of the 2017 Notes, which led to an increase in liquidity and the Bank's decision to lend much of this liquidity to banks on the interbank loan market. The average interest rate on the Bank's loans and advances to banks and financial institutions decreased to 5.8% for the year ended 31 December 2014 from 8.5% for the year ended 31 December 2013, mainly as a result of an increase in the share of foreign-currency loans in the Bank's loan portfolio; in 2014, loans denominated in foreign currencies charged lower interest rates than loans denominated in drams.

Interest income on loans to customers for the year ended 31 December 2014 increased by 1.5% to AMD 24.2 billion, compared to AMD 23.9 billion for the year ended 31 December 2013, mainly due to an increase in the balance of loans to customers, partially offset by a decline in the average interest rate. The Bank's balance of loans to customers (net of allowance for impairment losses) increased by AMD 47.6 billion, or 27.6%, to AMD 219.9 billion as of 31 December 2014 from AMD 172.3 billion as of 31 December 2013, primarily due to the following factors: (i) a AMD 34.3 billion, or 28.2%, increase in the balance of loans to corporate customers; (ii) a AMD 4.5 billion, or 18.7%, increase in the balance of gold loans to retail customers; (iii) a AMD 3.7 billion, or 27.2%, increase in the balance of credit/debit card loans (primarily in the form of overdrafts on debit cards) to retail customers; and (iv) a AMD 3.5 billion, or 54.2%, increase in the balance of mortgage loans to retail customers, all due to growing demand for such products. The average interest rate on loans to customers decreased to 13.6% for the year ended 31 December 2014 from 14.2% for the year ended 31 December 2013. The average interest rate on loans to corporate and retail customers declined to 10.7% and 19.5%, respectively, for the year ended 31 December 2014, from 11.1% and 19.8%, respectively, for the year ended 31 December 2013. The decline in the average interest rate on loans to customers arose in part due to dollar-denominated loans, generally carrying lower rates of interest than dram-denominated, comprising more of the loan portfolio: dollar-denominated loans as a percentage of net loans to customers stood at 58.4% as of 31 December 2014 and 47.8% as of 31 December 2013.

Interest income on available-for-sale financial assets for the year ended 31 December 2014 decreased by 30.3% to AMD 1.8 billion, compared to AMD 2.5 billion for the year ended 31 December 2013, mainly due to a decline in the balance of available-for-sale financial assets held by the Bank and to a decline in the average interest rate earned on such assets. The Bank's balance of available-for-sale financial assets declined by AMD 5.3 billion, or 23.6%, to AMD 17.2 billion as of 31 December 2014 from AMD 22.5 billion as of 31 December 2013. See "*—Financial Condition—Total Assets—Available-for-Sale Financial Assets*." The average interest rate on such assets fell to 12.1% for the year ended 31 December 2014 from 14.4% for the year ended 31 December 2013.

Year ended 31 December 2013 compared to year ended 31 December 2012

The increase in Ardshinbank's interest income for the year ended 31 December 2013, compared to the year ended 31 December 2012, reflected increases in interest income on loans to customers, on available-for-sale financial assets and on loans and advances to banks.

Interest income on loans to customers for the year ended 31 December 2013 increased by 31.9% to AMD 23.9 billion, compared to AMD 18.1 billion for the year ended 31 December 2012, mainly due to an increase in the balance of loans to customers, partially offset by a decline in the average interest rate. The Bank's balance of loans to customers (net of allowance for impairment losses) increased by AMD 39.6 billion, or 29.8%, to AMD 172.3 billion as of 31 December 2013 from AMD 132.7 billion as of 31 December 2012, primarily due to the following factors: (i) a AMD 34.2 billion, or 39.1%, increase in the balance of loans to corporate customers; (ii) a AMD 4.5 billion, or 49.9%, increase in the balance of credit card (including debit card) loans (primarily in the form of overdrafts on debit cards) to retail customers; and (iii) an AMD 2.3 billion, or 56.0%, increase in the balance of mortgage loans to retail customers. The average interest rate on loans to customers decreased to 14.2% for the year ended 31 December 2013 from 14.5% for the year ended 31 December 2012. The average interest rate on loans to corporate and retail customers declined to 11.1% and 19.8%, respectively, for the year ended 31 December 2014, from 11.3% and 20.3%, respectively, for the year ended 31 December 2013.

Interest income on available-for-sale financial assets for the year ended 31 December 2013 increased by 64.7% to AMD 2.5 billion, compared to AMD 1.5 billion for the year ended 31 December 2012, mainly due to an increase in both the balance of available-for-sale financial assets held by the Bank and the average interest rate earned on such assets. Balances of available-for-sale financial assets increased by AMD 9.1 billion, or 68.1%, to AMD 22.5 billion as of 31 December 2013 from AMD 13.4 billion as of 31 December 2012, while the average interest rate earned on such assets increased to 14.4% for the year ended 31 December 2013 from 13.4% for the year ended 31 December 2012. See "*—Financial Condition—Total Assets—Available-for-Sale Financial Assets*."

Interest income on loans and advances to banks for the year ended 31 December 2013 increased by 94.1% to AMD 0.5 billion, compared to AMD 0.2 billion for the year ended 31 December 2012, mainly due to an increase in the balance of such loans and advances, partially offset by a decrease in the average interest rate earned on such loans and advances. The balance of loans and advances to banks and financial institutions increased by AMD 5.0 billion, or 89.9%, to AMD 10.5 billion as of 31 December 2013 from AMD 5.5 billion as of 31 December 2012, primarily due to a balance of AMD 5.0 billion of overnight loans to Armenian financial institutions (executed through NASDAQ OMX Armenia) in 2013, and a AMD 1.4 billion, or 165.0%, increase in the balance of loans and deposits with several of the 10 largest banks in Armenia, partially offset by a zero balance of reverse repurchase agreements with Armenian banks as of 31 December 2013 (compared to a balance of AMD 1.7 billion as of 31 December 2012). The average interest rate on loans and advances to banks and financial institutions decreased to 8.5% for the year ended 31 December 2013 from 10.0% for the year ended 31 December 2012.

Interest Expense

For the year ended 31 December 2014, Ardshinbank's interest expense increased by 26.9% to AMD 16.1 billion from AMD 12.7 billion for the year ended 31 December 2013. For the year ended 31 December 2013, interest expense increased by 50.7% to AMD 12.7 billion from AMD 8.4 billion for the year ended 31 December 2012. The following table sets forth the principal components of the Bank's interest expense for the periods indicated:

	For the year ended 31 December					
	2014		2013		2012	
	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total
Interest expense						
Current accounts and deposits from customers	12,295,265	76.3	9,510,807	74.9	6,730,593	79.9
Deposits and balances from banks and other borrowings	3,540,469	22.0	3,183,887	25.1	1,690,732	20.1
Debt securities issued	277,740	1.7	0.0	0.0	0.0	0.0
Total interest expense	**16,113,474**	**100**	**12,694,694**	**100**	**8,421,325**	**100**

Year ended 31 December 2014 compared to year ended 31 December 2013

The increase in the Bank's interest expense for the year ended 31 December 2014 resulted from an increase in interest expense on current accounts and deposits from customers, deposits and balances from banks and other borrowings and debt securities issued.

Interest expense on current accounts and deposits from customers for the year ended 31 December 2014 increased by 29.3% to AMD 12.3 billion, compared to AMD 9.5 billion for the year ended 31 December 2013, mainly due to an increase in the balance of retail and corporate term deposits held with the Bank. The Bank's balance of retail term deposits increased by AMD 12.5 billion, or 17.2%, to AMD 85.2 billion as of 31 December 2014 from AMD 72.7 billion as of 31 December 2013, while its balance of corporate term deposits increased by AMD 15.2 billion, or 36.7%, to AMD 56.5 billion as of 31 December 2014 from AMD 41.3 billion as of 31 December 2013, both increases due to the expansion of the Bank's client base. With respect to corporate clients, the expansion reflected both an increase of current accounts/deposits by existing clients and the attraction of new clients, including SMEs. The average interest rate on current accounts and deposits remained relatively unchanged at 7.0% for the year ended 31 December 2014 and 6.9% for the year ended 31 December 2013; this was in part due to dollar-denominated current accounts and deposits from customers, generally carrying lower rates of interest than dram-denominated, which amounted to 51.4% as of 31 December 2014 compared to 43.1% as of 31 December 2013 of total current accounts and deposits from customers. The following table sets forth the average interest rate by type of deposit:

	Year ended 31 December	
	2014	2013
	(%)	
Current account and demand deposits	1.8	1.4
Retail	3.9	2.9
Corporate	1.0	1.0
Term deposits	9.2	9.3
Retail	9.4	9.7
Corporate	8.7	8.5

Interest expense on deposits and balances from banks and other borrowings for the year ended 31 December 2014 increased by 11.2% to AMD 3.5 billion, compared to AMD 3.2 billion for the year ended 31 December 2013, mainly due to an increase in the volume of deposits and balances from banks and other borrowings and in the average interest rate. The Bank's volume of deposits and balances from banks and other borrowings increased by AMD 35.2 billion, or 55.3%, to AMD 98.7 billion as of 31 December 2014 from AMD 63.5 billion as of 31 December 2013, primarily due to a AMD 42.2 billion, or 99.3%, increase in the balance of loans from banks and other financial institutions, which was partially offset by AMD 7.0 billion, or 33.5%, decline in balances of amounts payable under repurchase agreements. The increase in the balance of loans from banks and other financial institutions, largely reflecting an increase in borrowings by international financial institutions, was used to finance growth in the Bank's loan portfolio. The average interest rate on deposits and balances from banks and other borrowings increased to 6.3% for the year ended 31 December 2014 from 5.3% for the year ended 31 December 2013; this increase was moderated by dollar-denominated deposits and balances from banks and other borrowings, generally carrying lower rates of interest than dram-denominated, which amounted to 62.4% as of 31 December 2014 compared to 42.4% as of 31 December 2013 (in part reflecting the issuance of the 2017 Notes) of the total deposits and balances from banks and other borrowings.

Year ended 31 December 2013 compared to year ended 31 December 2012

The increase in the Bank's interest expense for the year ended 31 December 2013 resulted from an increase in interest expense on current accounts and deposits from customers and on deposits and balances from banks and other borrowing.

Interest expense on current accounts and deposits from customers for the year ended 31 December 2013 increased by 41.3% to AMD 9.5 billion, compared to AMD 6.7 billion for the year ended 31 December 2012, mainly due to an increase in the balance of retail and corporate term deposits and retail and corporate current account and demand deposits held with the Bank and an increase in the average interest rate. The Bank's balance of retail term deposits increased by AMD 16.5 billion, or 29.4%, to AMD 72.7 billion as of 31 December 2013 from AMD 56.2 billion as of 31 December 2012, while its balance of corporate term deposits increased by AMD 10.5 billion, or 33.9%, to AMD 41.3 billion as of 31 December 2013 from AMD 30.8 billion as of 31 December 2012, both increases due to the expansion of the Bank's client base. With respect to corporate clients, the expansion reflected both an increase of current accounts/deposits by existing clients and the attraction of new clients, including SMEs. The Bank's balance of retail current account and demand deposits increased by AMD 2.5 billion, or 35.6%, to AMD 9.5 billion as of 31 December 2013 from AMD 7.0 billion as of 31 December 2012, and its balance of corporate current account and demand deposits increased by AMD 15.2 billion, or 74.7%, to AMD 35.6 billion as of 31 December 2013 from AMD 20.4 billion as of 31 December 2012. The average interest rate on current accounts and deposits from customers increased to 7.0% for the year ended 31 December 2013, from 6.5% for the year ended 31 December 2012. The following table sets forth the average interest rate by type of deposit:

	Year ended 31 December	
	2013	2012
	(%)	
Current account and demand deposits	1.4	1.4
Retail	2.9	2.7
Corporate	1.0	1.0
Term deposits	9.3	8.6
Retail	9.7	8.7
Corporate	8.5	8.4

Interest expense on deposits and balances from banks and other borrowings for the year ended 31 December 2013 increased by AMD 1.5 billion, or 88.3% to AMD 3.2 billion, compared to AMD 1.7 billion for the year ended 31 December 2012, mainly due to an increase in the volume of deposits and balances from banks and other borrowings and in the average interest rate. The Bank's volume of deposits and balances from banks and other borrowings increased by AMD 17.5 billion, or 38.1%, to AMD 63.5 billion as of 31 December 2013 from AMD 46.0 billion as of 31 December 2012, primarily due to a AMD 10.6 billion, or 33.0%, increase in the balance of loans from banks and other financial institutions and a AMD 7.0 billion, or 49.5%, increase in the balance of amounts payable under repurchase agreements. The increase in the balance of loans from banks and other financial institutions was mainly used to finance loan portfolio growth, while the increase in the balance of amounts payable under repurchase agreements reflected an increase in the Bank's demand for cash. The average interest rate on deposits and balances from banks and other borrowings increased to 6.0% for the year ended 31 December 2013 from 5.7% for the year ended 31 December 2012.

Net Interest Income

The following table sets forth the Bank's net interest income:

	For the year ended 31 December		
	2014	2013	2012
	(AMD thousands, except percentages)		
Interest income	27,499,158	26,973,386	19,889,377
Interest expense	(16,113,474)	(12,694,694)	(8,421,325)
Net interest income	11,385,684	14,278,692	11,468,052
Net interest margin(1)	**4.1%**	**6.4%**	**6.9%**

Note:
(1) Net interest margin is net interest income as a percentage of average interest earning assets. See "*Selected Statistical Information*."

For the reasons set forth above, net interest income decreased by AMD 2.9 billion, or 20.3%, to AMD 11.4 billion for the year ended 31 December 2014 from AMD 14.3 billion for the year ended 31 December 2013, and increased by AMD 2.8 billion, or 24.5%, to AMD 14.3 billion for the year ended 31 December 2013 from AMD 11.5 billion for the year ended 31 December 2012.

For the year ended 31 December 2014, net interest margin decreased to 4.1% from 6.4% for the year ended 31 December 2013 and 6.9% for the year ended 31 December 2012, primarily due to lower net interest spreads.

Fee and Commission Income

For the year ended 31 December 2014, Ardshinbank's fee and commission income increased by 19.0% to AMD 3.6 billion from AMD 3.0 billion for the year ended 31 December 2013. For the year ended 31 December 2013, the Bank's fee and commission income increased by 54.3% to AMD 3.0 billion from AMD 2.0 billion for the year ended 31 December 2012. The following table sets forth the principal components of the Bank's fee and commission income for the years indicated:

	For the year ended 31 December					
	2014		2013		2012	
	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total
Plastic card servicing	1,458,923	40.7	918,465	30.5	399,114	20.5
Cash withdrawal	1,137,646	31.7	1,094,423	36.3	818,572	41.9
Remittances	796,954	22.2	798,862	26.5	563,884	28.9
Guarantee and letter of credit issuance	113,584	3.2	121,957	4.1	74,511	3.8
Other	77,446	2.2	78,494	2.6	95,742	4.9
Total fee and commission income	**3,584,553**	**100.0**	**3,012,201**	**100.0**	**1,951,823**	**100.0**

Year ended 31 December 2014 compared to year ended 31 December 2013

The increase in the Bank's fee and commission income for the year ended 31 December 2014 resulted mainly from an increase in fees and commissions earned on plastic card servicing.

Fees and commissions from plastic card servicing for the year ended 31 December 2014 increased by 58.8% to AMD 1.5 billion, compared to AMD 0.9 billion for the year ended 31 December 2013, mainly due to an increase in the volume of the Bank's plastic card operations.

Year ended 31 December 2013 compared to year ended 31 December 2012

The increase in the Bank's fee and commission income for the year ended 31 December 2013 resulted mainly from an increase in fees and commissions earned on plastic card servicing, cash withdrawals and remittances.

Fees and commissions from plastic card servicing for the year ended 31 December 2013 increased by 130.1% to AMD 0.9 billion, compared to AMD 0.4 billion for the year ended 31 December 2012, mainly due to an increase in the volume of the Bank's plastic card operations.

Fees and commissions earned on cash withdrawals for the year ended 31 December 2013 increased by 33.7% to AMD 1.1 billion, compared to AMD 0.8 billion for the year ended 31 December 2012, mainly due to an increase in the volume of the Bank's cash withdrawal operations.

Fees and commissions earned on remittances for the year ended 31 December 2013 increased by 41.7% to AMD 0.8 billion, compared to AMD 0.6 billion for the year ended 31 December 2012, mainly due to an increase in the volume of remittances processed by the Bank from Armenians working abroad.

Fee and Commission Expense

For the year ended 31 December 2014, the Bank's fee and commission expense increased by 30.7% to AMD 0.6 billion from AMD 0.5 billion for the year ended 31 December 2013. For the year ended 31 December 2013, fee and commission expense increased by 22.7% to AMD 0.5 billion from AMD 0.4 billion for the year ended 31 December 2012. These increases in fee and commission expense, in both years, were mainly due to an increase in expenses on plastic card operations.

Net Fee and Commission Income

For the reasons set forth above, net fee and commission income increased by AMD 0.4 billion, or 16.9%, to AMD 3.0 billion for the year ended 31 December 2014 from AMD 2.5 billion for the year ended 31 December 2013, and increased by AMD 1.0 billion, or 62.0%, to AMD 2.5 billion for the year ended 31 December 2013 from AMD 1.6 billion for the year ended 31 December 2012. Net interest, fee and commission income margin (calculated as net interest, fee and commission income as a percentage of average interest-earning assets for the year (using the simple average of such assets as of the start and the end of the year)) for the year ended 31 December 2014 was 4.7%, compared to 7.6% for the year ended 31 December 2013 and 7.8% for the year ended 31 December 2012.

Net Foreign Exchange Income

Year ended 31 December 2014 compared to year ended 31 December 2013

For the year ended 31 December 2014, the Bank's net foreign exchange income increased by AMD 0.8 billion, or 47.2%, to AMD 2.5 billion, compared to AMD 1.7 billion for the year ended 31 December 2013, primarily as a result of an AMD 0.5 billion, or 26.8%, increase in gains on spot transactions.

Year ended 31 December 2013 compared to year ended 31 December 2012

For the year ended 31 December 2013, the Bank's net foreign exchange income increased by AMD 0.4 billion, or 26.7%, to AMD 1.7 billion, compared to AMD 1.4 billion for the year ended 31 December 2012, primarily as a result of an AMD 0.3 billion, or 22.5%, increase in gains on spot transactions.

Net Gain on Available-for-Sale Financial Assets

Year ended 31 December 2014 compared to year ended 31 December 2013

For the year ended 31 December 2014, the Bank's net gain on available-for-sale financial assets increased by AMD 0.8 billion, or 92.3%, to AMD 1.7 billion, compared to AMD 0.9 billion for the year ended 31 December 2013, mainly due to the Bank's increased sale of Armenian Government bonds.

Year ended 31 December 2013 compared to year ended 31 December 2012

For the year ended 31 December 2013, the Bank recognised a net gain on available-for-sale financial of AMD 0.9 billion due to the Bank's sale of Armenian Government bonds.

Operating Income

For the reasons set forth above, the Bank's operating income decreased by AMD 0.9 billion, or 4.6%, to AMD 19.2 billion for the year ended 31 December 2014 from AMD 20.1 billion for the year ended 31 December 2013, and increased by AMD 4.9 billion, or 32.6%, to AMD 20.1 billion for the year ended 31 December 2013 from AMD 15.1 billion for the year ended 31 December 2012.

Impairment Losses

Year ended 31 December 2014 compared to year ended 31 December 2013

For the year ended 31 December 2014, the Bank's impairment losses increased by AMD 1.2 billion, or 32.9%, to AMD 4.9 billion, compared to AMD 3.7 billion for the year ended 31 December 2013, as a result of higher impairment losses in connection with loans to retail customers (mainly due to the depreciation of the dram in the second half of 2014, which led to an increase in non-performing foreign currency denominated loans), and to loans to corporate customers. Impairment losses on loans to corporate customers increased as a result of the depreciation of the dram in the second half of 2014, which led to an increase in non-performing foreign currency denominated loans. For the years ended 31 December 2014 and 2013, the Bank's cost of risk related to its loan portfolio (i.e., impairment losses as a percentage of the year-end gross loan portfolio) was 2.2% and 2.1%, respectively.

Net charges in connection with loans to retail customers totaled AMD 2.9 billion for the year ended 31 December 2014, compared to AMD 2.2 billion for the year ended 31 December 2013. Net charges in connection with loans to corporate customers totaled AMD 1.9 billion for the year ended 31 December 2014, compared to AMD 1.4 billion for the year ended 31 December 2013.

Year ended 31 December 2013 compared to year ended 31 December 2012

For the year ended 31 December 2013, the Bank's impairment losses increased by AMD 1.1 billion, or 44.6%, to AMD 3.7 billion, compared to AMD 2.5 billion for the year ended 31 December 2012, as a result of higher impairment losses in connection with loans to retail customers, partially offset by lower impairment losses in connection with loans to corporate customers. For the years ended 31 December 2013 and 2012, the Bank's cost of risk related to its loan portfolio (i.e., impairment losses as a percentage of the year-end gross loan portfolio) was 2.1% and 1.9%, respectively.

Net charges in connection with loans to retail customers increased to AMD 2.2 billion for the year ended 31 December 2013 from AMD 0.5 billion for the year ended 31 December 2012, mainly due to the expansion in the Bank's portfolio of retail loans, which are generally riskier than corporate loans (while also earning relatively higher margins). Net charges in connection with loans to corporate customers decreased to AMD 1.4 billion for the year ended 31 December 2013 from AMD 2.1 billion for the year ended 31 December 2012 due to a decline in write-offs, a lower historical loss rate for corporate loans and the partial or full repayment of several of the Bank's impaired loans.

Personnel Expenses

Year ended 31 December 2014 compared to year ended 31 December 2013

For the year ended 31 December 2014, the Bank's personnel expenses increased by AMD 0.6 billion, or 16.2%, to AMD 4.6 billion, compared to AMD 3.9 billion for the year ended 31 December 2013 as a result of an increase in the average salary of Bank employees, as management took action to keep salaries competitive in the marketplace.

Year ended 31 December 2013 compared to year ended 31 December 2012

For the year ended 31 December 2013, the Bank's personnel expenses increased by AMD 0.3 billion, or 9.3%, to AMD 3.9 billion, compared to AMD 3.6 billion for the year ended 31 December 2012 as a result of an increase in the average salary of Bank employees, partially offset by a decline in the number of full-time employees from 1,133 as of 31 December 2012 to 1,081 as of 31 December 2013.

Other General Administrative Expenses

For the year ended 31 December 2014, Ardshinbank's other general administrative expenses increased by AMD 0.4 billion, or 9.9%, to AMD 4.9 billion from AMD 4.4 billion for the year ended 31 December 2013. For the year ended 31 December 2013, the Bank's other general administrative expenses increased by AMD 0.8 billion, or 23.5%, to AMD 4.4 billion from AMD 3.6 billion for the year ended 31 December 2012. The following table sets forth the principal components of the Bank's other general administrative expenses for the years indicated:

	For the year ended 31 December					
	2014		2013		2012	
	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total
Depreciation and amortisation	1,032,182	21.3	1,112,566	25.2	1,115,749	31.2
Advertising, marketing and agent expenses	865,543	17.8	671,731	15.2	133,510	3.7
Taxes other than on income	525,609	10.8	296,998	6.7	204,450	5.7
Security	283,300	5.8	275,127	6.2	270,043	7.6
Operating lease expense	269,164	5.6	215,725	4.9	196,325	5.5
Deposit insurance fund	187,848	3.9	144,768	3.3	109,795	3.1
Communications and information services	187,715	3.9	175,655	4.0	160,574	4.5
Insurance	142,861	2.9	118,243	2.7	137,172	3.8
Repairs and maintenance	122,775	2.5	125,201	2.8	116,550	3.3
Utilities and office maintenance	106,005	2.2	83,297	1.9	83,106	2.3
Cash transportation expenses	105,893	2.2	101,325	2.3	99,000	2.8
Travel expenses	77,996	1.6	66,478	1.5	61,116	1.7
Office supplies	74,607	1.5	67,473	1.5	53,303	1.5
Professional services	62,085	1.3	46,298	1.0	40,173	1.1
Charity and sponsorship	50,649	1.0	126,918	2.9	143,613	4.0
Other(1)	762,520	15.8	793,053	17.8	654,481	18.3
Total general administrative expenses	**4,856,752**	**100.0**	**4,420,856**	**100.0**	**3,578,960**	**100.0**

Note:

(1) Other general administrative expenses mainly consist of expenses for IT software services, correspondent accounts services and rating agency services.

Year ended 31 December 2014 compared to year ended 31 December 2013

Depreciation and amortisation for the year ended 31 December 2014 decreased by 7.2% to AMD 1.0 billion, compared to AMD 1.1 billion for the year ended 31 December 2013, mainly as a result of the full amortisation of certain of the Bank's fixed assets.

Advertising, marketing and agent expenses for the year ended 31 December 2014 increased by 28.9% to AMD 0.9 billion, compared to AMD 0.7 billion for the year ended 31 December 2013, driven by an increase in expenses on promotional expenses related to the Bank's retail products.

Taxes other than on income for the year ended 31 December 2014 increased by 77.0% to AMD 0.5 billion, compared to AMD 0.3 billion for the year ended 31 December 2013, mainly as a result of higher costs of services provided to the Bank by resident and non-resident companies, generating higher amounts of VAT payable.

Year ended 31 December 2013 compared to year ended 31 December 2012

Depreciation and amortisation for the years ended 31 December 2013 and 2012 totaled AMD 1.1 billion.

Advertising, marketing and agent expenses for the year ended 31 December 2013 increased to AMD 0.7 billion, compared to AMD 0.1 billion for the year ended 31 December 2012, due to an increase in expenses on promotional expenses related to the Bank's retail products.

Taxes other than on income for the year ended 31 December 2013 increased by 45.3% to AMD 0.3 billion, compared to AMD 0.2 billion for the year ended 31 December 2012, mainly as a result of an increase in advertising, marketing and agent expenses, generating higher amounts of VAT payable.

Profit before Income Tax

For the reasons set forth above, the Bank's profit before income tax decreased by AMD 3.2 billion, or 39.7%, to AMD 4.9 billion for the year ended 31 December 2014 from AMD 8.1 billion for the year ended 31 December 2013, and increased by AMD 2.6 billion, or 48.6%, to AMD 8.1 billion for the year ended 31 December 2013 from AMD 5.4 billion for the year ended 31 December 2012.

Income Tax Expense

For the year ended 31 December 2014, Ardshinbank's income tax expense decreased by AMD 0.7 billion, or 41.8%, to AMD 1.0 billion, compared to AMD 1.6 billion for the year ended 31 December 2013. For the year ended 31 December 2013, the Bank's income tax expense increased by AMD 0.4 billion, or 37.7%, to AMD 1.6 billion, compared to AMD 1.2 billion for the year ended 31 December 2012. The following table sets forth the components of the Bank's income tax expense for the years indicated:

	Year ended 31 December		
	2014	**2013**	**2012**
		(AMD thousands)	
Current year tax expense	(1,133,610)	(1,049,540)	(1,300,008)
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	183,467	(584,174)	113,469
Total income tax expense	**(950,143)**	**(1,633,714)**	**(1,186,539)**

Year ended 31 December 2014 compared to year ended 31 December 2013

The decrease in the Bank's income tax expense for the year ended 31 December 2014, compared to the year ended 31 December 2013, arose from lower profits.

The Bank's effective tax rate for the year ended 31 December 2014 was 19.6%, compared to 20.3% for the year ended 31 December 2013.

Year ended 31 December 2013 compared to year ended 31 December 2012

The increase in the Bank's income tax expense for the year ended 31 December 2013, compared to the year ended 31 December 2012, arose from higher profits.

The Bank's balance of net deferred tax liabilities increased during the year ended 31 December 2013 by AMD 1.0 billion from AMD 0.5 billion as of 1 January 2013 to AMD 1.6 billion as of 31 December 2013. Of this increase, AMD 0.6 billion, relating to loans to customers, was recorded as a negative movement in deferred taxes.

The Bank's effective tax rate for the year ended 31 December 2013 was 20.3%, compared to 21.9% for the year ended 31 December 2012.

Profit for the Year

For the reasons set forth above, the Bank's profit for the year decreased by AMD 2.5 billion, or 39.1%, to AMD 3.9 billion for the year ended 31 December 2014 from AMD 6.4 billion for the year ended 31 December 2013, and increased by AMD 2.2 billion, or 51.7%, to AMD 6.4 billion for the year ended 31 December 2013 from AMD 4.2 billion for the year ended 31 December 2012.

Financial Condition

The following discussion of the Ardshinbank's assets and liabilities should be read in conjunction with "Risk Management" and, in particular, with the data provided under "Risk Management—Credit Risk," —Market Risk" and "—Liquidity Risk."

Total Assets

As of 31 March 2015, Ardshinbank had total assets of AMD 367.0 billion, compared to AMD 366.4 billion as of 31 December 2014. The increase in total assets by AMD 0.6 billion, or 0.2%, primarily reflected an increase of AMD 18.9 billion, or 8.6%, in loans to customers and of AMD 2.8 billion, or 16.2%, in available-for-sale financial assets. This increase was partially offset by a decrease of AMD 17.0 billion, or 61.6%, in loans and advances to banks and financial institutions and of AMD 4.2 billion, or 4.9%, in cash and cash equivalents.

As of 31 December 2014, the Bank had total assets of AMD 366.4 billion, compared to AMD 269.3 billion and AMD 198.5 billion as of 31 December 2013 and 2012, respectively. The increase in total assets by AMD 97.1 billion, or 36.0%, during 2014 primarily reflected an increase of AMD 47.6 billion, or 27.6%, in loans to customers, of AMD 34.9 billion, or 69.7%, in cash and cash equivalents and of AMD 17.2 billion, or 163.8%, in loans and advances to banks and financial institutions. This increase was partially offset by a decrease of AMD 5.3 billion, or 23.6%, in available-for-sale financial assets.

The increase in total assets of AMD 70.8 billion, or 35.7%, in 2013 primarily reflected an increase of AMD 39.6 billion, or 29.8%, in loans to customers and of AMD 16.2 billion, or 47.7%, in cash and cash equivalents.

The following table sets forth the principal components of the Bank's total assets as of the dates set forth below:

	As of 31 March		As of 31 December					
	2015		2014		2013		2012	
	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total
Cash and cash equivalents	80,823,245	22.0	85,009,721	23.2	50,093,541	18.6	33,926,454	17.1
Financial instruments at fair value through profit or loss held by the Bank	0.0	0.0	0.0	0.0	0.0	0.0	291,873	0.1
Available-for-sale financial assets								
Held by the Bank	3,474,399	0.9	5,483,967	1.5	1,708,293	0.6	620,498	0.3
Pledged under sale and repurchase agreements	16,507,529	4.5	11,714,195	3.2	20,813,133	7.7	12,779,513	6.4
Loans and advances to banks and financial institutions	10,626,536	2.9	27,675,617	7.6	10,490,422	3.9	5,525,172	2.8
Loans to customers	238,770,993	65.1	219,882,757	60.0	172,287,269	64.0	132,736,047	66.9
Repossessed property	5,746,561	1.6	5,597,154	1.5	5,660,545	2.1	3,983,853	2.0
Property, equipment and intangible assets	8,990,116	2.4	9,038,769	2.5	6,965,216	2.6	7,721,381	3.9
Other assets	2,074,048	0.6	2,003,940	0.5	1,309,677	0.5	941,495	0.5
Total assets	**367,013,427**	**100.0**	**366,406,120**	**100.0**	**269,328,096**	**100.0**	**198,526,286**	**100.0**

Loans to Customers

Loans to customers, net of provisions for loan impairment, represent the largest component of Ardshinbank's total assets, accounting for 65.1% of total assets as of 31 March 2015 and 60.0%, 64.0% and 66.9% of total assets as of 31 December 2014, 2013 and 2012, respectively. Net loans to corporate customers accounted for 67.3% of net loans to customers as of 31 March 2015 and 70.9%, 70.5% and 65.8% of net loans to customers as of 31 December 2014, 2013 and 2012, respectively. Net loans to retail customers accounted for 32.7% of net loans to customers as of 31 March 2015 and 29.1%, 29.5% and 34.2% of net loans to customers as of 31 December 2014, 2013 and 2012, respectively.

Loans to corporate customers comprise: (i) loans to large corporate customers (which Ardshinbank defines as businesses with annual turnover of over AMD 1.2 billion), which has been a traditional strength of the Bank; (ii) loans to SMEs (businesses with annual turnover of AMD 60 million to AMD 1.2 billion), where the Bank sees opportunities for growth; and (iii) loans to micros (businesses with annual turnover below AMD 60 million), where the Bank also sees opportunities for growth. As of 31 March 2015, 98.4% of the Bank's loans to corporate customers were secured by collateral mainly in the form of current accounts, cash and cash deposits, state and municipal guarantees, real estate, plant and equipment, and corporate shares.

Retail loans mainly comprise gold loans (i.e, loans secured by jewelry), credit card (including debit card) loans (primarily debit card overdrafts), mortgage loans and agricultural loans. Gold loans accounted for the largest share of total loans to retail customers in the periods under review, representing 47.1% (by gross amount) of total retail loans as of 31 March 2015, and 43.9%, 46.3% and 51.0% (by gross amount) of total retail loans as of 31 December 2014, 2013 and 2012, respectively.

As of 31 March 2015, 70% of the value of the Bank's loans to retail customers was collateralised. The main types of collateral are gold (representing 47% of the Bank's retail portfolio as of 31 March 2015), real estate (representing 20% of the Bank's retail portfolio as of 31 March 2015), and cash and deposits (representing 3% of the Bank's retail portfolio as of 31 March 2015). See "*Risk Management—Credit Risk—Lending Policies and Procedures—Collateral*."

The following table sets forth the principal components of the Bank's loans to corporate and retail customers:

	As of 31 March		As of 31 December					
	2015		2014		2013		2012	
	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total
Loans to corporate customers	**163,826,760**	**67.3**	**159,074,383**	**70.9**	**124,972,451**	**70.6**	**89,908,633**	**66.1**
Loans to retail customers								
Gold loans	37,570,185	15.4	28,663,190	12.8	24,148,863	13.6	23,530,420	17.3
Credit cards[(1)]	19,578,381	8.0	18,140,922	8.1	14,503,076	8.2	9,397,543	6.9
Mortgage loans	11,792,702	4.8	9,918,160	4.4	6,450,836	3.6	4,139,917	3.0
Agricultural loans	4,644,807	1.9	3,901,468	1.7	1,368,110	0.8	584,470	0.4
Other	6,187,133	2.6	4,670,311	2.1	5,639,502	3.2	8,503,852	6.3
Total loans to retail customers	**79,773,208**	**32.7**	**65,294,051**	**29.1**	**52,110,387**	**29.4**	**46,156,202**	**33.9**
Gross loans to customers	**243,599,968**	**102.0**	**224,368,434**	**102.0**	**177,082,838**	**102.8**	**136,064,835**	**102.5**
Impairment allowance	(4,828,975)		(4,485,677)		(4,795,569)		(3,328,788)	
Net loans to customers	**238,770,993**	**100.0**	**219,882,757**	**100.0**	**172,287,269**	**100.0**	**132,736,047**	**100.0**

Note:
(1) Includes debit card overdrafts.

As of 31 March 2015, loans to customers (net of allowance for loan impairment) increased by AMD 18.9 billion, or 8.6%, to AMD 238.8 billion, compared to AMD 219.9 billion as of 31 December 2014, mainly as a result of an 31.1% increase in gold loans to retail customers, a 3.2% increase in loans to corporate customers and an 18.8% increase in mortgage loans.

As of 31 December 2014, loans to customers (net of allowance for loan impairment) increased by AMD 47.6 billion, or 27.6%, to AMD 219.9 billion, compared to AMD 172.3 billion as of 31 December 2013, mainly as a result of a 28.2% increase in loans to corporate customers, an 18.7% increase in gold loans to retail customers and a 27.2% increase in credit card (including debit card) loans (primarily in the form of debit card overdrafts) to retail customers.

As of 31 December 2013, loans to customers (net of allowance for loan impairment) increased by AMD 39.6 billion, or 29.8%, to AMD 172.3 billion, compared to AMD 132.7 billion as of 31 December 2012, mainly as a result of a 39.1% increase in loans to corporate customers and a 49.9% increase in credit card (including debit card) loans to retail customers.

Currency Composition of Loans to Customers

The following table sets forth the currency breakdown by value of the Bank's loans to customers for the periods indicated:

	Three months ended 31 March		Year ended 31 December					
	2015		2014		2013		2012	
	Foreign currency	AMD	Foreign currency	AMD	Foreign currency	AMD	Foreign currency	AMD
Loans to corporate customers	83%	17%	79%	21%	67%	33%	83%	17%
Loans to retail customers	22%	78%	19%	81%	12%	88%	10%	90%
Total loans	63%	37%	62%	38%	51%	49%	58%	42%

The Bank actively manages its balance sheet to limit its overall foreign currency, and in particular U.S. dollar, exposure: as of 31 March 2015, the Bank had total U.S. dollar financial assets of AMD 191.9 billion and total U.S. dollar financial liabilities of AMD 191.1 billion.

Credit Quality of Loans to Customers

Non-performing loans ("**NPL**") represent loans which are 90 days overdue or otherwise determined by the Bank to be individually impaired. The level of non-performing loans as a share of the Bank's total gross loans to customers was 2.9% as of 31 March 2015 and 3.0%, 4.5% and 2.2% as of 31 December 2014, 2013 and 2012, respectively.

Non-performing loans coverage, defined as impairment allowance divided by non-performing loans, was 68.0% as of 31 March 2015 and 67.4%, 60.7% and 109.5% as of 31 December 2014, 2013 and 2012, respectively. Impairment allowance to gross loans was 2.0% as of 31 March 2015 and 2.0%, 2.7% and 2.4% as of 31 December 2014, 2013 and 2012, respectively.

Ardshinbank collects overdue amounts in two ways. In the case of overdue collateralised loans, the Bank forecloses the collateral and sells it. The Bank's policy in this regard is to sell the collateral as soon as practicable at a reasonable price. In the case of overdue, unsecured loans, the Bank generally collects through the court system. Collateral is revalued when its market price changes by more than 20%. When collateral is sold, it is generally sold at a discount.

The following table provides information on the credit quality of loans to customers as of 31 March 2015. See Note 13 of the 2014 Financial Statements and 2013 Financial Statements for information on the credit quality of loans to customers as of 31 December 2014, 2013 and 2012.

	Gross loans (AMD thousands)	Impairment allowance (AMD thousands)	Net loans (AMD thousands)	Impairment allowance to gross loans (%)
Loans to corporate customers				
Loans without individual signs of impairment:	158,210,276	1,277,002	156,933,274	0.8
Overdue or impaired loans:				
Overdue less than 90 days	597,595	71,711	525,884	12.0
Overdue more than 90 days and less than 270 days	476,965	93,663	383,302	19.6
Overdue more than 270 days	4,541,924	1,672,745	2,869,179	36.8
Total overdue or impaired loans	5,616,484	1,838,119	3,778,365	32.7
Total NPL for loans to corporate customers	5,018,889	1,766,408	3,252,481	35.2
Total loans to corporate customers	**163,826,760**	**3,115,121**	**160,711,639**	**1.9**
Loans to retail customers				
Gold loans				
Not overdue	36,071,173	12,116	36,059,057	0.0
Overdue or impaired loans:				
Overdue less than 30 days	818,330	21,725	796,605	2.7
Overdue 30-89 days	354,094	31,250	322,844	8.8
Overdue 90-179 days	290,501	44,407	246,094	15.3
Overdue 180-270 days	36,087	24,901	11,186	69.0
Total NPL for gold loans	326,588	69,308	257,280	21.2
Total gold loans	**37,570,185**	**134,399**	**37,435,786**	**0.4**

	Gross loans (AMD thousands)	Impairment allowance (AMD thousands)	Net loans (AMD thousands)	Impairment allowance to gross loans (%)
Credit cards(1)				
Not overdue	16,055,780	105,203	15,950,577	0.7
Overdue or impaired loans:				
Overdue less than 30 days	1,546,818	262,682	1,284,136	17.0
Overdue 30-89 days	603,262	180,659	422,603	29.9
Overdue 90-179 days	709,193	336,366	372,827	47.4
Overdue 180-270 days	663,328	420,632	242,696	63.4
Total NPL for credit cards	1,372,521	756,998	615,523	55.2
Total credit cards	**19,578,381**	**1,305,542**	**18,272,839**	**6.7**
Mortgage loans				
Not overdue	11,431,122	5,222	11,425,900	0.0
Overdue or impaired loans:				
Overdue less than 30 days	158,479	4,270	154,209	2.7
Overdue 30-89 days	146,850	12,964	133,886	8.8
Overdue 90-179 days	49,935	12,209	37,726	24.4
Overdue 180-270 days	6,316	2,940	3,376	46.5
Total NPL for mortgage loans	56,251	15,149	41,102	26.9
Total mortgage loans	**11,792,702**	**37,605**	**11,755,097**	**0.3**
Agricultural loans				
Not overdue	4,300,625	12,266	4,288,359	0.3
Overdue or impaired loans:				
Overdue less than 30 days	144,956	19,785	125,171	13.6
Overdue 30-89 days	94,549	38,648	55,901	40.9
Overdue 90-179 days	71,150	38,722	32,428	54.4
Overdue 180-270 days	33,527	28,789	4,738	85.9
Total NPL for agricultural loans	104,677	67,511	37,166	64.5
Total agricultural loans	**4,644,807**	**138,210**	**4,506,597**	**3.0**
Other loans to retail customers				
Not overdue	5,611,298	8,630	5,602,668	0.2
Overdue or impaired loans:				
Overdue less than 30 days	192,378	7,704	184,674	4.0
Overdue 30-89 days	161,888	19,265	142,623	11.9
Overdue 90-179 days	125,270	30,007	95,263	24.0
Overdue 180-270 days	96,299	32,492	63,807	33.7
Total NPL for other loans to retail customers	221,569	62,499	159,070	28.2
Total other loans to retail customers	6,187,133	98,098	6,089,035	1.6
Total loans to retail customers	**79,773,208**	**1,713,854**	**78,059,354**	**2.1**
Total NPL for loans to customers	**7,100,495**	**2,737,873**	**4,362,622**	**42.2**
Total loans to customers	**243,599,968**	**4,828,975**	**238,770,993**	**2.0**

Note:
(1) Includes debit card overdrafts.

Allowance for Loan Impairment Losses

Loans to customers are assessed by indicators of impairment at the end of each reporting period. See "—*Explanation of Key Income Statement Line Items—Impairment Losses*" for further information on the Bank's methodology for assessing impairment.

The following tables set forth an analysis of the changes in the Bank's allowance for impairment losses for the periods indicated:

	Loans to corporate customers	Loans to retail customers	Total	Share of gross loans to corporate and retail customers
		(AMD thousands)		(%)
Balance for impairment losses as of 1 January 2015	**3,279,741**	**1,205,936**	**4,485,677**	**2.0**
Net charge	(89,447)	1,095,262	1,005,815	
Write-offs	(75,173)	(587,344)	(662,517)	
Balance for impairment losses as of 31 March 2015	**3,115,121**	**1,713,854**	**4,828,975**	**2.0**

	Loans to corporate customers	Loans to retail customers	Total	Share of gross loans to corporate and retail customers
		(AMD thousands)		(%)
Balance for impairment losses as of 1 January 2014	**3,492,896**	**1,302,673**	**4,795,569**	**2.7**
Net charge	1,909,749	2,948,145	4,857,894	
Write-offs	(2,122,904)	(3,044,882)	(5,167,786)	
Balance for impairment losses as of 31 December 2014	**3,279,741**	**1,205,936**	**4,485,677**	**2.0**

	Loans to corporate customers	Loans to retail customers	Total	Share of gross loans to corporate and retail customers
		(AMD thousands)		(%)
Balance for impairment losses as of 1 January 2013	**2,579,674**	**749,114**	**3,328,788**	**2.4**
Net charge	1,428,696	2,226,222	3,654,918	
Write-offs	(515,474)	(1,672,663)	(2,188,137)	
Balance for impairment losses as of 31 December 2013	**3,492,896**	**1,302,673**	**4,795,569**	**2.7**

	Loans to corporate customers	Loans to retail customers	Total	Share of gross loans to corporate and retail customers
		(AMD thousands)		(%)
Balance for impairment losses as of 1 January 2012	**3,365,435**	**374,177**	**3,739,612**	**3.9**
Net charge	2,058,934	468,979	2,527,913	
Write-offs	(2,844,695)	(94,042)	(2,938,737)	
Balance for impairment losses as of 31 December 2012	**2,579,674**	**749,114**	**3,328,788**	**2.4**

Distribution of Loans by Industry

Loans to customers were issued to customers located within Armenia (including Nagorno-Karabakh) operating in the following economic sectors:

	As of 31 March		As of 31 December					
	2015		2014		2013		2012	
	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total
Energy	65,331,470	26.8	58,564,702	26.1	59,205,552	33.4	39,093,568	28.8
Trade	19,565,037	8.0	15,216,592	6.8	14,206,348	8.0	7,938,425	5.8
Manufacturing	14,029,391	5.8	9,906,732	4.4	9,471,748	5.4	8,536,049	6.3
Mining./metallurgy	13,187,168	5.4	18,908,069	8.4	4,256,458	2.4	639,475	0.5
Construction	12,235,642	5.0	11,796,037	5.3	9,334,632	5.4	8,721,728	6.4
Government and municipal authorities	11,896,186	4.9	12,025,921	5.4	2,314,372	1.3	1,116,101	0.8
Hotel and hospitality	7,652,871	3.1	10,308,536	4.6	2,040,027	1.2	0	0
Agriculture, forestry and timber	4,127,245	1.7	4,216,222	1.9	4,408,331	2.5	6,863,976	5.0
Food and beverage	2,199,963	0.9	5,482,715	2.4	4,284,242	2.4	3,172,802	2.3
Foundations	2,008,281	0.8	1,176,599	0.5	2,994,045	1.7	2,440,155	1.8
Transportation	1,932,854	0.8	1,450,216	0.6	5,828,483	3.3	2,638,976	2.0
Loans to financial institutions	1,793,764	0.7	573,946	0.3	959,108	0.5	1,635,336	1.2
Education	388,088	0.2	620,397	0.3	1,419,493	0.8	1,897,504	1.4
Other	7,478,800	3.1	8,827,699	3.9	4,249,612	2.4	5,214,824	3.8
Loans to retail customers	79,773,208	32.8	65,294,051	29.1	52,110,387	29.4	46,156,202	33.9
Total gross loans to customers	**243,599,968**	**100.0**	**224,368,434**	**100.0**	**177,082,838**	**100.0**	**136,064,835**	**100.0**
Less allowance for impairment losses	(4,828,975)	n/a	(4,485,677)	n/a	(4,795,569)	n/a	(3,328,788)	n/a
Total net loans to customers	**238,770,993**	**n/a**	**219,882,757**	**n/a**	**172,287,269**	**n/a**	**132,736,047**	**n/a**

Distribution of Loans by Maturity

Of the Bank's net loans to customers as of 31 March 2015, AMD 42.5 billion, or 17.8%, had a maturity of one to three months, AMD 57.2 billion, or 24.0%, had a maturity of less than one month and AMD 72.6 billion, or 30.4%, had a maturity of at least one year. Of the Bank's net loans to customers as of 31 December 2014, AMD 33.2 billion, or 15.1%, had a maturity of one to three months, AMD 34.0 billion, or 15.5%, had a maturity of less than one month and AMD 64.2 billion, or 29.2%, had a maturity of at least one year. Due to the short-term nature of the Bank's loans, many of its loans are likely to be renewed at maturity and accordingly the effective maturity of the Bank's loan portfolio may be significantly longer than the contractually agreed term. See "*Risk Management—Liquidity Risk*."

Available-For-Sale Financial Assets

Available-for-sale financial assets are securities, such as Armenian Government securities and corporate bonds (typically issued by Armenian quasi-sovereign entities, such as the state mortgage agency), held by the Bank or subject to repurchase agreements, which are considered secured financing transactions for purposes of the Financial Statements, and which for the periods covered below were primarily with the CBA. The following tables set forth information relating to the Bank's financial assets available for sale as at the dates indicated:

	As of 31 March		As of 31 December					
	2015		2014		2013		2012	
	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total
Held by the Bank								
Debt and other fixed-income instruments								
Government securities of the Republic of Armenia	3,364,052	96.8	4,552,435	83.0	1,646,786	96.4	266,247	42.9
Corporate bonds	0.0	0.0	820,710	15.0	0.0	0.0	291,964	47.1
Total debt and other fixed-income instruments	**3,364,052**	**96.8**	**5,373,145**	**98.0**	**1,646,786**	**96.4**	**558,211**	**90.0**
Equity instruments								
Corporate shares	110,347	3.2	110,822	2.0	61,507	3.6	62,287	10.0
Total	**3,474,399**	**100.0**	**5,483,967**	**100.0**	**1,708,293**	**100.0**	**620,498**	**100.0**

	As of 31 March		As of 31 December					
	2015		2014		2013		2012	
	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total
Pledged under sale and repurchase agreements								
Government securities of the Republic of Armenia	15,130,960	91.7	11,019,447	94.1	20,428,166	98.2	12,779,513	100.0
Corporate bonds	1,376,569	8.3	694,748	5.9	384,967	1.8	0	0
Total	**16,507,529**	**100.0**	**11,714,195**	**100.0**	**20,813,133**	**100.0**	**12,779,513**	**100.0**

As of 31 March 2015, total available-for-sale financial assets (including those pledged under repo transactions) held by the Bank increased from 31 December 2014 by AMD 2.8 billion, to AMD 20.0 billion, primarily reflecting an overall increase of AMD 2.9 billion in its investments in Armenian Government securities, as part of the Bank's prudential decision to move some of its asset base into less-risky assets. As of 31 December 2014, total available-for-sale financial assets (including those pledged under repo transactions) stood at AMD 17.2 billion, a decrease of AMD 5.3 billion from 31 December 2013, primarily reflecting a AMD 6.5 billion reduction in the Bank's holding of Armenian Government securities. As of 31 December 2013, total available-for-sale financial assets (including those pledged under repo transactions) stood at AMD 22.5 billion, an increase of AMD 9.1 billion from 31 December 2012, primarily reflecting net increase of AMD 9.0 billion in Armenian Government securities. During 2013, the Bank added to its position in Armenian Government securities based on its prediction that market interest rates on such securities would be declining in the coming months, increasing the value of these securities (taking into account the greater CBA use of repo arrangements with banks, changes in CBA reserve requirements, and the expected purchase of such securities by state pension funds); in 2014, the Bank sold down on its position as its prediction was realised. As of 31 March 2015, of the total AMD 20.0 billion of total available-for-sale financial assets, AMD 4.1 billion was denominated in dollars (and not in any other foreign currency), or 20.7%, while the Bank had no foreign-currency-denominated available-for-sale financial assets as of 31 December 2014, 2013 and 2012.

Loans and Advances to Banks and Financial Institutions

Loans and advances to banks and financial institutions consist of the Bank's loans and deposits with Armenian banks (both with the 10 largest and with other local banks), reverse repurchase agreements with medium-sized Armenian institutions and credit card settlement deposits. None of these loans and advances were impaired or past due as of the reporting dates.

The following table sets forth the principal components of the Bank's loans and advances to banks and other borrowings as of the dates indicated:

	As of 31 March		As of 31 December					
	2015		2014		2013		2012	
	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total	AMD thousand	% of total
Loans and deposits with top 10 Armenian banks	3,637,382	34.2	17,976,167	65.0	2,283,307	21.8	861,532	15.6
Loans and deposits with other Armenian banks	3,507,830	33.0	5,889,482	21.3	0.0	0.0	0.0	0.0
Reverse repurchase agreements with medium-sized Armenian financial institutions	2,803,142	26.4	3,063,011	11.1	1,640,415	15.6	1,487,713	26.9
Credit card settlement deposit with the CBA	310,000	2.9	320,000	1.1	1,020,000	9.7	1,020,000	18.5
Overnight loans to Armenian financial institutions (through NASDAQ OMX Armenian)	0.0	0.0	0.0	0.0	5,004,654	47.7	0.0	0.0
Reverse repurchase agreements with Armenian banks	0.0	0.0	0.0	0.0	0.0	0.0	1,714,865	31.0
Other	368,182	3.5	426,957	1.5	542,046	5.2	441,062	8.0
Total loans and advances to banks and other financial institutions	**10,626,536**	**100.0**	**27,675,617**	**100.0**	**10,490,422**	**100.0**	**5,525,172**	**100.0**

As of 31 March 2015, the Bank's loans and advances to banks and financial institutions decreased by AMD 17.0 billion, or 61.6%, to AMD 10.6 billion, compared to AMD 27.7 billion as of 31 December 2014, mainly as a result of a decline in loans and deposits with the top 10 Armenian banks to AMD 3.6 billion as of 31 March 2015 from AMD 18.0 billion as of 31 December 2014, reflecting the repayment of interbank loans. As of 31 December 2014, the Bank's loans and advances to banks and financial institutions increased by AMD 17.2 billion, or 163.8%, to AMD 27.7 billion, compared to AMD 10.5 billion as of 31 December 2013, mainly as a result of an increase in loans and deposits with the top 10 Armenian banks to AMD 18.0 billion as of 31 December 2014 from AMD 2.3 billion as of 31 December 2013, as a result of new interbank loan disbursements (which, as discussed above, reflected a prudential allocation of assets by the Bank). As of 31 December 2013, the Bank's loans and advances to banks and financial institutions increased by AMD 5.0 billion, or 89.9%, to AMD 10.5 billion, compared to AMD 5.5 billion as of 31 December 2012, mainly as a result of an increase in loans and deposits with the top 10 Armenian banks to AMD 2.3 billion as of 31 December 2013 from AMD 0.9 billion as of 31 December 2012 and of the AMD 5.0 billion balance of overnight loans to Armenian financial institutions through NASDAQ OMX Armenia as of 31 December 2013. As of 31 March 2015, of the total AMD 10.6 billion of total loans and advances to banks and financial institutions, AMD 7.5 billion was denominated in foreign currencies, primarily dollars, or 70.7%, compared to 85.2%, 26.4% and 22.5% as of 31 December 2014, 2013 and 2012, respectively.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand, nostro accounts with the CBA and nostro accounts held with other banks. The nostro accounts include non-interest bearing mandatory minimum reserve deposits calculated in accordance with CBA regulations. There is no restriction on the withdrawal of reserves, although the Bank is subject to penalties if the required minimum average balance is not maintained.

The following table sets forth the principal components of the Bank's cash and cash equivalents as of the dates indicated:

	As of 31 March		As of 31 December					
	2015		2014		2013		2012	
	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total
Cash on hand	8,057,035	10.0	7,139,842	8.4	7,524,236	15.0	5,180,840	15.3
Nostro accounts with the CBA	70,869,040	87.7	53,404,568	62.8	36,317,128	72.5	26,602,961	78.4
Nostro accounts with other banks	1,897,170	2.3	24,465,311	28.8	6,252,177	12.5	2,142,653	6.3
Total cash and cash equivalents	**80,823,245**	**100.0**	**85,009,721**	**100.0**	**50,093,541**	**100.0**	**33,926,454**	**100.0**

As of 31 March 2015, the Bank had cash and cash equivalents of AMD 80.8 billion, compared to AMD 85.0 billion as of 31 December 2014, AMD 50.1 billion as of 31 December 2013 and AMD 33.9 billion as of 31 December 2012. The increase in cash and cash equivalents as of 31 December 2014, compared to 31 December 2013 and 31 December 2012, was mainly due to the expansion of the Bank's operations, and also reflects the December 2014 decision of the CBA to double the reserve requirement for foreign currency liabilities from 12% to 24%. As of 31 March 2015, cash held in nostro accounts with the CBA represented 87.7% of the Bank's total cash and cash equivalents, compared to 62.8% as of 31 December 2014, 72.5% as of 31 December 2013 and 78.4% as of 31 December 2012.

As of 31 March 2015, of the total AMD 80.8 billion of cash and cash equivalents, AMD 41.4 billion was denominated in foreign currencies, primarily dollars, or 51.2%, compared to 56.6%, 34.0% and 30.6% as of 31 December 2014, 2013 and 2012, respectively.

Property, Equipment and Intangible Assets

The Bank's property and equipment consists of land and buildings, equipment, fixtures and fittings, motor vehicles, construction-in-progress and leasehold improvements. Intangible assets consist primarily of software and licences. As of 31 March 2015 and 31 December 2014, the carrying amount of the Bank's property, equipment and intangible assets after depreciation and amortisation was AMD 9.0 billion, compared to AMD 7.0 billion as of 31 December 2013 and AMD 7.7 billion as of 31 December 2012. The increase in carrying amounts of property, equipment and intangible assets in the three months ended 31 March 2015 and in the year ended 31 December 2014 was mainly the result of an increase in the value of land and buildings and construction-in-progress, which, in turn, was due to the revaluation of the Bank's head office. The decrease in the carrying amounts of property, equipment and intangible assets in the year ended 31 December 2013 was mainly the result of a decrease in the value of land and buildings and equipment attributable to depreciation.

Repossessed Property

Repossessed property comprises foreclosed collateral, primarily real estate. It is the Bank's policy to sell these assets as soon as practicable at a reasonable price.

As of 31 March 2015, repossessed property totaled AMD 5.7 billion, compared to AMD 5.6 billion as of 31 December 2014, AMD 5.7 billion as of 31 December 2013 and AMD 4.0 billion as of 31 December 2012.

Other Assets

Other assets consist primarily of prepayments, including prepayments under service contracts with third party service providers, certain repossessed assets, certain receivables and materials and supplies.

Total Liabilities

The following table sets forth the principal components of the Bank's total liabilities as of the dates indicated:

	As of 31 March		As of 31 December					
	2015		2014		2013		2012	
	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total
Financial instruments at fair value through profit or loss	0.0	0.0	0.0	0.0	0.0	0.0	5,850	0.0
Deposits and balances from banks and other borrowings	104,350,015	32.6	98,691,929	30.9	63,534,083	28.2	46,019,475	28.3
Debt securities issued	34,726,910	10.9	34,935,669	10.9	0.0	0.0	0.0	0.0
Current accounts and deposits from customers	178,177,233	55.7	182,811,439	57.3	159,155,858	70.7	114,428,790	70.3
Current tax liability	220,541	0.1	346,071	0.1	122,331	0.0	796,511	0.5
Deferred tax liabilities	1,076,870	0.3	1,156,704	0.4	1,563,950	0.7	513,992	0.3
Other liabilities	1,253,498	0.4	1,332,042	0.4	834,827	0.4	928,137	0.6
Total liabilities	**319,805,067**	**100.0**	**319,273,854**	**100.0**	**225,211,049**	**100.0**	**162,692,755**	**100.0**

As of 31 March 2015, Ardshinbank had total liabilities of AMD 319.8 billion, compared to AMD 319.3 billion as of 31 December 2014, AMD 225.2 billion as of 31 December 2013 and AMD 162.7 billion as of 31 December 2012. The AMD 0.5 billion, or 0.2%, increase in total liabilities as of 31 March 2015, compared to 31 December 2014, was primarily due to a AMD 5.7 billion increase in deposits and balances from banks and other borrowings, partially offset by a AMD 4.6 billion decrease in current accounts and deposits from customers. The AMD 94.1 billion, or 41.8%, increase in total liabilities as of 31 December 2014, compared to 31 December 2013, was primarily due to the issuance of the 2017 Notes in December 2014, a AMD 35.2 billion increase in deposits and balances from banks and other borrowings and a AMD 23.7 billion increase in current accounts and deposits from customers. The AMD 62.5 billion, or 38.4%, increase in total liabilities as of 31 December 2013, compared to 31 December 2012, was primarily due to a AMD 44.7 billion increase in current accounts and deposits from customers and a AMD 17.5 billion increase in deposits and balances from banks and other borrowings.

Current Accounts and Deposits from Customers

The Bank's main source of funding are funds deposited in customer current accounts and demand deposits. The following table sets out the principal components of the Bank's customer accounts as of the dates indicated:

	As of 31 March		As of 31 December					
	2015		2014		2013		2012	
	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total
Retail current accounts and demand deposits	9,996,673	5.6	8,847,239	4.8	9,474,216	6.0	6,988,967	6.1
Corporate current accounts and demand deposits	37,823,004	21.2	32,266,904	17.7	35,647,595	22.4	20,404,492	17.8
Retail term deposits	83,422,337	46.8	85,243,647	46.6	72,748,231	45.7	56,202,269	49.1
Corporate term deposits	46,935,219	26.4	56,453,649	30.9	41,285,816	25.9	30,833,062	27.0
Total current accounts and deposits from customers	**178,177,233**	**100.0**	**182,811,439**	**100.0**	**159,155,858**	**100.0**	**114,428,790**	**100.0**

Current accounts and deposits from customers decreased by 2.5% to AMD 178.2 billion as of 31 March 2015 from AMD 182.8 billion as of 31 December 2014, mainly due to a decrease in both corporate and retail term deposits, partially offset by an increase in corporate current accounts and demand deposits. Term deposits decreased primarily due to a corporate customer using term deposits upon maturity for its business needs.

Current accounts and deposits from customers increased by 14.9% to AMD 182.8 billion as of 31 December 2014 from AMD 159.2 billion as of 31 December 2013 mainly due to an increase in both corporate and retail term deposits, partially offset by a decrease in corporate and retail current accounts and demand deposits. Term deposits increased mainly as a result of an increase in customer savings and improved customer confidence in the banking sector, for the corporate term deposits reflecting both further deposits by existing customers and deposits by new clients, including SMEs, and for retail deposits reflecting the Bank's broad branch network, customer's confidence, and the competitive offer of the Bank for retail term deposits.

Current accounts and deposits from customers increased by 39.1% to AMD 159.2 billion as of 31 December 2013 from AMD 114.4 billion as of 31 December 2012 due to an increase in corporate and retail term deposits and in corporate and retail current accounts and demand deposits, which, in turn, reflected growth in disposable income in Armenia.

As of 31 March 2015, the average maturity of the Bank's term deposits was 14.4 months. As of 31 December 2014, 2013 and 2012, the average maturity of the Bank's term deposits was 13.2 months, 15 months and 14.6 months, respectively. Retail customers holding current accounts, demand deposits and term deposits have the legal right under Armenian law to call deposits on demand. See "*Risk Factors—Risk Relating to the Bank—The Bank is exposed to liquidity risk, and its ability to incur new debt is constrained by the terms of existing financing—Liquidity Risk*." For information on the maturities of the Bank's current accounts and deposits from customers, see "*Risk Management—Liquidity Risk*."

As of 31 March 2015, of the total AMD 178.2 billion of current accounts and deposits from customers, AMD 100.6 billion, was denominated in foreign currencies, primarily dollars, or 56.5%, compared to 57.7%, 47.8% and 57.4% as of 31 December 2014, 2013 and 2012, respectively.

Deposits and Balances from Banks and Other Borrowings

Deposits and balances from banks and other borrowings represent an important source of funding for the Bank. The following table sets out the principal components of the Bank's deposits and balances from banks and other borrowings as of the dates indicated:

	As of 31 March		As of 31 December					
	2015		2014		2013		2012	
	(AMD thousands)	% of total	(AMD thousands)	% of total	(AMD thousands)	% of total	(AMD thousands)	% of total
Loans from banks and other financial institutions	83,156,516	79.7	84,714,890	85.8	42,508,799	66.9	31,950,974	69.4
Amounts payable under repurchase agreements	16,937,038	16.2	13,967,714	14.2	21,018,207	33.1	14,056,704	30.6
Vostro accounts	4,256,461	4.1	9,325	0.0	7,077	0.0	11,797	0.0
Deposits and balances from banks and other borrowings	**104,350,015**	**100.0**	**98,691,929**	**100.0**	**63,534,083**	**100.0**	**46,019,475**	**100.0**

Deposits and balances from banks and other borrowings increased by 5.7% to AMD 104.4 billion as of 31 March 2015 from AMD 98.7 billion as of 31 December 2014 mainly due to an increase in amounts payable under repurchase agreements and in vostro accounts, which was the result of one transaction with a correspondent bank.

Deposits and balances from banks and other borrowings increased by 55.3% to AMD 98.7 billion as of 31 December 2014 from AMD 63.5 billion as of 31 December 2013 mainly due to an increase in loans from banks and other financial institutions, particularly international financial institutions.

Deposits and balances from banks and other borrowings increased by 38.1% to AMD 63.5 billion as of 31 December 2013 from AMD 46.0 billion as of 31 December 2012 due to an increase in loans from banks and other financial institutions (both local and international institutions) and in amounts payable under repurchase agreements.

As of 31 March 2015, of the total AMD 104.4 billion of deposits and balance from banks and other borrowings, AMD 67.5 billion was denominated in foreign currencies, primarily dollars, or 64.7%, compared to 65.7%, 46.3% and 54.9% as of 31 December 2014, 2013 and 2012, respectively.

Loans from banks and other financial institutions are primarily used by the Bank to fund its offer of trade financing to customers and making of SME loans. Loans from banks and other financial institutions include loans from international multilateral and governmental financial institutions and the CBA that are sub-lent by the Bank to SMEs or as agricultural loans, mortgage loans or loans for the construction of hydro power plants.

Debt Securities Issued

In December 2014, the Bank raised $75 million from international investors through the private placement of the 2017 Notes, as a result of which, total liabilities as of 31 March 2015 and as of 31 December 2014 increased by AMD 34.7 billion and AMD 34.9 billion, respectively.

Equity

The following table sets forth the Bank's equity as of the dates indicated:

	As of 31 March	As of 31 December		
	2015	**2014**	**2013**	**2012**
	(AMD thousands)			
Share capital	17,925,200	17,925,200	13,802,404	13,802,404
Share premium	1,711,179	1,711,179	1,711,179	1,711,179
Revaluation surplus for land and buildings	4,392,623	4,392,623	2,670,214	2,670,214
Revaluation reserve for available-for-sale financial assets	(963,052)	(507,249)	2,110,753	247,617
Retained earnings	24,142,410	23,610,513	23,822,497	17,402,117
Total equity	**47,208,360**	**47,132,266**	**44,117,047**	**35,833,531**

The total equity of the Bank increased to AMD 47.2 billion as of 31 March 2015 from AMD 47.1 billion as of 31 December 2014 mainly as a result of an increase in retained earnings. Total equity increased by 6.8% to AMD 47.1 billion as of 31 December 2014 from AMD 44.1 billion as of 31 December 2013 mainly due to an increase in the revaluation surplus for land and buildings. Total equity increased by 23.1% to AMD 44.1 billion as of 31 December 2013 from AMD 35.8 billion as of 31 December 2012 mainly due to an increase in retained earnings and in the revaluation reserve for available-for-sale financial assets.

Funding

Ardshinbank's funding base is primarily composed of deposits from retail and corporate customers and deposits and balances from banks and other borrowings. Since December 2014, when the Bank issued the 2017 Notes, debt securities have also become a source of the Bank's funding.

The following table sets out the Bank's sources of funding as of the dates indicated:

	As of 31 March		As of 31 December					
	2015		2014		2013		2012	
	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total
Current accounts and deposits from customers								
Retail term deposits	83,422,337	26.3	85,243,647	27.0	72,748,231	32.7	56,202,269	35.0
Corporate term deposits	46,935,219	14.8	56,453,649	17.8	41,285,816	18.5	30,833,062	19.2
Retail current accounts and demand deposits	9,996,673	3.2	8,847,239	2.8	9,474,216	4.3	6,988,967	4.4
Corporate current accounts and demand deposits	37,823,004	11.9	32,266,904	10.2	35,647,595	16.0	20,404,492	12.7
Total	**178,177,233**	**56.2**	**182,811,439**	**57.8**	**159,155,858**	**71.5**	**114,428,790**	**71.3**
Deposits and balances from banks and other borrowings								
Loans from banks and other financial institutions	83,156,516	26.2	84,714,890	26.8	42,508,799	19.1	31,950,974	19.9
Amounts payable under repurchase agreements	16,937,038	5.3	13,967,714	4.4	21,018,207	9.4	14,056,704	8.8
Vostro accounts	4,256,461	1.4	9,325	0.0	7,077	0.0	11,797	0.0
Total	**104,350,015**	**32.9**	**98,691,929**	**31.2**	**63,534,083**	**28.5**	**46,019,475**	**28.7**
Debt securities issued								
2017 Notes	34,726,910	10.9	34,935,669	11.0	0.0	0.0	0.0	0.0
Total	**34,726,910**	**10.9**	**34,935,669**	**11.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total funding	**317,254,158**	**100.0**	**316,439,037**	**100.0**	**222,689,941**	**100.0**	**160,448,265**	**100.0**

The Bank's main source of funding are current accounts and deposits from customers. As of 31 March 2015, current accounts and deposits from customers comprised 56.2% of the Bank's total funding (calculated as per the above table), as compared to 57.8%, 71.5% and 71.3% as of 31 December 2014, 2013 and 2012, respectively. Although current accounts and deposits from customers declined as a share of the Bank's total funding as of 31 December 2014, compared to 31 December 2013, this was due to the issuance of the 2017 Notes in December 2014 and not to a decrease in the nominal amounts of such funding. In absolute terms, funding from current accounts and deposits from customers increased by 14.9% to AMD 182.8 billion as of 31 December 2014 from AMD 159.2 billion as of 31 December 2013.

Deposits and balances from banks and other borrowings is the second largest source of funding for the Bank. As of 31 March 2015, deposits and balances from banks and other borrowings comprised 32.9% of the Bank's total funding (calculated as per the above table), as compared to 31.2%, 28.5% and 28.7% as of 31 December 2014, 2013 and 2012, respectively. Loans from banks and other financial institutions account for the largest share of this funding source, comprising 26.2% of the Bank's total funding (calculated as per the above table) as of 31 March 2015, compared to 26.8%, 19.1% and 19.9% as of 31 December 2014, 2013 and 2012, respectively. The increase of loans from banks and other financial institutions as a share of the Bank's total funding as of 31 December 2014, compared to 31 December 2013, was mainly due to a $55 million loan from an overseas financial institution received in the fourth quarter of 2014, an $18 million syndicated loan arranged by Citibank in March 2014 and a $10 million loan received from the Eurasian Development Bank in November 2014. As discussed above, the Bank issued the 2017 Notes in December 2014, as a result of which debt securities accounted for 10.9% and 11.0% of the Bank's total funding (calculated as per the above table) as of 31 March 2015 and 31 December 2014, respectively. For further information on the Bank's sources of funding, see *"—Financial Condition—Total Liabilities*."

The following table sets out the Bank's total funding (calculated as per the above table) by currency as of the dates indicated:

	As of 31 March		As of 31 December					
	2015		2014		2013		2012	
	(AMD thousands)	% of total	(AMD thousands)	% of total	(AMD thousands)	% of total	(AMD thousands)	% of total
Funding by currency								
AMD	114,357,742	36.0	111,161,680	35.1	117,152,370	52.6	69,462,917	43.3
USD	191,054,001	60.2	190,483,643	60.2	95,524,344	42.9	84,262,086	52.5
Euro	10,933,636	3.5	12,989,975	4.1	8,002,871	3.6	5,790,966	3.6
Other currencies	908,779	0.3	1,803,739	0.6	2,010,356	0.9	932,296	0.6
Total funding	**317,254,158**	**100.0**	**316,439,037**	**100.0**	**222,689,941**	**100.0**	**160,448,265**	**100.0**

Cash Flows

Three Months Ended 31 March 2015 and 2014

The following table summarises the Bank's cash flows for the three month periods ended 31 March 2015 and 2014:

	Three months ended 31 March	
	2015	2014
	(AMD thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	8,628,175	5,979,256
Interest payments	(5,460,340)	(3,570,737)
Fee and commission receipts	675,174	856,002
Fee and commission payments	(146,800)	(139,142)
Net receipts from foreign exchange	524,210	331,771
Other income receipts	124,062	1,131,492
Other general administrative expenses payments	(2,247,989)	(2,026,121)
(Increase) decrease in operating assets		
Available-for-sale financial assets	(3,406,787)	5,881,162
Loans and advances to banks and financial institutions	17,211,083	(6,257,979)
Loans to customers	(22,283,009)	6,566,694
Other assets	219,450	(176,130)
Increase (decrease) in operating liabilities		
Short term deposits and balances from banks	(1,475,939)	(16,445,128)
Current accounts and deposits from customers	(3,154,522)	21,812,963
Other liabilities	(200)	1,907
Net cash (used in) provided from operating activities before income tax paid	**(10,793,432)**	**13,946,010**
Income tax paid	(210,885)	(231,803)
Cash flows (used in) provided from operating activities	**(11,004,317)**	**13,714,207**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment and intangible assets	(117,656)	(73,426)
Cash flows used in investing activities	**(117,656)**	**(73,426)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts of borrowed funds	8,771,877	3,264,742
Repayment of borrowed funds	(1,139,553)	(2,723,998)
Cash flows from financing activities	**7,632,324**	**540,744**
Net (decrease)/increase in cash and cash equivalents	**(3,489,649)**	**14,181,525**

Cash flows (used in) provided from operations

Cash flows used in operating activities was AMD 11.0 billion for the three months ended 31 March 2015 mainly due to the issuance of AMD 22.3 billion in loans to customers, interest payments of AMD 5.5 billion, the acquisition of AMD 3.4 billion in available-for-sale financial assets and AMD 3.2 billion in outflows from current accounts and deposits from customers. Inflows of AMD 17.2 billion from repayment of loans and advances to banks and financial institutions and interest receipts of AMD 8.6 billion partially offset cash flows used in operating activities in the three months ended 31 March 2015.

Cash flows provided from operating activities equaled AMD 13.7 billion for the three months ended 31 March 2014 primarily as a result of AMD 21.8 billion in inflows into current accounts and deposits from customers, AMD 6.6 billion in inflows from repayment of loans to customers, inflows of AMD 5.9 billion from the sale of available-for-sale financial assets and AMD 6.0 billion in interest receipts. Inflows of AMD 16.4 billion into short-term deposits and balances from banks, the issuance of AMD 6.3 billion in loans and advances to banks and financial institutions and the payment of AMD 3.6 billion in interest payments partially offset cash flows provided from operating activities in the three months ended 31 March 2014.

Cash flows used in investing activities

Cash flows used in investing activities equaled AMD 0.1 billion for each of the three month periods ended 31 March 2015 and 2014 due to purchases of property and equipment and intangible assets.

Cash flows from financing activities

Cash flows from financing activities was AMD 7.6 billion for the three months ended 31 March 2015 due mainly to a $15.9 million drawdown under a $55 million loan received from an overseas financial institution. For the three months ended 31 March 2014, cash flows from financing activities was AMD 0.5 million, mainly due to the receipt of loans from the German-Armenian Fund (KfW) and local financial institutions (for mortgage loan purposes) and the repayment of loans from local banks.

Years Ended 31 December 2014, 2013 and 2012

The following table summarises the Bank's cash flows for the years ended 31 December 2014, 2013 and 2012:

	Year ended 31 December		
	2014	2013	2012
		(AMD thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts	26,950,267	26,188,105	18,889,815
Interest payments	(15,649,689)	(11,606,927)	(8,129,742)
Fee and commission receipts	3,584,553	2,949,798	2,189,052
Fee and commission payments	(608,280)	(465,344)	(379,227)
Net receipts from foreign exchange	2,194,955	1,730,355	1,411,983
Other income receipts	2,248,522	1,518,343	819,688
Other general administrative expenses payments	(7,648,662)	(7,239,620)	(6,000,197)
(increase) decrease in operating assets			
Available-for-sale financial assets	2,050,761	(6,792,495)	(510,576)
Financial instruments at fair value through profit or loss	0	291,931	(266,347)
Loans and advances to banks and financial institutions	(16,245,573)	(5,061,469)	(691,753)
Loans to customers	(35,977,476)	(43,537,191)	(43,714,436)
Other assets	(382,806)	(170,632)	(63,427)
Increase (decrease) in operating liabilities			
Financial instruments at fair value through profit or loss	0	(5,850)	0
Short term deposits and balances from banks	17,067,831	5,458,379	7,686,014
Current accounts and deposits from customers	11,276,497	43,307,657	16,296,940
Other liabilities	5,576	(74,532)	88,370
Net cash (used in) provided from operating activities before income tax paid	**(11,133,704)**	**6,490,508**	**(12,373,843)**
Income tax paid	(909,870)	(1,723,720)	(640,341)
Cash flows (used in) provided from operations	**(12,043,574)**	**4,766,788**	**(13,014,184)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and intangible assets	(950,815)	(356,784)	(587,371)
Cash flows used in investing activities	**(950,815)**	**(356,784)**	**(587,371)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of borrowed funds	19,744,875	19,164,887	29,140,780
Repayment of borrowed funds	(11,172,369)	(7,294,581)	(23,821,011)
Proceeds from issuance of debt securities	34,131,000	0	0
Cash flows from financing activities	**42,703,506**	**11,870,306**	**5,319,769**
Net increase in cash and cash equivalents	**29,709,117**	**16,280,310**	**(8,281,786**

Cash flows (used in) provided from operations

Cash flows used in operating activities equaled AMD 12.0 billion for the year ended 31 December 2014 mainly due to the net issuance of AMD 36.0 billion in loans to customers, the issuance of AMD 16.2 billion in loans and advances to banks and financial institutions, the payment of AMD 15.6 billion in interest payments and the payment of AMD 7.6 billion in other general administrative expenses. AMD 27.0 billion in interest receipts, inflows of AMD 17.1 billion into short-term deposits and balances from banks and inflows of AMD 11.3 billion into current accounts and deposits from customers partially offset cash flows used in operating activities the year ended 31 December 2014.

Cash flows provided from operating activities equaled AMD 4.8 billion for the year ended 31 December 2013 primarily as a result of inflows of AMD 43.3 billion into current accounts and deposits from customers, AMD 26.2 billion in interest receipts and inflows of AMD 5.5 billion increase into short-term deposits and balances from banks. The issuance of AMD 43.5 billion in loans to customers, the payment of AMD 11.6 billion in interest, the payment of AMD 7.2 billion in other general administrative expenses, the acquisition of AMD 6.8 billion in available-for-sale financial assets and the issuance of AMD 5.1 billion in loans and advances to banks and financial institutions partially offset cash flows provided from operating activities in the year ended 31 December 2014.

Cash flows used in operating activities equaled AMD 13.0 billion for the year ended 31 December 2012 primarily as a result of the issuance of AMD 43.7 billion in loans to customers, the payment of AMD 8.1 billion in interest and the payment of AMD 6.0 billion in other general administrative expenses. AMD 18.9 billion in interest receipts, inflows of AMD 16.3 billion into current accounts and deposits from customers and inflows of AMD 7.7 billion into short-term deposits and balances from banks partially offset cash flows used in operating activities in the year ended 31 December 2012.

Cash flows used in investing activities

Cash flows used in investing activities were AMD 1.0 billion for the year ended 31 December 2014, compared to AMD 0.4 billion for the year ended 31 December 2013 and AMD 0.6 billion for the year ended 31 December 2012. The increase in cash flows used in investing activities for the year ended 31 December 2014, compared to the year ended 31 December 2013, was due to an increase in cash outflows on purchase of property and equipment and intangible assets, mainly in connection with branch renovations and modernisation of the Bank's IT systems.

Cash flows from financing activities

Cash flows from financing activities increased to AMD 42.7 billion for the year ended 31 December 2014, compared to AMD 11.9 billion for the year ended 31 December 2013 and AMD 5.3 billion for the year ended 31 December 2012. The increase in cash flows from financing activities for the year ended 31 December 2014, compared to the year ended 31 December 2013, was mainly the result of proceeds received from the issuance of the 2017 Notes and proceeds received from various borrowings, including the $55 million loan from an overseas financial institution and loans from the Eurasian Development Bank, Black Sea Trade and Development Bank and local financial institutions (for mortgage loan purposes). The increase in cash flows from financing activities for the year ended 31 December 2013, compared to the year ended 31 December 2012, was due mainly to a decline in cash outflows used to repay borrowed funds to AMD 7.3 billion in 2013 from AMD 23.8 billion in 2012, partially offset by a decrease in amounts received under borrowings to AMD 19.2 billion in 2013 from AMD 29.1 billion in 2012.

Contingencies and Commitments

Ardshinbank has outstanding credit-related commitments to extend loans. These commitments take the form of approved loans, credit/debit card limits and overdraft facilities. The Bank also provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These guarantees and letters of credit have fixed terms and generally extend for a period of up to five years. The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does when granting loans to customers. See "*Risk Management—Credit Risk*."

The following table sets forth the Bank's credit-related commitments as of the dates indicated:

	As of 31 March		As of 31 December					
	2015		2014		2013		2012	
	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total	AMD thousands	% of total
Loan and credit line commitments	6,281,701	27.2	13,101,896	42.5	5,039,900	21.0	6,018,626	30.2
Credit card commitments	4,879,734	21.1	5,657,730	18.4	6,829,931	28.4	4,101,616	20.6
Undrawn overdraft facilities	4,183,215	18.2	4,269,907	13.9	2,547,309	10.6	4,306,078	21.7
Guarantees and letters of credit	7,737,822	33.5	7,750,484	25.2	9,623,974	40.0	5,477,386	27.5
Total credit-related commitments	**23,082,472**	**100.0**	**30,780,017**	**100.0**	**24,041,114**	**100.0**	**19,903,706**	**100.0**

The Bank's total credit-related commitments declined by 25.0% to AMD 23.1 billion as of 31 March 2015 from AMD 30.8 billion as of 31 December 2014 mainly as a result of a 52.1% decrease in loan and credit line commitments to AMD 6.3 billion as of 31 March 2015 from AMD 13.1 billion as of 31 December 2014.

The Bank's total credit-related commitments increased by 28.0% to AMD 30.8 billion as of 31 December 2014 from AMD 24.0 billion as of 31 December 2013 mainly as a result of a 160.0% increase in loan and credit line commitments to AMD 13.1 billion as of 31 December 2014 from AMD 5.0 billion as of 31 December 2013.

The Bank's total credit-related commitments increased by 20.8% to AMD 24.0 billion as of 31 December 2013 from AMD 19.9 billion as of 31 December 2012 mainly as a result of a 75.7% increase in guarantees and letters of credit to AMD 9.6 billion as of 31 December 2013 from AMD 5.5 billion as of 31 December 2012 and a 66.5% increase in credit card commitments to AMD 6.8 billion as of 31 December 2013 from AMD 4.1 billion as of 31 December 2012, partially offset by declines in undrawn overdraft facilities and loan and credit line commitments.

Capital Adequacy

The following table sets forth certain capital ratios of the Bank as of the dates indicated. The CBA sets and monitors capital requirements for the Bank (as per CBA practice, which can vary from IFRS):

	As of 31 March	As of 31 December		
	2015	2014	2013	2012
	(AMD thousands, unless otherwise indicated)			
Core capital				
Core capital	41,240,533	40,970,838	35,321,847	32,157,254
Deductions	(6,611,027)	(6,461,337)	(5,127,906)	(1,473,781)
Total core capital	**34,629,506**	**34,509,501**	**30,193,941**	**30,683,473**
Additional capital				
Additional capital	3,276,533	2,393,918	5,361,907	2,756,197
Deductions(1)	(331,289)	(281,580)	(281,808)	(62,848)
Total additional capital	**2,945,244**	**2,112,338**	**5,080,099**	**2,693,349**
Total capital	**37,574,750**	**36,621,839**	**35,274,040**	**33,376,822**
Total risk weighted assets (combining credit, market and operational risks)	**285,194,602**	**270,379,082**	**227,517,645**	**173,039,591**
Capital adequacy ratios:				
Total capital(2)	13.2%	13.5%	15.5%	19.3%

Notes:

(1) Deductions are primarily made in respect of repossessed property and of capital investments in leased fixed assets and the amount of fixed assets owned by the Bank more than six months, which assets are not used for banking operations.

(2) Total capital as a percentage of total risk-weighted assets.

Retained earnings and share capital have comprised the majority of the Bank's core capital as of 31 March 2015 and 31 December 2014, 2013 and 2012.

The Bank's total core capital increased by 0.4% to AMD 34.6 billion as of 31 March 2015 from AMD 34.5 billion as of 31 December 2014. This increase was attributable to retained earnings. The Bank's total core capital increased by 14.3% to AMD 34.5 billion as of 31 December 2014 from AMD 30.2 billion as of 31 December 2013 due to profit for the year. The Bank's total core capital decreased by 2.7% to AMD 30.2 billion as of 31 December 2013 from AMD 31.0 billion as of 31 December 2012 due to an increase in deductions.

Total equity increased by 6.8% to AMD 47.1 billion as of 31 December 2014 from AMD 44.1 billion as of 31 December 2013 mainly due to profit for the year and to an increase in the revaluation surplus for land and buildings.

The Bank's total capital increased by 2.6% to AMD 37.6 billion as of 31 March 2015 from AMD 36.6 billion as of 31 December 2014 due to retained earnings and an increase in the revaluation surplus for land and buildings. The Bank's total capital increased by 3.8% to AMD 36.6 billion as of 31 December 2014 from AMD 35.3 billion as of 31 December 2013 due to profit for the year and to an increase in the revaluation surplus for land and buildings. The Bank's total capital increased by 4.1% to AMD 35.3 billion as of 31 December 2013 from AMD 33.9 billion as of 31 December 2012 due to an increase in the revaluation reserve for available-for-sale financial assets.

The minimum level of the ratio of total capital to risk weighted assets, i.e., the statutory capital ratio, was 12% as of the end of each of the reporting periods. The Bank was in compliance with the statutory capital ratio as of 31 March 2015 and 31 December 2014, 2013 and 2012.

The financial information in this section "Capital Adequacy" is unaudited for all periods.

See "*Risk Management—Compliance with CBA Norms*" for further discussion of Ardshinbank's capital adequacy.

Accounting policies

Significant Accounting Policies and New Accounting Standards

A detailed description of the Ardshinbank's main accounting policies are set forth in Note 3 to the 2014 Financial Statements.

Critical Accounting Estimates and Judgments in Applying Accounting Policies

The preparation of the Financial Statements in conformity with IFRS requires the Bank's management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Judgments that have the most significant effect on the amounts recognised in the Financial Statements include:

- loan impairment estimates;
- assessment of net realisable value of repossessed assets;
- land and building revaluation estimates; and
- fair value estimates of financial instruments.

See Note 2 of the 2014 Financial Statements.

BUSINESS

Overview of the Bank

Ardshinbank has established itself as the second-leading bank in Armenia by a variety of measures: ranking second amongst Armenian banks in terms of total assets (with an 11.3% market share), loans (11.5%) and deposits (11.0%), as of 31 March 2015 based on bank public disclosures. Ardshinbank is seeking to complement its traditional strength in lending to Armenian corporate borrowers by emphasising growth in its lending to SME and micro businesses and retail customers. As of 31 March 2015, Ardshinbank had a total of approximately 212,000 customers, of which approximately 9,000 were corporate customers (including SME and micro businesses) and the remainder individuals.

Ardshinbank offers a wide range of banking products and services to its corporate and retail customers. Ardshinbank's lending activities include providing business, consumer, mortgage and micro loans, as well as guarantees and letters of credit. Loans secured by gold jewellery are an important part of its retail lending. Ardshinbank offers current and savings accounts, on demand and term deposits, debit and credit cards, currency exchange facilities and other products.

Ardshinbank's operations are entirely focused on the Armenian banking market (including Nagorno-Karabakh). The Bank is headquartered in the Armenian capital of Yerevan and has the second largest national branch network with 55 branches, as of 31 March 2015. In addition, Ardshinbank has a large network of ATMs and points-of-sale terminals, consisting of 96 ATMs and 196 points-of-sale terminals, as of 31 March 2015.

As of 31 March 2015, Ardshinbank had: total assets of AMD 367.0 billion, including total loans to customers of AMD 238.8 billion (of which 67% represented corporate loans and 33% retail lending); total current accounts and deposits from customers of AMD 178.2 billion; and total equity of AMD 47.2 billion. Ardshinbank's profit was AMD 531.9 million for the three months ended 31 March 2015 and AMD 3.9 billion for the year ended 31 December 2014. Ardshinbank's cost to income ratio (i.e., the ratio of its personnel expenses and other general administrative expenses to its operating income) was 57.1% for the three months ended 31 March 2015 and 49.3% for the year ended 31 December 2014, while its return on equity (ROE) for such periods was 4.5% and 8.6%, respectively. See "*Selected Financial Information—Selected Financial Ratios and Other Information*." As of 31 March 2015 Ardshinbank had 1,093 employees.

Ardshinbank has a stable balance sheet, with a ratio of net loans to customers to current accounts/deposits from customers of 134.0%, an impairment allowance to gross loans ratio of 2.0% and a non-performing loan (being any loan for which payment is overdue by more than 90 days or that otherwise is deemed individually impaired by the Bank) to total loans to customers ratio of 2.9% as of 31 March 2015. Its total capital ratio calculated in accordance with Basel II exceeds the recommended minimum of 8%, standing at 16.9% as of 31 March 2015 and 16.3% as of 31 December 2014.

As of the date of this Prospectus, Ardshinbank has Ba3 long-term and Not-prime short-term local currency deposit ratings and B1 long-term and Not-prime short-term foreign currency deposit ratings and a "D-" financial stability rating from Moody's, in each case with a "negative" outlook, B+ long term issuer default rating and B short term issuer default rating from Fitch with a "negative" outlook.

As of the date of this Prospectus, Ardshinbank is controlled by Mr. Karen Safaryan, who effectively controls the 97.52% of Ardshinbank's outstanding shares held by Center for Business Investments LLC. Mr. Safaryan has other business interests in Armenia, notably in the insurance and real estate sectors, and also in Russia. The remaining 2.48% shares in Ardshinbank were distributed to management before 2011. See "*Shareholders*."

History

Ardshinbank was founded by Mr. Safaryan in 2002 under the name of "Ardshininvestbank CJSC." In 2003, Ardshininvestbank CJSC acquired a significant part of the assets and liabilities (including an extensive network of branches) of Ardshinbank, a financial institution which was in existence in Armenia under different legal names from the 1920s. Also in 2003 Ardshininvestbank CJSC acquired the distribution network of Armagrobank, which was the second largest in Armenia at the time.

With its business initially dedicated to servicing large corporate clients, in 2009 Ardshininvestbank CJSC began expanding its strategic focus by offering products and services to retail as well as SME customers. In 2014, Ardshininvestbank CJSC changed its name to Ardshinbank. As of the date of this Prospectus, eight of Ardshinbank's 55 branches have been fully rebranded to the Ardshinbank name (from Ardshininvestbank) with the rebranding process expected to be completed by 2017.

Key Strengths

Management believes that Ardshinbank has the following key strengths that will help enable it to maintain and strengthen its position as one of the leading Armenian banking institutions:

Established market leader in the Armenian banking sector

Ardshinbank has an established market-leading position in the Armenian banking sector. Traditionally, corporate lending and deposit-taking have been its core strengths, in particular for the Armenian energy sector (including gas distribution; electricity and heat generation and transmission; and hydro and nuclear power). As of 31 March 2015, based on bank public disclosures, Ardshinbank had the top market share of all Armenian banks for corporate deposits at 14.5% and second-largest market share for corporate loans at 11.7%. Ardshinbank believes it has built up good banking relationships with its corporate customers, likely to lead to ongoing business with them.

In part by servicing employees of some of its corporate customers (for example, by providing them debit cards), Ardshinbank has also established itself in the banking retail sector. In terms of national market share, as of 31 March 2015, based on bank public disclosures, Ardshinbank ranked 3rd in terms of loans issued to individuals at 11.1% and 5th in terms of deposits by individuals at 9.1%. Combined with its 55-branch network, the leading market position that Ardshinbank already enjoys and its resulting national market brand should help it both to retain current banking relationships and gain new clients in its target lines of business.

Track record of growth and profitability

In the view of its management, Ardshinbank's track record of lending growth and profitability both evidences its good business practices and enhances its reputation, helping it retain and attract customers. The CAGR (as defined herein) of the aggregate value of Ardshinbank's total loans to customers for the three years ended 31 December 2014 was 34.0%. In the same three-year period, Ardshinbank achieved a profit CAGR of 18.3% with an average ROE of 12.4%. Ardshinbank's net interest margin was 6.9% in 2012, 6.4% in 2013 and 4.1% in 2014; last year's result reflects the Bank taking a more conservative lending approach in the second half of 2014 in light of management's concern of possible turbulence in the Armenian economy, concerns which were realised when the dram fell significantly in December 2014. Bank management believes its recent record of prudent growth generating healthy profitability places the Bank well in the competitive market.

Deep deposit base

Ardshinbank attracts market-leading corporate deposits in Armenia as well as significant, and growing, retail deposits. Term and demand deposits from customers together with current accounts comprised 55.7% of the Bank's total liabilities as of 31 March 2015. As of 31 March 2015, total deposits/current accounts of corporate customers (including SME/micro) amounted to AMD 84.8 billion, and total individual deposits/current accounts to AMD 93.4 billion. Term deposits, which as of 31 March 2015 had an average tenor of 1.1 years, are generally renewed. Total deposits at the Bank have been growing: in the three years ending 31 December 2014, the CAGR for its total current accounts/deposits from customers was 24.3%. The Bank believes these deposits provide an important capital base for its lending activities.

Managing foreign currency exposure

The Armenian economy is highly dollarised, reflecting in part the relatively small size of the national economy, the limited international use of the dram, the historic volatility of the dram and the receipt of remittances from Armenians working abroad. As a consequence, as of 31 March 2015, 59.6% of the Bank's total net loans to customers were dollar-denominated and 51.9% of its total deposits/current accounts from customers were dollar-denominated. The Bank actively manages its balance sheet to limit its foreign currency, and in particular U.S. dollar, exposure: as of 31 March 2015, the Bank had total U.S. dollar financial assets of AMD 191.9 billion and total U.S. dollar financial liabilities of AMD 191.1 billion, a difference of 0.5%. As such, the Bank effectively seeks to hedge its U.S. dollar exposure (without using foreign exchange derivative contracts).

Exclusive focus on the Armenian market

Ardshinbank operations are entirely focused on the Armenian banking market (including Nagorno-Karabakh). While this exposes the Bank to single-market volatility, the Bank considers it a strength as its management has an in-depth knowledge of the Armenian market, has developed deep understandings of the business of its corporate clients, and can anticipate the needs of its retail/SME/micro customers. The Bank also considers its relations with the government of Armenia and its regulators, including the CBA, to be very good as some of the Bank's senior managers have served with the government and/or the CBA. Ardshinbank has a streamlined business with a clear strategic focus on its core banking activities in Armenia, which should help enable Ardshinbank to maintain a strong balance sheet with a stable, deposit-based source of funding.

Extensive distribution network

Ardshinbank has built an extensive physical distribution network over the years by a combination of acquiring existing distribution channels from distressed financial institutions and establishing new branches. As of 31 March 2015, Ardshinbank, in addition to its head office in Yerevan, had a multi-channel distribution network consisting of 55 branch offices, 96 ATMs and 196 points-of-sale terminals with its branch network being the second-largest in Armenia, based on bank public disclosures, which helps enable Ardshinbank to increase its interaction with customers and potential customers and to cross-sell its products. Management believes the existing branch network has significant absorptive capacity to take on new business.

Experienced management team and performance-oriented culture

Ardshinbank's current management team, most of which was put in place three years ago, has extensive local and international banking experience. All members of the Management Board have significant experience in the banking and finance industry, with most having at least 15 years of relevant experience. Four members of the Management Board have previously worked for the CBA and/or in the Armenian Government and two have experience with international financial organisations.

Management believes that Ardshinbank's evaluation system and performance-oriented culture are an important foundation to its success and the execution of its strategy. Individual compensation packages of most of Ardshinbank's sales and management employees provide for performance-based bonuses. Importantly, as a general rule the correlation between compensation and performance increases with the individual employee's progression within the bank's internal hierarchy.

Strategy

Ardshinbank's strategic objective is to remain a leading Armenian bank, continuing to deliver strong, sustainable growth and profitability without compromising asset quality or risk management processes. In order to implement its strategy, Ardshinbank intends to focus on the following:

Nurturing its existing corporate relationships while expanding its retail, SME and micro lines of business

In part due to the current slowing of the Armenian economy and potential economic volatility arising out of current macro-economic circumstances, Ardshinbank's current strategy in respect of its large corporate clients is to focus on its existing client base, customers whose credit quality is generally well understood by the Bank, while only quite selectively taking on new large corporate clients. The universe of large corporate clients—which the Bank defines as businesses with annual turnover of over AMD 1.2 billion—is small in Armenia; the Bank estimates there are roughly 70-100 such businesses active in Armenia. The Bank will continue to cross-sell its range of services to its large corporate customers.

In contrast, Ardshinbank is looking to expand its retail business for individuals and its lending to smaller corporates, i.e., SMEs (with annual turnover from AMD 60 million to AMD 1.2 billion) and micros (with annual turnover less than AMD 60 million). The Bank's retail banking target is for loans to retail customers to eventually reach roughly 50% of its total loan portfolio (compared to 33% as of 31 March 2015); and it targets loans to SMEs/micros to eventually comprise roughly half of the total corporate loan portfolio (compared to 26.4% as of 31 March 2015), especially lending into the energy sector, such as for small hydro-electric plants, bringing to bear its experience and knowledge from its large corporate lending into the sector, as well as into the food processing/agricultural sector, which is a mainstay of the Armenian economy, and the hospitality sector, as Armenia develops its tourist industry. These lines of businesses promise higher net interest margins than lending to large corporate businesses. As certain banks in the Armenian market have decreased lending activities to individuals, Ardshinbank hopes to attract them, which, as the Bank believes, explains the significant increase in its retail gold-secured loans in the first quarter of 2015. The Bank this year has bolstered its staffing for making SME and micro loans. Along these lines, the Bank would consider pursuing an acquisition of a smaller Armenian bank, especially one with an SME/micro lending focus, if mutually satisfactory terms of purchase could be reached, but to date no such agreement has been reached, and the Bank remains confident it can grow this business organically.

Launching internet and mobile banking services

To complement its 55-branch network, the Bank is planning to introduce internet and mobile banking services in the next year, most likely in the first half of 2016. The relatively high usage rate and general availability of the internet in Armenia and the ubiquity of mobile telephones should be conducive to a successful launch of these services. The launch of internet/mobile banking services is in keeping with the Bank's effort to expand its retail and SME/micro business lines. The Bank currently provides some on-line services to its corporate customers, but also looks to expand these in the next year. The availability of internet/mobile banking is expected over time to increase the frequency of customer transactions, generate fee income, expand the customer base and add to customer satisfaction.

Increasing fee and commission income

Ardshinbank aims to further diversify its revenue base by increasing its non-interest income (in the year ended 31 December 2014, net fee and commission income was AMD 3.0 billion, 15.5% of operating income). Management believes this will help Ardshinbank to sustain its profitability by becoming less reliant on interest margins, which recently have declined. Accordingly, Ardshinbank's strategy is to increase its fee and commission income generating capabilities by growing fees from existing sources, such as worker remittances and (subject to appropriate credit quality controls) debit and credit card operations, guarantees and trade finance as well as by new commission-based products and services related to Ardshinbank's core corporate banking business.

Competition

As of 31 March 2015, there were 21 commercial banks operating in Armenia. Ardshinbank's primary competition comes from the other four largest Armenian banks by assets as of 31 December 2014 (as per the KPMG Publication (as defined herein)): CJSC ACBA-Credit Agricole Bank (in which Credit Agricole has a minority, 28% stake); CJSC Ameriabank (with total assets of AMD 400 billion, the largest of any Armenian bank); CJSC HSBC Bank Armenia (in which the HSBC group holds a majority, 70% stake); and CJSC VTB Bank Armenia (which is wholly-owned by OJSC VTB Bank, a prominent Russian bank, and which, with 67 branches, has the largest branch network, having acquired what had been the Soviet-era branch network of Sberbank); Ardshinbank together with these four banks accounted for approximately 51% of total bank assets in Armenia.

In the corporate market, Ardshinbank considers its principal competitors to be Ameriabank, VTB Bank Armenia and HSBC Armenia, and in the retail lending market ACBA-Credit Agricole Bank and VTB Armenia as well as the smaller banks Inecobank and Unibank.

There is some expectation that there will be a consolidation in the Armenian banking sector in the coming years. In December 2014, the CBA announced that existing Armenian banks would be required, effective 1 January 2017, to have total capital (as measured by CBA methodology, which differs from IFRS) of at least AMD 30 billion (and any newly-licensed bank would have to comply with that threshold immediately). As of 31 December 2014 per the KPMG Publication, all five banks discussed above (including Ardshinbank) already satisfied this standard, while none of the other 16 Armenian banks satisfied this standard with some falling significantly short of it. As a result, there may be efforts to merge these smaller banks into larger banks with an aim to timely satisfy this new standard.

Given the relative size and development of the Armenian economy and population, some consolidation within the Armenian banking sector would appear sensible. Future growth and competition in the sector will be highly correlated to growth of the Armenian economy. At the same time, according to the CBA, Armenia's economy continues to maintain relatively low levels of financial intermediation and general penetration of financial services (which in part reflects Armenia's relatively low average GDP per person and large rural population). Moreover, according to the KPMG Publication, the industry remains unconcentrated, with the Herfindahl-Hirschman index (a commonly used measure to access market concentration) equal to 0.073 (which indicates an unconcentrated market) as of 31 December 2014. In the view of its management, Ardshinbank is accordingly positioned to grow its retail/SME/micro lines of business by a combination of attracting customers currently using the services of other banks as well as customers with no current banking relationship.

Principal Business Activities

Corporate Banking

Overview

Ardshinbank began its operations by focusing on large corporate clients and has established a strong corporate banking practice, based on its well-developed relationships with many leading Armenian corporations which, with Ardshinbank's financial and advisory support, have grown with Ardshinbank over the years. Ardshinbank provides banking services to large private companies, companies partly or wholly-owned by the state, as well as to government and municipal authorities. Partly due to the current macro-economic situation in Armenia and potential volatility, Ardshinbank at this time is being quite selective on taking on new large corporate clients (while continuing to cross-sell and expand its relationships with its existing large corporate customers) and is prioritising new SME and micro lending market segments where management envisages better opportunities for growth and higher net interest margins. Ardshinbank provides tailored financial solutions across all key corporate business sectors, with a particularly strong presence in the energy, trade, manufacturing, mining/metallurgy, construction, hotel and hospitality and agriculture sectors.

Ardshinbank's corporate banking operations include lending, accounts and term deposits, foreign exchange operations, trade finance products, payroll services and certain leasing and factoring services.

Ardshinbank offers its corporate banking services and products to large corporates from its head office in Yerevan. Ardshinbank seeks to establish long-term relationships with corporate clients using an individualised approach based on understanding and being responsive to each client's banking needs. Every major corporate client is allocated its own relationship manager, who specialises in several industry groups and is familiar with the business challenges or opportunities facing the client. These relationship managers act as financial advisers, providing dedicated customer service.

As of 31 March 2015, Ardshinbank's corporate business had approximately 9,000 clients (including SMEs and micros) and accounted for 67.3% of Ardshinbank's total gross loans and 47.6% of total current accounts and deposits from customers.

Corporate accounts and term deposits

Based on public bank disclosures, as of 31 March 2015, Ardshinbank was the largest holder of deposits from legal entities in Armenia, with a market share of 14.4%.

Ardshinbank offers a range of current accounts, demand deposits and term deposits to its corporate customers. There are two principal term deposit products: "Standard" and "Cumulative." "Standard" term deposits are available in four variations. Depending on the particular type of product, the client may be entitled to deposit additional amounts during the term and interest may be payable at the end of the term, quarterly or monthly. While "Standard" term deposits may contemplate the withdrawal of the deposit prior to the scheduled end of the term, under the terms of the "Cumulative" product clients receive a higher rate of interest but are not entitled to reduce the amount originally deposited during the entire deposit period.

As of 31 March 2015, Ardshinbank had (i) AMD 37.8 billion of current accounts together with demand deposits and (ii) AMD 46.9 billion of term deposits from corporate clients, compared to AMD 32.3 billion/AMD 56.5 billion, AMD 35.6 billion/AMD 41.3 billion and AMD 20.4 billion/AMD 30.8 billion, as of 31 December 2014, 2013 and 2012, respectively. Ardshinbank's corporate term deposits have terms generally ranging from six to 24 months. As of 31 March 2015, Ardshinbank's average annual interest rate for corporate term deposits was 9.7%. As of the same date, 47.6% of Ardshinbank's total current accounts and deposits from corporate customers were denominated in currencies other than drams, predominantly in U.S. dollars.

Corporate lending

Based on bank public disclosures, as of 31 March 2015, Ardshinbank was the second largest bank in Armenia in terms of loans to corporate clients, with a market share of 11.7%. Corporate lending to large Armenian corporates (which Ardshinbank defines as businesses with annual turnover of over AMD 1.2 billion) has been a traditional strength of the Bank. Ardshinbank estimates that there are roughly 70-100 such enterprises active in Armenia. As of 31 March 2015, Ardshinbank's net loan portfolio to corporate clients (including SMEs/micros) was AMD 160.7 billion, of which 73.6% was to large corporates and 26.4% to SMEs/micros. As of 31 March 2015, large corporate loans had an average loan size of approximately AMD 706 million and average tenor of 2.1 years; SME loans had an average loan size of approximately AMD 173 million and average tenor of 3.6 years; and micro loans had an average loan size of AMD 1.6 million and an average tenor of 3.2 years.

As of 31 March 2015, Ardshinbank had a total of 4,697 loans outstanding to corporate customers (including SMEs and micros) in the total amount of AMD 163.8 billion and subject to an AMD 3.1 billion impairment allowance (compared to the total amounts of loans outstanding of AMD 159.1 billion, AMD 125.0 billion and AMD 89.9 billion, as of 31 December 2014, 2013 and 2012, respectively). As of the same date, Ardshinbank's average annual interest rates for loans to corporate clients was 10.2%. As of 31 March 2015, 83% of Ardshinbank's total loans to corporate customers were denominated in currencies other than drams (predominantly in U.S. dollars).

Ardshinbank's corporate loan portfolio is relatively diversified, although with particular emphasis on lending into the energy sector, which encompasses borrowers, who are largely state-owned, active in gas distribution; electricity and heat generation and transmission; and hydro and nuclear power. The following table sets out the breakdown of Ardshinbank's gross corporate loan portfolio by sector, as of 31 March 2015 and 31 December 2014, 2013 and 2012:

	Percentage of the total value of Ardshinbank's gross corporate loan portfolio			
	As of 31 March	As of 31 December		
	2015	2014	2013	2012
		(%)		
Industry				
Energy	39.9	36.8	47.4	43.5
Trade	11.9	9.6	11.4	8.8
Manufacturing	8.6	6.2	7.6	9.5
Mining/metallurgy	8.0	11.9	3.4	0.7
Construction	7.5	7.4	7.5	9.7
Government and Municipal authorities	7.3	7.6	1.8	1.3
Hotel and hospitality	4.7	6.5	1.6	0
Agriculture, forestry and timber	2.5	2.7	3.5	7.7
Food and beverage	1.3	3.4	3.4	3.5
Foundations	1.2	0.7	2.4	2.7
Transportation	1.2	0.9	4.7	2.9
Loans to financial institutions	1.1	0.4	0.8	1.8
Education	0.2	0.4	1.1	2.1
Other	4.6	5.5	3.4	5.8
Total	**100**	**100**	**100**	**100**

Part of Ardshinbank's lending activities reflects arrangements whereby the Bank takes financing at concessional rates from multilateral institutions or Armenian state institutions for designated purposes (e.g., to support SMEs/micro businesses), and the Bank in turn lends out for such purposes at below-market rates.

As of 31 March 2015, 98.4% of Ardshinbank's net loans outstanding to corporate customers were collateralised, including 14.3% secured by cash and cash deposits and 12.3% by state and municipal guarantees, forms of collateral for which, based on historical experience, the Bank believes it is appropriate to set a loss rate of 0%. Other principal forms of security for corporate loans were current accounts (securing 27.7% of net loans to corporate customers), real estate (19.7%), plant and equipment (14.2%) and corporate shares (5.1%). For the 1.6%, or AMD 2.5 billion, of Ardshinbank's loans outstanding to corporate clients there was no collateral or other credit enhancement as of 31 March 2015, which is mainly due to diminution in the value of collateral on such loans since origination.

In determining the impairment allowance for loans to corporate customers, Bank management takes into account the historic annual loss rate.

Financial Markets Activities

Ardshinbank's investment banking activities are principally undertaken in support of the Bank's core banking business and are viewed by the management as a tool for supporting banking operations, liquidity management and managing open currency positions.

Ardshinbank conducts foreign exchange activities both for its own account and on behalf of customers in the form of spot foreign currency transactions.

In the three months ended 31 March 2015, such transactions generated a gain of AMD 524.2 million. During the same period, the Bank had a loss of AMD 9.6 million from revaluation of financial assets and liabilities so that net foreign exchange income was AMD 514.6 million, or 13.3% of operating income (for the year ended 31 December 2014, net foreign exchange income of AMD 2.5 billion was 13.3% of operating income).

Ardshinbank's securities portfolio consists predominantly of Armenian Government securities, which as of 31 March 2015 comprised 92.6% of the Bank's available-for-sale financial assets (including securities pledged under repo agreements) while corporate bonds (all issued by Armenian issuers, including state agencies) comprised 6.9% and corporate shares (all issued by Armenian issuers) the remainder.

In addition, Ardshinbank provides depositary services for its corporate clients.

Trade finance products

Ardshinbank offers financial guarantees and letters of credit to guarantee the performance of its Armenian clients, including in cross-border trade transactions for both domestic and international operations, which generates fee income for the Bank. As of 31 March 2015, Ardshinbank's guarantees and letters of credit amounted to AMD 7.7 billion.

Payroll services

Ardshinbank provides payroll services to employees of its corporate clients via its debit cards, using VISA™, MasterCard™ and ArCa™ platforms (ArCa, or Armenian Card, is a local card payment system in Armenia). Currently, the Bank provides such payroll services to the employees of more than 950 of its corporate clients. These debit cards are issued on standardised terms, including preferential tariffs, an overdraft facility up to 10x net salary, and cash withdrawals with no commission at the Bank's ATM and POS terminals, so that the debit card effectively serves as a savings account.

Retail Banking

Overview

Ardshinbank has developed a diversified retail banking product mix, offering a range of loan, account and deposit products through its distribution network. Management believes that Ardshinbank's strong brand and reputation among its customers results from its standards of service, the design of its branches and its qualified and well-trained staff. As of 31 March 2015, Ardshinbank had approximately 203,000 individual customers accounting for 32.7% of Ardshinbank's total gross loans to customers and 52.4% of total current accounts/ deposits from customers.

Ardshinbank seeks to further expand its retail banking operations, both by continuing to cultivate as customers the employees of its corporate clients and by marketing efforts to the broader populace.

Ardshinbank classifies its retail customers as "high-net-worth" and "mass retail" customers. "High-net-worth" clients are Ardshinbank's individual customers who have deposits in excess of U.S.$ 500,000 (or its equivalent in other currencies) or who have been so designated by the Bank's CEO. Ardshinbank has over 50 high-net-worth clients.

Retail accounts and term deposits

Based on bank public disclosures, as of 31 March 2015 Ardshinbank was the fifth largest holder of deposits from retail customers in Armenia, with a market share of 9.1%.

Ardshinbank offers current accounts, demand deposits and term deposits to its retail customers. The Bank offers current accounts and deposits in four currencies: drams, U.S. dollars, euros and roubles. Retail time deposits typically last from 1-24 months, with an average tenor as of 31 March 2015 of 1.16 years, although under Armenian law an individual has a right to break a time deposit prior to maturity but thus forfeiting interest on the deposit. The Bank offers time deposits (in drams only) that allow for additional amounts to be deposited throughout the term of the deposit with interest accrual on such additional amounts. The offering of a wide variety of deposit products is designed to allow customers to save for a designated purpose and for different terms.

As of 31 March 2015, Ardshinbank had (i) AMD 10.0 billion of retail current accounts together with demand deposits and (ii) AMD 83.4 billion of retail term deposits (compared to AMD 8.8 billion/AMD 85.2 billion, AMD 9.5 billion/AMD 72.7 billion and AMD 7.0 billion/AMD 56.2 billion, as of 31 December 2014, 2013 and 2012, respectively). As of 31 March 2015, Ardshinbank's average yield annualised interest rate for retail term deposits was 8.9%. As of 31 March 2015, 64.6% of Ardshinbank's total retail current accounts and deposits from retail customers were denominated in currencies other than drams, predominantly in U.S. dollars.

Deposits from individuals are a key funding source for Ardshinbank and provide a customer relationship by which the Bank can cross-sell its product offerings. Ardshinbank's branch and other sales personnel are trained in cross-selling and 'upselling' to depositors.

Retail lending

As of 31 March 2015, based on bank public disclosures Ardshinbank had the third largest amount of loans to individuals of any bank in Armenia, with a market share of 11.1%.

Ardshinbank offers different types of loan products to its retail clients, including gold loans (i.e., loans secured by a pledge of gold almost always in the form of jewelry), debit cards (with overdraft facility) and credit cards, mortgages, agricultural loans and other types of loans. As of 31 March 2015, Ardshinbank had a total of 206,057 loans outstanding to retail customers, with aggregate value of AMD 79.8 billion (compared to AMD 65.3 billion, AMD 52.1 billion and AMD 46.2 billion as of 31 December 2014, 2013 and 2012, respectively), and an average interest rate of 18.8%. Interest rates on retail lending are generally higher than for corporate lending, and interest rates on dram-denominated debt higher than for U.S. dollar-denominated debt. As of 31 March 2015, 70% of Ardshinbank's retail loans were collateralised, with 47% being secured by gold and 20% by real estate. As at the same date, 22% of Ardshinbank's total loans to retail customers were denominated in currencies other than drams, predominantly in U.S. dollars.

The following table sets out the breakdown of the value of the most significant types of gross retail loans of Ardshinbank by product, as of 31 March 2015 and 31 December 2014, 2013 and 2012.

	Percentage of the total value of Ardshinbank's gross retail loan portfolio			
	As of 31 March	As of 31 December		
	2015	2014	2013	2012
		(%)		
Type of Product				
Gold loans	47.1	43.9	46.4	51.0
Credit cards(1)	24.5	27.8	27.8	20.3
Mortgage loans	14.8	15.2	12.4	9.0
Agricultural loans	5.8	6.0	2.6	1.3
Other	7.8	7.1	10.8	18.4
Total	**100**	**100**	**100**	**100**

Note:

(1) Includes debit card overdrafts.

Gold loans

The highest share of retail loans was accounted for by gold loans. Gold loans are loans secured by pledges of gold, gold which almost always is in form of jewelry. In Armenia, in a practice dating back to at least Soviet times, families have often used gold jewelry as a means to store accumulated wealth. In assessing the value of the jewelry, the Bank only takes into account its gold content, assessing no value to any other gemstones in the jewelry or its aesthetic merit. Each branch of the Bank has a hold assessor (whose work is subject to spot checks) and a safe for the deposited gold. The Bank's current ceiling for any gold loan is U.S.$ 5,000 (or its equivalent in drams). The current average length for gold loans is approximately 5.5 months. The rate of non-performance on gold loans has been low—at 0.7% since 2012—in part because the gold jewelry often represents family heirlooms. In the first quarter of 2015, there was a significant increase in gold lending by the Bank (from AMD 28.7 billion of gold loans as of 31 December 2014 to AMD 37.6 billion as of 31 March 2015, a 31.1% increase), which the Bank believes in part reflected a decline by certain of its competitors in making gold loans. As of 31 March 2015, the Bank's approximately 131,000 outstanding gold loans comprised 47.1% of the total value of its total outstanding retail loans. The average nominal interest rate of gold loan portfolio was 21% as of 31 March 2015.

Debit Cards (with overdrafts)/Credit Cards

Credit card products, including the overdraft facilitates afforded debit cardholders, were the second largest category of Ardshinbank's loan products to retail customers as of 31 March 2015. The Bank has issued a significant number of debit cards (with overdraft facilities) while selectively issuing credit cards. Ardshinbank offers MasterCard™, VISA™ and local ArCA™ debit and credit cards. The Bank is a member of the MasterCard and VISA International payment systems and is able to accept MasterCard and VISA chip cards in its ATMs and points-of-sale terminals. Based on data provided by MasterCard and VISA, Ardshinbank had approximately a 15% market share of MasterCard's transaction volume and 11% of VISA's in the Armenian market in 2014.

In addition to being able to make cash withdrawals and payments with their cards, debit card holders are offered overdraft limits (which, in the case of debit cards afforded to employees of corporate clients, may be up to 10x the employee's net salary). Debit cards are used as part of Ardshinbank's payroll products (e.g., they may be distributed to employees of a corporate customer). As of 31 March 2015, Ardshinbank had in issue approximately 154 thousand debit cards (compared to 186 thousand and 184 thousand as of 31 December 2014 and 2013, respectively). The decline of debit cards in issuance in first quarter 2015 resulted from a Bank decision to decrease the issuance of new debit cards given the slowing Armenian economy and its cancellation of inactive debit cards. The average outstanding overdraft balance of the Bank's debit card holders in first quarter 2015 was approximately AMD 300,000 per card.

Ardshinbank generally issues its credit cards only to its high-net-worth retail customers. As of 31 March 2015, the Bank had in issuance approximately 600 credit cards. The average outstanding balance of the Bank's credit cards in first quarter 2015 was approximately AMD 4 million per card.

Approximately 50% of the credit card portfolio (including the overdrafts of the debit cards) is insured against a delinquency of more than 30% of the insured portfolio. While an increase of its credit card business remains a strategic goal of the Bank (in part for the fee income it produces), the Bank has acted prudentially this year to tighten the terms of use and the criteria to issue new debit cards.

Mortgage loans

Mortgage loans issued by Ardshinbank amounted to 14.8% of the total value of outstanding retail loans as of 31 March 2015 and represented a total of 1,965 outstanding mortgage loans with an aggregate gross carrying amount of AMD 11.8 billion (compared to AMD 9.9 billion, AMD 6.5 billion and AMD 4.1 billion as of 31 December 2014, 2013 and 2012, respectively). Mortgage loans are generally dram denominated: as of 31 March 2015, AMD 3.4 billion of mortgage loans were denominated in U.S. dollars and AMD 8.4 billion in drams. Use of home mortgages is less prevalent in Armenia than in other countries such as the United States in part because many Armenians own their homes outright due to post-Soviet privatisation of what had been state housing. Ardshinbank's mortgage loans can be offered for up to 25 years for the purchase or renovation of real estate. Such loans are secured by a pledge of the real estate being purchased or a pledge of alternative property at a loan-to-value ratio at issuance of a maximum of 95%. A number of mortgage loans are provided in accordance with governmental housing support programmes, under some of which the Armenian Government subsidises a 2% to 4% portion of the interest rate on the mortgage; the Bank estimates that approximately 5% of its mortgage loans have a concessional element. As of 31 March 2015, all of Ardshinbank's mortgage loans were issued at fixed interest rates. The average maturity period of Ardshinbank's outstanding mortgage loan portfolio as of 31 March 2015 was 13.8 years.

Agricultural loans

Agricultural loans issued by Ardshinbank to retail customers amounted to 5.8% of the total value of outstanding retail loans as of 31 March 2015 and represented a total of approximately 3,550 outstanding agricultural loans with an aggregate gross carrying amount of AMD 4.6 billion (compared to AMD 3.9 billion, AMD 1.4 billion and AMD 584.5 million as of 31 December 2014, 2013 and 2012, respectively). Agricultural loans are applied for a variety of agricultural purposes. Agricultural loans are the one line of Ardshinbank's retail lending that are generally unsecured. The Bank also extends lending into the agricultural sector via its lending to micro and other corporates.

Products and services to high-net-worth clients

Ardshinbank offers tailored services to its high-net-worth clients, including preferential terms on banking products, personalised service quality and dedicated account managers. High-net-worth clients enjoy a variety of benefits from Ardshinbank, including discounts, gifts and various events specifically held for such clients.

Other retail products and services

In addition to the retail banking products and services discussed above, Ardshinbank also offers a variety of other products and services to its retail clients. Given the high dollarisation of the Armenian economy, foreign currency operations represent a significant revenue stream for Ardshinbank. Out of AMD 524.2 million of gain on spot transactions for the three months ended 31 March 2015, roughly half was attributable to transactions with, or for the benefit of, Ardshinbank's retail clients. Ardshinbank offers spot currency conversion transactions to its customers in all major currencies, offering better rates for the conversion of amounts equal to or exceeding U.S.$ 5,000. Ardshinbank also offers various payment and money transfer services, important given the flow of remittances into Armenia from abroad, which are carried out through its branch network, ATMs and points-of-sale.

Distribution network

A key component of Ardshinbank's strategy is offering its products across Armenia (including Nagorno-Karabakh) to its customers through distribution channels. Ardshinbank's primary existing distribution channels include 55 branches, 96 ATMs and 196 points-of-sale terminals (as of 31 March 2015). Per the KPMG Publication, as of 31 March 2015, Ardshinbank had the second largest branch network in Armenia.

Branches

Ardshinbank's branches offer all of its retail banking products and also offer a range of corporate banking products. Each branch typically employs a branch manager, a sales unit and a customer service unit. The operations of each branch are subject to Ardshinbank's internal regulations and to oversight by its head office.

Points-of-sale terminals

Ardshinbank's points-of-sale terminals are used to effect debit and credit card transactions. Ardshinbank's points-of-sale terminals are situated on the premises of retail stores located throughout Armenia. As of 31 March 2015, Ardshinbank had 196 points-of-sale terminals, as compared to 197, 193 and 200 as of 31 December 2014, 2013 and 2012, respectively.

ATMs

Ardshinbank had 96 ATMs in its ATM network as of 31 March 2015, as compared to 97, 92 and 90 as of 31 December 2014, 2013 and 2012, respectively. Ardshinbank typically leases the space where its ATMs are located.

Launching of internet and mobile banking services

As discussed under "—*Strategy*" above, the Bank is planning to introduce internet and mobile banking services in the next year, most likely in the first half of 2016. Such services would provide customers access to account information and the ability to carry out certain banking transaction at any time.

Properties

Ardshinbank owns 2,338.2 square metres of land at 13 and 13/1 Grigor Lusavorich Street in Yerevan, where its 4,327.5 square metres head office building, also owned by Ardshinbank, was built in 2008. The land and the building had a combined carrying value of AMD 4.7 billion as of 31 March 2015. The building hosts all of Ardshinbank's office departments. As of 31 March 2015, of its 55 branches Ardshinbank owned 35 and leased 20.

As of 31 March 2015, the total net book value of the real estate and land owned by Ardshinbank was AMD 7.5 billion, not including properties comprising repossessed collateral acquired by Ardshinbank in settlement of overdue loans, other than those classified as investment property. As of 31 March 2015, Ardshinbank's repossessed collateral in the form of real estate and land totalled AMD 5.7 billion. Ardshinbank's policy is to dispose of such assets as soon as practicable.

Information Technology

Ardshinbank continually invests in new technology and the maintenance of existing equipment and infrastructure in order to improve the customer value proposition, increase efficiency and support business growth. Ardshinbank's improvements to its processes and systems have enabled it to achieve a high degree of automation, standardisation and control.

Ardshinbank's IT infrastructure is designed to process high volumes of credit applications, customer requests, customer transactions and contacts. During the first three months of 2015, the Bank's IT systems processed an average of approximately 84 thousand client transactions, 125 back-office transactions and 216 thousand payment transactions per month. The Bank closely monitors system performance so that it can take any necessary corrective action.

Ardshinbank's IT resources include Bloomberg and Reuters terminals, LSoft for accounting and core banking services and IBM electronic storage. Ardshinbank's core IT banking system is LSBank 6.0, but it also actively uses two other locally developed systems. Those systems are operated from two interconnected data sites. Ardshinbank has entered into a number of software licensing agreements with a range of leading software providers, including LSoft, Oracle and Microsoft.

Insurance

Ardshinbank has a number of insurance policies. These policies include bankers blanket bond insurance (total coverage of U.S.$ 1 million), D&O insurance (total coverage of U.S.$ 2 million), electronic and computer crime insurance (total coverage of U.S.$ 1 million), property insurance (coverage AMD 5.0 billion) and third party liability insurance (total coverage U.S.$ 500,000). In this regard, the Bank complies with the mandatory insurance coverage applicable to Armenian banks, and its level of insurance is in keeping with local practice although less than for banks in more developed economies. All policies are generally renewable annually.

Intellectual Property

The Bank has registered its logo, trademark and domain name in Armenia. None of the Bank's intellectual property assets are considered to be material to the Bank's business.

Employees and Training

The following table sets out the number of Ardshinbank's employees, as at the dates indicated:

	As of 31 March	As of 31 December		
	2015	2014	2013	2012
Ardshinbank				
Head office	348	359	378	382
Branches	745	738	703	751
Total	**1,093**	**1,097**	**1,081**	**1,133**

As of 31 March 2015, Ardshinbank had 1,093 employees, all of whom worked full time. During the course of 2015, the Bank expects to reduce headcount at its branch network by up to 10%. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments*." Ardshinbank provides medical insurance coverage for all of its employees.

Ardshinbank's employment strategy is to attract and retain skilled and well-trained employees at all levels. It provides mandatory training programmes on key skills and is currently implementing performance management systems with quantitative targets at the front office and goal-driven targets at the back office. Based on the results of performance evaluations, financial incentives are determined for the top performing employees.

The following table sets out the indicators by which management assesses the efficiency of its full-time employees (FTE):

	As of 31 March	As of 31 December		
	2015	2014	2013	2012
	(USD thousands)[1]			
Total assets/FTE[2]	719	710	614	434
Operating Income/FTE[3]	n/a	42.3	45.3	33.2

Notes:

(1) Total assets converted into dollars using the following end of period exchange rates: AMD 471.13/U.S.$ 1 (31 March 2015); AMD 474.97/U.S.$ 1 (31 December 2014); AMD 405.64/U.S.$ 1 (31 December 2013); and AMD 403.58/U.S.$ 1 (31 December 2012). Operating income converted into dollars using the following period average exchange rates: AMD 477.47/U.S.$ 1 (31 March 2015); AMD 416.42/U.S.$ 1 (31 December 2014); AMD 409.59/U.S.$ 1 (31 December 2013); and AMD 402.11/U.S.$ 1 (31 December 2012).

(2) Total assets as of the end of the period. FTE represents the average number of full-time employees during the period.
(3) FTE represents the average number of full-time employees during the period.

As of the date of this Prospectus, there were no collective bargaining agreements among Ardshinbank's employees. Ardhshinbank considers its relations with its employees to be good.

Legal Proceedings

Ardshinbank is not a party to any governmental, legal or arbitration proceedings (including such proceedings which are pending or threatened of which Ardshinbank is aware), during the 12 months before the date of this Prospectus which may have or have had a significant effect on the financial position or profitability of Ardshinbank.

RISK MANAGEMENT

The principal categories of risk inherent in Ardshinbank's business are (1) credit risk, (2) market risk (including interest rate and currency risks), (3) liquidity risk and (4) operational risk. Ardshinbank's risk management policies aim to identify, analyse and manage the foregoing risks, set appropriate risk limits and controls, and ensure that risk levels are continuously monitored and established limits are complied with. Ardshinbank's risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

Organisation

Ardshinbank's risk management functions are divided between policy making bodies that are responsible for establishing risk management policies and procedures, including the establishment of limits, and policy implementation bodies whose function is to implement those policies and procedures, including monitoring and controlling risks and limits on an on-going basis.

Policy Making Bodies

Risk management policy decisions are made by the following bodies: the Board of Directors, the Management Board, the Assets and Liabilities Management Committee (the "**ALCO**") and two Credit Committees.

The Board of Directors

The Board of Directors is responsible for creation of the risk management and internal control systems of Ardshinbank and supervises the management of key risks that Ardshinbank faces. The Board of Directors approves Ardshinbank's risk management policies and procedures and has the final authority on individually significant exposures.

The Management Board

Responsibility for high-level risk monitoring and management is assigned to the Management Board. The Management Board has overall responsibility for Ardshinbank's asset, liability and risk management operations, policies and procedures, as well as compliance. The Management Board delegates individual risk management functions to each of the various decision-making and execution bodies within Ardshinbank's risk management system.

ALCO

The principal objective of ALCO is to ensure the long-term economic effectiveness and stability of Ardshinbank's operations. ALCO is responsible for managing Ardshinbank's assets and liabilities, co-ordinating its risk management and establishing its pricing policy. ALCO approves Ardshinbank's open currency position limits and stop-loss limits, interest rates on loans and deposits, liquidity requirements and maturity mismatch levels and advises the Management Board on liquidity assessment and management procedures. ALCO consists of seven members and meets monthly (or more frequently if needed).

Credit Committees

Ardshinbank has two Credit Committees, which are responsible for managing credit risk arising in the context of Ardshinbank's lending activities. Credit Committee 1 is the principal credit risk management authority for corporate (including large corporates, SME and micro) loans and Credit Committee 2 oversees credit risks relating to retail loans.

In particular, an appropriate Credit Committee establishes requirements on lending operations, approves the terms of credit facilities including changes to current lending terms and collateral, and approves and modifies exposure limits. Credit Committee 1 is comprised of seven members, whilst Credit Committee 2 is comprised of three members. Both Credit Committees meet weekly.

Policy Implementation Bodies

The implementation level of Ardshinbank's risk management function is comprised of the Risk Management Department, Corporate Finance Department, Treasury, Internal Audit Department and Legal Department. These bodies perform the following functions:

The Risk Management Department

The Risk Management Department is split into four groups. The Credit Risk Management Group has overall responsibility for a customer's risk assessment process, which in relation to corporate customers includes assigning internal ratings to such clients and preparing credit risk reports to Credit Committee 1 for each customer. The Market and Liquidity Risk Management Group is responsible for overseeing the financial markets (including the money markets, stock markets, and derivatives), analysing the interest rate environment and evaluating liquidity requirements. The Operational Risk Management Group's responsibility is analysis of Ardshinbank's operational risks and development of operations policies. The Systematisation of Information and Risk Management Technology Development Group is primarily responsible for the analysis of Ardshinbank's risk management system's functioning, corporate and retail market risk analysis, development of corporate and retail lending policies, scoring models for evaluation of retail customers, preparing credit risk reports for the Management Board and devising improvements to increase operational and cost efficiency.

Treasury

Treasury is responsible for correspondent accounts balance control, daily currency liquidity, correspondent accounts money transfers control, daily money transfers modelling to support the required currency liquidity level for correspondent accounts and compliance with the CBA liquidity standards. The Treasury is also responsible for dealing in the local and international capital markets (in accordance with internal limits approved by the ALCO and in compliance with the CBA regulations), short-term money market debt placements and currency and interest rate hedging. In addition, the Treasury offers foreign exchange services to corporate and retail clients as well as depositary services.

Internal Audit Department

The primary responsibility of the Internal Audit Department is to evaluate the adequacy and effectiveness of Ardshinbank's internal control and risk management systems and to provide recommendations for improvement. The Director of the Internal Audit Department reports directly to the Board of Directors.

Legal Department

The Legal Department is responsible primarily for management of legal risks and performs on-going monitoring of changes in the law and applicable regulations with a view to assess the impact of any such changes on Ardshinbank's business. Responsibilities of the Legal Department include the review of all of Ardshinbank's legal documentation and preparation of standard form documentation for the different types of banking products. The Legal Department is involved in the assessment of legal risks relating to contracts and agreements to be entered into by Ardshinbank.

Credit Risk

As a result of its credit operations, Ardshinbank is exposed to credit risk, which is the risk that a counterparty will be unable to pay its obligations when due. Credit risk arises in the context of Ardshinbank's lending activities and interbank operations, as well as with respect to repo transactions and granting letters of credit or guarantees to third parties. Ardshinbank's credit risk exposure on loans to customers is concentrated entirely within Armenia (including Nagorno-Karabakh).

Ardshinbank has policies and procedures for the management of credit exposures (both for recognised and unrecognised exposures), including guidelines to limit portfolio concentration. Ardshinbank regularly monitors the performance of individual credit exposures and regularly assesses the creditworthiness of its customers. Depending on whether the particular client is a corporate or an individual, the review is based on publicly available information, financial reports from clients, as well as information obtained from Armenia's credit history bureau and other databases. Ardshinbank sets policies for having its loans secured by collateral—almost all of its corporate loans, and most of its retail loans, are fully secured at origination—the current value of collateral is regularly assessed by either independent appraisers or internal specialists and in the event of negative movements in market prices, the borrower may be required to provide additional collateral.

Credit risk management and monitoring is performed, within set limits of authority, by the Credit Committees and the Management Board. All recommendations on credit processes are reviewed and approved by the Management Board. Day-to-day risk management is performed by the Risk Management Department.

Ardshinbank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such limits are approved yearly by the Management Board. Actual exposures against limits are monitored daily.

Off-balance sheet commitments on loans and unused credit lines represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments on loans and unused credit lines, Ardshinbank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. Ardshinbank applies the same credit policy to contingent liabilities as it does to balance sheet financial instruments, i.e., using the same procedures for approving the grant of loans, using limits to mitigate the risk and monitoring in real time.

Lending Policies and Procedures

Ardshinbank's credit policies are based on the applicable CBA regulations, as well as internal procedures approved by the Management Board. Ardshinbank's credit policies establish a framework for lending decisions reflecting Ardshinbank's tolerance for credit risk. This framework includes detailed and formalised credit evaluation and collateral appraisal processes, administration and documentation, credit approval authorities at various levels, counterparty and industry concentration limits, and clearly defined roles and responsibilities of entities and staff involved in the origination, monitoring and management of credit.

Loan Origination

Corporate Loans

Ardshinbank evaluates corporate customers on the basis of several factors, including their business operations and development milestones, financial standing, market position and industry, corporate governance and ownership structure, strategy and development plan and credit history. Ardshinbank also thoroughly evaluates the loan purposes (including the scope of the project that the loan is intended to finance) and loan repayment sources, as well as the quality of the collateral offered to secure the loan.

The evaluation process is structured in three stages. First, information is gathered in relation to each applicant, on the basis of which an internal rating is assigned, ranging from "AAA" to "D". The principal factors affecting an applicant's internal rating are the quality of its financial statements, associated business risks, franchise value and the level of its business' transparency. Second, the proposed transaction is analysed based on the results of evaluation in step one. Collateral for corporate loans generally takes the forms of: security over current accounts and cash/cash deposits; state/municipal guarantees; mortgages over real estate; or pledges over corporate shares, plant/equipment or inventory. A facility rating is then assigned to the proposed financing, which depends on the applicant's rating and the parameters of the proposed transaction (including collateral, maturity, etc.). The third and final stage of the evaluation process is calculation of the proposed financing's rate of interest, taking into account the Bank's cost of funding, administrative costs and credit risk based on its rating of the borrower.

The evaluation is conducted by Ardshinbank's Corporate Business Department based on information supplied by relevant client managers, which then produces a credit report in respect of the applicant. The application and the corresponding report are thereafter separately reviewed by the Risk Management Department as well as Legal, Accounting and Tax departments. The final decision on each individual application is made by Credit Committee 1 based on such input.

Retail Loans

Retail loan applications are reviewed by the Retail Lending Department applying models and application data verification procedures developed in cooperation with the Risk Management Department. The evaluation process is targeted at the analysis of an individual applicant's credit scores supplied by the Armenian credit bureau (approximately 80% of the overall rating) and the information on the applicant's income, ability to service debts, work experience and other information supplied by the applicant in his or her credit application (approximately 20% of the overall rating). Collateral for retail loans can take the forms of deposited gold jewelry for gold loans, third-party insurance in the case of certain debit/credit card exposure and mortgages in the case of housing loans.

Collateral

Ardshinbank requires collateral from all of its corporate (including SME and micro borrowers), and most retails loans other than agricultural loans are also secured. The value of collateral accepted against a loan depends on the type of collateral, on the type of credit product and on the credit risk of the borrower. The table below sets out the benchmark loan to value (LTV) coefficients that the Bank currently applies for each type of collateral at the time of loan origination:

Type of Collateral	Minimum LTV for Corporate Loans	Minimum LTV for Retail Loans
Real Estate	80%	70% (for mortgage loans; 50% (for consumer loans)
Motor Vehicles	80%	n/a
Plant and Equipment	80%	n/a
Cash and Deposits	95%	95%
Precious Metals (Gold)	90%	100%
CBA Securities and Government Bonds	85%	n/a
Bank Securities	90%	n/a
Other Securities	80%	n/a
Other Immovable Property	80%	n/a

Although Management believes that general creditworthiness of a corporate customer is most relevant for an assessment of its credit risk, Ardshinbank's corporate loan portfolio has historically been well-secured. As of 31 March 2015, 98.4% of the Bank's corporate loan portfolio was secured. The following table sets out certain information relating to the collateralisation of Ardshinbank's gross corporate loan portfolio, as of the dates indicated:

	As of 31 March	As of 31 December		
	2015	2014	2013	2012
	(% of loans to customers, carrying amount)			
Type of Collateral				
Cash and cash deposits	14.3	16.5	4.2	3.3
Real estate	19.7	15.1	20.7	43.6
Plant and equipment	14.2	12.2	24.0	15.4
Inventory	2.2	1.4	0.1	0.4
Motor vehicles	0.2	0.3	0.6	0.2
Current accounts	27.7	30.5	37.3	24.4
State and municipal guarantees	12.3	11.8	7.0	5.5
Corporate shares	5.1	4.9	0.3	0
Corporate guarantees (unrated)	1.5	3.5	1.1	1.9
Bank guarantees	0.8	0.9	0.8	1.1
Other collateral	0.4	1.3	3.0	2.1
Total secured	**98.4**	**98.4**	**99.1**	**97.9**
Unsecured	**1.6**	**1.6**	**0.9**	**2.1**

As of 31 March 2015, 70% of Ardshinbank's retail loan portfolio was secured, compared to 67%, 70% and 76% as of 31 December 2014, 2013 and 2012, respectively. The following table sets out certain information relating to the collateralisation of Ardshinbank's gross retail loan portfolio, as of the dates indicated:

	As of 31 March	As of 31 December		
	2015	2014	2013	2012
	(% of gross retail loans)			
Type of Collateral				
Gold	47	44	46	51
Real estate	20	21	22	22
Motor vehicles	0	0	0	1
Other collateral	3	2	2	2
Total secured	**70**	**67**	**70**	**76**
Unsecured	**30**	**33**	**30**	**24**

Unsecured loans include the unsecured portion of partially-secured loans. The value of the collateral used to secure loans in Ardshinbank's portfolio can vary over time, and in certain cases may be lower than the carrying value of an asset.

Collateral provided in respect of loans is generally appraised by a third party appraiser with a second opinion of Ardshinbank's internal appraisers also obtained. The Bank's internal appraisers who are independent from the loan granting process in order to ensure that adequate appraisals are obtained and proper appraisal procedures are followed. The current value of collateral is regularly evaluated by both internal and external appraisers and in case of significant negative developments on the market.

Loan Portfolio Monitoring and Control

Ardshinbank monitors its loan portfolio at various levels on a daily, weekly and monthly basis. Compliance with risk concentration limits is analysed on a daily basis. Portfolio quality analysis is carried out weekly in respect of branches, economic sectors and credit products. The actual costs of risk are calculated on a monthly basis for each loan type with impairment provisions established on a quarterly basis.

Loan Recovery

Ardshinbank's recovery of non-performing loans is primarily carried out using internal resources although external collection agencies are sometimes used. The terms of most loans provide for out-of-court enforcement by the Bank of pledges over collateral so that collateral is efficiently sold without recourse to extended judicial procedures.

Loan Classification, Provisioning and Write-offs

Ardshinbank defines as non-performing loans any loans that are more than 90 days overdue and other loans that the Bank considers individually impaired upon its review. The Bank establishes impairment provisions in accordance with IFRS practice. In the case of impairment provisions for large corporate loans (>AMD 100 million), the Bank establishes impairment provisions based on expected cashflows of the borrower, the expected realisation on collateral and any expected recovery from guarantors. The Bank establishes loan impairment provisions for loans to other corporate and retail loans based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers is that loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 24 months. As for writing off loans: (i) the Bank writes off large corporate loans upon a determination (using the same factors as determine provisioning) that no recovery is likely and (ii) the Bank writes off other corporate and retail loans if amounts are past due thereunder over 270 days and also based on its past historical loss experience on each type of loan.

The table below sets out the Bank's loan classification and provisioning methodology used for reporting to the CBA:

Loan Classification and Provisioning

Categories	Objective Criteria	Subjective Criteria	Level of Provision
Standard	Current	There are no signs of deterioration in a borrower's financial condition.	General provision of 1%
Watch	Less than 90 days past due	There is deterioration in a borrower's financial condition which may affect the ability to service the loan.	10% for drams 12% for foreign currency
Substandard	90-180 days past due	The debt is not serviced as arranged due to deterioration in the borrower's financial condition and inability to repay the loan.	20% for drams 24% for foreign currency
Doubtful	181-270 days past due	Primary sources of repayment are insufficient. Collection of 20-79% of loan is possible through realisation of collateral.	50% for drams 60% for foreign currency
Loss	More than 270 days past due	The loan is completely impaired, and its continuation as a loan is not warranted.	100% for drams 100% for foreign currency

Market Risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and securities prices will affect income or the value of portfolios. Ardshinbank's market risk comprises interest rate and currency risks. Market risk arises from open positions in interest rates and foreign currency, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

Interest Rate Risk

Interest rate risk arises from potential changes in market interest rates that can adversely affect the value of Ardshinbank's financial assets and liabilities. This risk can arise from maturity mismatches of assets and liabilities, as well as from the repricing characteristics of such assets and liabilities.

Each table below summarises Ardshinbank's exposure to interest rate risks and presents the aggregated amounts of Ardshinbank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates, as at the dates indicated:

	As of 31 March 2015				
	less than 3 months	**3-6 months**	**6-12 months**	**1-5 years**	**more than 5 years**
			(AMD thousands)		
Total financial assets	114,785,533	46,434,202	22,033,655	55,802,454	30,349,562
Total financial liabilities	139,574,723	33,960,137	77,787,145	55,175,888	6,499,805
Net interest sensitivity gap	**(24,789,190)**	**12,474,065**	**(55,753,490)**	**626,566**	**23,849,757**

	As of 31 December 2014				
	less than 3 months	**3-6 months**	**6-12 months**	**1-5 years**	**more than 5 years**
			(AMD thousands)		
Total financial assets	110,170,055	56,177,547	33,446,400	53,574,122	20,932,355
Total financial liabilities	127,752,637	56,338,811	73,283,335	52,257,108	6,797,821
Net interest sensitivity gap	**(17,582,582)**	**(161,264)**	**(39,836,935)**	**1,317,014**	**14,134,534**

	As of 31 December 2013				
	less than 3 months	**3-6 months**	**6-12 months**	**1-5 years**	**more than 5 years**
			(AMD thousands)		
Total financial assets	96,143,900	21,971,680	23,386,942	51,732,445	14,565,702
Total financial liabilities	127,614,282	31,396,510	38,633,232	20,611,598	4,427,242
Net interest sensitivity gap	**(31,470,382)**	**(9,424,830)**	**(15,246,290)**	**31,120,847**	**10,138,460**

	As of 31 December 2012				
	less than 3 months	**3-6 months**	**6-12 months**	**1-5 years**	**more than 5 years**
			(AMD thousands)		
Total financial assets	49,575,060	21,359,449	16,543,061	49,075,767	13,584,544
Total financial liabilities	88,067,051	18,571,588	34,695,689	16,342,080	2,760,060
Net interest sensitivity gap	**(38,491,991)**	**2,787,861**	**(18,152,628)**	**32,733,687**	**10,824,484**

As for an analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as of 31 March 2015: Ardshinbank's net profit for the relevant period would have been AMD 216.6 million higher upon such a fall in interest rates and AMD 216.6 million lower upon such a rise in interest rates (compared to AMD 203.5 million, AMD 291.6 million and AMD 173.6 million higher/lower as of 31 December 2014, 2013 and 2012, respectively).

As for an analysis of the sensitivity of equity as a result of changes in the fair value of available-for-sale financial assets due to changes in interest rates based on a simplified scenario of a 100 basis point symmetrical fall or rise in all yield curves as of 31 March 2015: Ardshinbank's equity for the relevant period would have been AMD 663.6 million higher upon such a fall in interest rates and AMD 663.6 million lower upon such a rise in interest rates (compared to AMD 438.2 million, AMD 480.5 million and AMD 259.1 million higher/lower as at 31 December 2014, 2013 and 2012, respectively).

Ardshinbank manages the interest rate risk by maintaining an appropriate mix of the maturities of financial assets and liabilities and between fixed and floating rate borrowings. The Risk Management Department conducts monitoring of Ardshinbank's current financial performance, estimates Ardshinbank's sensitivity to changes in interest rates and its influence on Ardshinbank's profitability.

Many of Ardshinbank's loans to customers contain a clause allowing Ardshinbank to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting Ardshinbank's exposure to interest rate risk. Management also believes that Ardshinbank's interest rate margins provide a reasonable buffer in order to mitigate the effect of possible adverse interest rate movements.

Currency Risk

Reflecting the dollarisation of the Armenian economy, the majority of Ardshinbank's financial assets and liabilities are denominated in U.S. dollars, potentially exposing the Bank to currency risk with its financial position and cash flows affected by fluctuations in the prevailing foreign currency exchange rates.

Each table below summarises the exposure of Ardshinbank's financial assets and liabilities to foreign currency risk, as of the dates indicated:

	As of 31 March 2015			
	USD (AMD thousands)	EUR (AMD thousands)	Other currencies (AMD thousands)	Total (AMD thousands)
ASSETS				
Cash and cash equivalents	38,005,984	2,526,892	883,719	41,416,595
Available for sale financial assets	4,134,286	0	0	4,134,286
Loans and advances to banks and financial institutions	7,459,252	8,531	45,611	7,513,393
Loans to customers	142,339,109	8,239,275	0	150,578,384
Total assets	**191,938,631**	**10,774,698**	**929,330**	**203,642,658**
LIABILITIES				
Deposits and balances from banks and other borrowings	63,791,452	3,729,742	1	67,521,195
Debt securities issued	34,726,910	0	0	34,726,910
Current accounts and deposits from customers	92,535,639	7,203,895	908,778	100,648,311
Total liabilities	**191,054,001**	**10,933,637**	**908,779**	**202,896,416**
Net position	**(884,630)**	**(158,939)**	**20,551**	**(746,202)**

	As of 31 December 2014			
	USD (AMD thousands)	EUR (AMD thousands)	Other currencies (AMD thousands)	Total (AMD thousands)
ASSETS				
Cash and cash equivalents	40,561,819	5,859,557	1,727,268	48,148,644
Loans and advances to banks and financial institutions	23,518,111	16,010	39,455	23,573,576
Loans to customers	128,489,494	7,122,609	0	135,612,103
Total assets	**192,569,424**	**12,998,176**	**1,766,723**	**207,334,323**
LIABILITIES				
Deposits and balances from banks and other borrowings	61,555,127	3,293,778	0	64,848,905
Debt securities issued	34,935,669	0	0	34,935,669
Current accounts and deposits from customers	93,992,847	9,696,197	1,803,739	105,492,783
Total liabilities	**190,483,643**	**12,989,975**	**1,803,739**	**205,277,357**
Net position	**2,085,781**	**8,201**	**(37,016)**	**2,056,966**

	As of 31 December 2013			
	USD (AMD thousands)	EUR (AMD thousands)	Other currencies (AMD thousands)	Total (AMD thousands)
ASSETS				
Cash and cash equivalents	12,432,029	2,471,040	2,120,440	17,023,509
Loans and advances to banks	2,532,896	1,288	238,978	2,773,162
Loans to customers	82,371,348	5,292,761	0	87,664,109
Total assets	**97,336,273**	**7,765,089**	**2,359,418**	**107,460,780**
LIABILITIES				
Deposits and balances from banks and other borrowings	26,906,883	2,509,542	2	29,416,427
Current accounts and deposits from customers	68,617,461	5,493,329	2,010,354	76,121,144
Total liabilities	**95,524,344**	**8,002,871**	**2,010,356**	**105,537,571**
Net position	**1,811,929**	**(237,782)**	**349,062**	**1,923,209**

	As of 31 December 2012			
	USD (AMD thousands)	EUR (AMD thousands)	Other currencies (AMD thousands)	Total (AMD thousands)
ASSETS				
Cash and cash equivalents	9,452,545	494,704	445,346	10,392,595
Loans and advances to banks	1,150,316	2,528	88,748	1,241,592
Loans to customers	75,324,673	3,065,308	0	78,389,981
Total assets	**85,927,534**	**3,562,540**	**534,094**	**90,024,168**
LIABILITIES				
Deposits and balances from banks and other borrowings	24,240,160	762,896	266,243	25,269,299
Current accounts and deposits from customers	60,021,926	5,028,070	666,053	65,716,049
Total liabilities	**84,262,086**	**5,790,966**	**932,296**	**90,985,348**
Net position	**1,665,448**	**(2,228,426)**	**(398,202)**	**(961,180)**
The effect of derivatives	**(1,973,746)**	**1,596,720**	**0**	**(377,026)**
Net position after derivatives	**(308,298)**	**(631,706)**	**(398,202)**	**(1,338,206)**

In terms of sensitivity analysis, as of 31 March 2015 if the dram weakened so that the U.S. dollar appreciated by 10% against the dram with all other variables held constant, Ardshinbank's profit for the relevant period would have been AMD 88.5 million lower (compared to AMD 208.6 million higher, AMD 181.2 million higher and AMD 30.8 million lower as of 31 December 2014, 2013 and 2012, respectively). A 10% strengthening of the dram against the U.S. dollar would have had the equal but opposite effect. It should be noted that volatility in the U.S.$/dram exchange rate has sometimes exceeded 10% over relatively short time periods.

The CBA requires Ardshinbank to monitor both balance-sheet and total aggregate balance (including off-balance sheet) open currency positions and to maintain such positions within 10% of its regulatory capital. As of 31 March 2015, Ardshinbank maintained a positive balance open currency position of 1.74% of regulatory capital, reflecting a long position in U.S. dollars.

In addition, the Board of Directors sets further limits on open currency positions. The ALCO has set limits on the level of exposure by currency and in total for both overnight and intra-day positions which are more conservative than those set by the CBA. Ardshinbank's compliance with these limits is monitored daily by the heads of the Treasury and the Risk Management Department and reported periodically to the Management Board.

Liquidity Risk

Liquidity risk is the risk of either not having sufficient financial resources to meet obligations as they fall due, or having access to those resources only at a high cost. Liquidity risk is also reflected in a mismatch between the maturities of assets and liabilities, which may result in a financial institution being unable to liquidate a position in a timely manner at a reasonable price to meet its obligations.

Ardshinbank's liquidity management strategy is aimed at ensuring that funds will be available at all times to honour all of its obligations as they become due. In order to achieve that objective, Ardshinbank maintains a diversified funding base comprised of corporate and retail customer deposits, long- and short-term loans from other banks, debt securities and a portfolio of highly liquid assets. Ardshinbank's risk management policies require that liquidity risks are managed in the following ways:

- conducting daily management of Ardshinbank's assets and liabilities and forecasting its cash flows;
- maintaining a diverse range of funding sources;
- managing risk concentration;
- preparing debt financing plans;
- maintaining a portfolio of highly liquid assets; and
- conducting daily monitoring of and preparing monthly reports on Ardshinbank's compliance with the CBA's minimum liquidity ratios.

Ardshinbank is under a statutory requirement to meet certain liquidity ratios over each reporting period, including the highly liquid assets to total assets, highly liquid assets to on-demand liabilities and other ratios. Those ratios are provided for in the relevant CBA regulations. See "*Compliance with CBA Norms*" below.

Ardshinbank's liquidity position is managed on a day-to-day basis by the Treasury pursuant to policies adopted by the Board of Directors. In particular, the Treasury's function is to collect information from business units on liquidity profiles of their respective financial assets and liabilities, as well as details of other projected cash flows and adequately assess potential risks based on liquidity assessment and management procedures and sets minimum necessary levels of liquid assets and maturity mismatch limits set by the ALCO. The Treasury's liquidity risk management efforts are supervised by the ALCO based on monthly reports, in particular, by means of maturity analysis.

Each table below summarises the maturity analysis of Ardshinbank's financial assets and liabilities, by remaining expected maturities, as of the dates indicated. It should be noted that corporate depositors often have a contractual right to call term deposits prior to the scheduled end of their term while retail depositors under Armenian law are entitled to withdraw their deposits at any time (in the case of term deposits, subject to forfeiting accrued interest thereon).

	As of 31 March 2015							
	Demand and less than 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**	**No Maturity**	**Overdue**	**Total**
				(AMD thousands)				
ASSETS								
Cash and cash equivalents	80,823,245	0.0	0.0	0.0	0.0	0.0	0.0	80,823,245
Available-for-sale financial assets	311,760	0.0	1,592,788	6,919,893	11,047,140	110,347	0.0	19,981,928
Loans and advances to banks and financial institutions	7,290,104	649,769	2,083,706	0.0	0.0	602,957	0.0	10,626,536
Loans to customers	57,194,419	42,514,256	60,898,169	51,828,366	20,810,897	0.0	5,524,886	238,770,993
Repossessed property	0.0	0.0	0.0	0.0	0.0	5,746,561	0.0	5,746,561
Property, equipment and intangible assets	0.0	0.0	0.0	0.0	0.0	8,990,116	0.0	8,990,116
Other assets	298,078	263,653	141,759	316,402	18,105	1,036,051	0.0	2,074,048
Total financial assets	**145,917,606**	**43,427,678**	**64,716,422**	**59,064,661**	**31,876,142**	**16,486,032**	**5,524,886**	**367,013,427**
LIABILITIES								
Deposits and balances from banks and other borrowings	27,729,909	5,632,363	24,621,434	39,208,122	7,158,188	0.0	0.0	104,350,015
Debt securities issued	0.0	166,160	7,610,524	26,950,226	0.0	0.0	0.0	34,726,910
Current accounts and deposits from customers	69,003,933	20,979,631	80,303,299	7,874,095	16,275	0.0	0.0	178,177,233
Current tax liability	0.0	0.0	220,541	0.0	0.0	0.0	0.0	220,541
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0	1,076,870	0.0	1,076,870
Other liabilities	1,249,936	0.0	0.0	0.0	0.0	3,562	0.0	1,253,498
Total liabilities	**97,983,778**	**26,778,154**	**112,755,798**	**74,032,443**	**7,174,463**	**1,080,432**	**0.0**	**319,805,067**
Net position	**47,933,828**	**16,649,524**	**(48,039,376)**	**(14,967,782)**	**24,701,680**	**15,405,600**	**5,524,886**	**47,208,360**

	As of 31 December 2014							
	Demand and less than 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**	**No Maturity**	**Overdue**	**Total**
				(AMD thousands)				
ASSETS								
Cash and cash equivalents	85,009,721	0.0	0.0	0.0	0.0			85,009,721
Available-for-sale financial assets	0.0	431,646	1,387,916	10,188,025	5,079,753	110,822	0.0	17,198,162
Loans and advances to banks and financial institutions	15,081,945	8,376,191	3,602,015	0.0	0.0	615,466	0.0	27,675,617
Loans to customers	34,038,487	33,172,113	82,447,499	46,758,261	17,395,103	0.0	6,071,294	219,882,757
Repossessed property	0.0	0.0	0.0	0.0	0.0	5,597,154	0.0	5,597,154
Property, equipment and intangible assets	0.0	0.0	0.0	0.0	0.0	9,038,769	0.0	9,038,769
Other assets	138,263	381,554	245,131	208,404	7,974	1,022,614	0.0	2,003,940
Total financial assets	**134,268,416**	**42,361,504**	**87,682,561**	**57,154,690**	**22,482,830**	**16,384,825**	**6,071,294**	**366,406,120**
LIABILITIES								
Deposits and balances from banks and other borrowings	14,205,765	9,713,110	34,926,816	32,215,569	7,630,669	0.0	0.0	98,691,929
Debt securities issued	0.0	277,740	3,958,083	30,699,846	0.0	0.0	0.0	34,935,669
Current accounts and deposits from customers	62,157,158	28,243,938	84,033,107	8,360,347	16,889	0.0	0.0	182,811,439
Current tax liability	0.0	0.0	346,071	0.0	0.0	0.0	0.0	346,071
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0	1,156,704	0.0	1,156,704
Other liabilities	1,328,384	0.0	0.0	0.0	0.0	3,658	0.0	1,332,042
Total liabilities	**77,691,307**	**38,234,788**	**123,264,077**	**71,275,762**	**7,647,558**	**1,160,362**	0.0	**319,273,854**
Net position	**56,577,109**	**4,126,716**	**(35,581,516)**	**(14,121,072)**	**14,835,272**	**15,224,463**	**6,071,294**	**47,132,266**

	As of 31 December 2013							
	Demand and less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	No Maturity	Overdue	Total
				(AMD thousands)				
ASSETS								
Cash and cash equivalents	50,093,541	0.0	0.0	0.0	0.0	0.0	0.0	50,093,541
Available-for-sale financial assets	395,884	446,752	5,241,210	12,243,487	4,132,586	61,507	0.0	22,521,426
Loans and advances to banks and financial institutions	6,710,307	172,081	2,029,615	253,692	0.0	1,324,727	0.0	10,490,422
Loans to customers	50,171,069	30,974,826	38,087,797	39,235,266	10,433,116	0.0	3,385,195	172,287,269
Repossessed property	0.0	0.0	0.0	0.0	0.0	5,660,545	0.0	5,660,545
Property, equipment and intangible assets	0.0	0.0	0.0	0.0	0.0	6,965,216	0.0	6,965,216
Other assets	107,774,134	31,645,661	45,502,454	52,078,186	14,624,758	14,317,708	3,385,195	269,328,096
Total assets								
LIABILITIES								
Deposits and balances from banks and other borrowings	23,335,764	3,557,946	10,012,515	20,305,713	6,322,145	0.0	0.0	63,534,083
Current accounts and deposits from customers	66,783,339	22,182,370	59,227,309	10,944,026	18,814	0.0	0.0	159,155,858
Current tax liability	0.0	0.0	122,331	0.0	0.0	0.0	0.0	122,331
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0	1,563,950	0.0	1,563,950
Other liabilities	791,340	39,445	0.0	0.0	0.0	4,042	0.0	834,827
Total liabilities	**90,910,443**	**25,779,761**	**69,362,155**	**31,249,739**	**6,340,959**	**1,567,992**	0.0	**225,211,049**
Net position	**16,863,691**	**5,865,900**	**(23,859,701)**	**20,828,447**	**8,283,799**	**12,749,716**	**3,385,195**	**44,117,047**

	As of 31 December 2012							
	Demand and less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	No Maturity	Overdue	Total
				(AMD thousands)				
ASSETS								
Cash and cash equivalents	33,926,454	0.0	0.0	0.0	0.0	0.0	0.0	33,926,454
Available-for-sale financial assets	223,838	397,677	1,420,194	9,567,310	1,728,705	62,287	0.0	13,400,011
Loans and advances to banks and financial institutions	3,329,595	0.0	861,532	0.0	0.0	1,334,045	0.0	5,525,172
Loans to customers	27,050,010	17,679,062	35,620,784	39,508,457	11,855,839	0.0	1,021,895	132,736,047
Repossessed property	0.0	0.0	0.0	0.0	0.0	3,983,853	0.0	3,983,853
Property, equipment and intangible assets	0.0	0.0	0.0	0.0	0.0	7,721,381	0.0	7,721,381
Other assets	143,781	429,901	32,681	0.0	20,000	315,132	0.0	941,495
Total assets	**64,673,678**	**18,506,640**	**37,935,191**	**49,075,767**	**13,604,544**	**13,416,698**	**1,021,895**	**198,234,413**
LIABILITIES								
Deposits and balances from banks and other borrowings	14,711,749	1,544,929	9,080,118	16,373,732	4,308,947	0.0	0.0	46,019,475
Current accounts and deposits from customers	45,124,240	13,478,669	45,505,809	10,317,784	2,288	0.0	0.0	114,428,790
Current tax liability	0.0	0.0	796,511	0.0	0.0	0.0	0.0	796,511
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0	513,992	0.0	513,992
Other liabilities	923,593	4,544	0.0	0.0	0.0	0.0	0.0	928,137
Total liabilities	**60,759,582**	**15,028,142**	**55,382,438**	**26,691,516**	**4,311,235**	**513,992**	0.0	**162,686,905**
Net position	**3,914,096**	**3,478,498**	**(17,447,247)**	**22,384,251**	**9,293,309**	**12,902,706**	**1,021,895**	**35,547,508**

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Ardshinbank is exposed to several types of operational risk, including unauthorised transactions by employees or operational errors, including clerical or record keeping errors, errors resulting from faulty computer or telecommunications systems and the risk that Ardshinbank will be used for money laundering and financing of terrorist activities.

To manage its operational risks, the Risk Management Department conducts daily monitoring of IT systems and prepares monthly reports to Management on incidents of IT systems failure; the Bank's Internal Monitoring Centre monitors money laundering and terrorist finance activities on a daily basis; and various other departments of Ardshinbank hold regular staff training sessions designed to inform them of Ardshinbank's internal procedures with a view to limit Ardshinbank's overall operational risk.

The Internal Audit Department oversees the financial and operational control of Ardshinbank's activities. The Internal Audit Department is an independent unit of Ardshinbank. It reports to the Chairman of the Management Board on a weekly basis and the Board of Directors on a quarterly basis. The Internal Audit Department has eight members, all of whom, including its head, are appointed by the Board of Directors.

Procedures for Prevention of Money Laundering and Terrorist Financing

Ardshinbank's internal policies concerning money laundering and the financing of terrorism are compliant with relevant Armenian laws, which require Ardshinbank to regularly review and monitor certain types of transactions. Under the AML Law, financial institutions, including all banks, are obliged to report all real estate-related transactions with a value in excess of AMD 50 million (or the foreign currency equivalent), any other transactions with a value in excess of AMD 20 million (or the foreign currency equivalent), any cash transaction in excess of AMD 5 million (or the foreign currency equivalent) and all suspicious transactions, irrespective of value, to the CBA.

The Bank's Internal Monitoring Centre is responsible for implementing Ardshinbank's anti-money laundering policies and procedures. It seeks to prevent money laundering and terrorist financing by performing the following functions: identifying transactions subject to financial monitoring and suspicious transactions and forwarding them to the CBA; developing and improving policies, rules and other internal documents of Ardshinbank aimed at preventing the laundering of proceeds of crime and the financing of terrorism; developing risk assessment criteria to assess customers of Ardshinbank from a money laundering perspective; implementing anti-money laundering training sessions for employees of Ardshinbank; consulting with employees regarding anti-money laundering procedures; working with Ardshinbank's IT department to form a database of information to help prevent Ardshinbank's engaging in transactions related to the financing of terrorism, in accordance with a list of terrorists and terrorist organisations provided to Ardshinbank from public authorities; working to ensure a systematic, accountable and secure database of information on customers of Ardshinbank that are potentially linked to the anti-money laundering activities; exchanging customer information and anti-money laundering policies with correspondent banks and foreign banks; and maintaining an electronic database containing a list of suspicious customers of Ardshinbank.

Reputational Risk

Reputational risk has the potential to negatively affect revenue, as a negative perception of Ardshinbank's creditworthiness, reliability, quality of services and its general trustworthiness may lead to a reduction in the number of customers. Management believes that one of Ardshinbank's key strengths is its well-known and trusted brand, and is consequently very protective of the strong reputation that Ardshinbank has developed in the Armenian banking market. Ardshinbank's reputational risk management efforts are focused on monitoring Ardshinbank's reputation, addressing issues damaging to that reputation and using the feedback of external stakeholders to gain insights or get early warning signals of potential reputation problems. Ardshinbank utilises the following procedures to manage its reputational risk: (1) identification of the events which can have a negative effect on Ardshinbank's reputation, (2) analysis of such negative effect, and (3) preparation of a risk management and/or mitigation plan.

Compliance with CBA Norms

As the primary state regulator of the Armenian banking sector, the CBA sets a variety of capital requirements and financial ratios to be met by Armenian banks. Failure to comply with these norms can lead to enhanced CBA supervision and ultimately to the cancellation of a bank's banking licence. The principal CBA requirements, and Ardshinbank's position in respect of the requirements as of 31 March 2015, are as follows. The calculations of the below ratios is per CBA practice, which can vary from IFRS.

	Current CBA Requirement	Bank Position as of 31 March 2015
Capital Adequacy[(1)]	12%	13.2%
Highly Liquid Assets/Total Assets	15%	26.1%
Highly Liquid Assets/On-demand Liabilities	60%	157.0%
Highly Liquid Assets of Primary Foreign Currency Holdings[(2)]/Total Assets in such Currency	4%	19.3%
Highly Liquid Assets of Primary Foreign Currency Holdings[(2)]/Total On-Demand Liabilities in such Currency	10%	147.6%
Single Party Exposure[(3)]	20%	19.7%
Exposure to Major Borrowers[(4)]	500%	226.9%
Exposure to Single Related Party[(5)]	5%	3.1%
Exposure to Related Parties collectively[(6)]	20%	15.6%
Reserve Requirement		
—in respect of foreign currency liabilities	20%	was not breached
—in respect of dram liabilities	2%	was not breached

Notes:

(1) Total capital (calculated per CBA practice) expressed as a percentage of risk-weighted assets (total capital ratio). As of 31 March 2015, the Bank's total capital was AMD 37.6 billion. Risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

(2) The currency of the largest holding of assets other than dram-denominated assets; in the case of Ardshinbank, this is U.S. dollars.

(3) The exposure the Bank has (including contractual commitments) to a single borrower as a percentage of its total capital.

(4) The total exposure the Bank has (including contractual commitments) to major borrowers collectively as a percentage of its total capital, a major borrower being a borrower to which the Bank has total exposure (including contractual commitments) in excess of 5% of its total capital.

(5) The exposure the Bank has (including contractual commitments) to a single related party (i.e., to a single person, not including a group of affiliated persons) as a percentage of its total capital.

(6) The total exposure the Bank has (including contractual commitments) to related parties collectively as a percentage of its total capital.

A new CBA requirement that Armenian banks maintain a tier 1 capital adequacy ratio of at least 10% is scheduled to take effect on 1 January 2018.

Over the past five years, Ardshinbank has complied with all the ratio tests set forth above (as applicable from time to time). Compliance with the CBA norms, and monitoring the same, contributes to the effective risk management of the Bank's operations.

MANAGEMENT

Overview

Pursuant to the laws of Armenia and the Bank's Charter, the control and management of the Bank is divided among the shareholders, the Board of Directors, the Management Board, which is the Bank's collective executive body, and the Chairman of the Management Board, who is the Bank's sole individual executive body. The shareholders have the exclusive authority to approve certain material issues of the Bank, including the election of the members of the Board of Directors. The shareholders participate in the control and management of the Bank through actions taken at General Shareholders' Meetings.

The Board of Directors in turn elects the members of the Management Board. The Board of Directors is responsible for the general management of the Bank and approves its strategic and operational plans. The Board of Directors does not perform executive functions. The Board of Directors may establish committees, although it is not mandatory under Armenian law.

The Management Board is responsible for the day-to-day management of the Bank and is headed by its Chairman. The Chairman of Management Board is entitled to represent the Bank in Armenia and abroad, act on behalf of the Bank without a power of attorney and grant powers of attorney. For certain transactions, as provided for by Armenian legislation and the Bank's Charter, a prior approval of the Bank's governing bodies is required.

The members of the Board of Directors, the Management Board, including its Chairman, its deputies and the Chief Accountant are required to be registered with the CBA. These persons, except for the Chairman of the Management Board, Chief Accountant, Head of Internal Audit Department and Heads of the Bank's branches, may hold their office without registration with the CBA for no longer than three months after their election or appointment.

General Shareholders' Meeting

The General Shareholders' Meeting is the Bank's supreme governing body. The General Shareholders' Meeting must convene at least once a year. Only the General Shareholders' Meeting can make decisions in the following areas:

- approving the Bank's Charter and its amendments and supplements;
- reorganising the Bank;
- liquidating the Bank;
- approving the summary, interim and liquidation balance sheets of the Bank and appointing the liquidation committee;
- approving the number of members of the Board of Directors, their election and early termination of their powers;
- determining the number of authorised shares;
- increasing the Bank's share capital by way of increasing the nominal value of the Bank's issued shares or issuance of additional shares; approving the results of the issuance of additional shares;
- decreasing the Bank's share capital;
- approving the Bank's external auditor;
- approving the Bank's annual financial statements;
- making a decision on annual dividends payments and approving the amount of annual dividends;
- approving the procedure for holding the General Shareholders' Meetings;
- approving related party transactions;
- approving major transactions;
- repurchasing the Bank's shares in the cases provided for by the Charter;
- deciding on remuneration of the members of the Board of Directors;
- approving the Bank's internal regulations on the Board of Directors; and
- adopting other decisions as provided for by Armenian legislation and the Bank's Charter.

Board of Directors

The Board of Directors is not directly involved in the day-to-day management of the affairs of the Bank. However, it supervises the Management Board's activities. The responsibilities of the Board of Directors include: (i) determination of the Bank's internal control standards and the appointments of the head and members of the internal audit division; (ii) approval of the Bank's annual estimate on expenses; (iii) approval of the Bank's administrative and organisational structure; and (iv) approval of the Bank's accounting policy principles, as well as the methods, rules, forms and procedures for conducting accounting and preparation of the financial statements. The Board of Directors is required to convene at least once every two months.

As of the date of this Prospectus, the Board of Directors consists of seven members. The name, position and certain other information for each member of the Board of Directors are set forth below:

Name	Year of Birth	Position	Board Member since
Karen Safaryan	1963	Chairman of the Board of Directors	2003
Aram Andreasyan	1955	Director	2009
Abel Aganbegyan	1932	Director	2009
Garegin Tosunyan	1955	Director	2009
Artem Konstandyan	1974	Director	2012
Olga Gasparyan	1954	Director	2015
Grigory Babadzhanyan	1978	Director	2015

Karen Safaryan has been a member of the Board of Directors since 2003. Mr. Safaryan also serves as the President of RASCO LLC and the Chairman of the Supervisory Board of Directors of International Business Center JV CJSC. Prior to joining the Bank, he was the Chairman of the Board of Directors and the General Director of Rosaviaspetskomplekt CJSC from 1999 to 2002 and from 1997 to 1999. Mr. Safaryan was also the General Director of Transit CJSC from 1995 to 1997. He graduated from the Azerbaijan Polytechnic Institute in 1985.

Aram Andreasyan has been a member of the Board of Directors since 2009 and previously from 2005 to 2006. Mr. Andreasyan also serves as a member of the Board of Directors of International Business Center JV CJSC. He served on the Bank's Management Board as the Chairman from 2003 to 2009, and as the Acting Deputy Chairman, Deputy Chairman, Acting Chairman and Chairman from 1994 to 1998. Mr. Andreasyan served as the Head of Division and the Advisor of the Presidential Administration of the Republic of Armenia from 1998 to 2003. From 1992 to 1994, he was the Head of the State Tax Inspection of Hrazdan region, and from 1980 to 1992 Mr. Andreasyan served as the Economist, Head of Planning Subdivision, Head of Financial Subdivision and Deputy General Manager of Hrazdan-Mash. He graduated from the Yerevan State Institute of National Economy in 1979.

Abel Aganbegyan has been a member of the Board of Directors since 2009. Mr. Aganbegyan is currently the Head of the Department for Economic Theory and Policy of the Russian Presidential Academy of National Economy and Public Administration, and served there as the Rector from 1989 to 2002. Mr. Aganbegyan graduated from the Moscow State University of Economics in 1955.

Gagerin Tosunyan has been a member of the Board of Directors since 2009. Mr. Tosunyan currently serves as the President of the Association of Russian Banks. From 2000 to 2002, he worked at the Academy of National Economy under the Government of the Russian Federation and the State and Law Institute of the Russian Academy of Sciences. Mr. Tosunyan was an Advisor to the Prime Minister of Russia on financial and credit issues. In 1998, he served as a Member of the Commission of the Russian Government on the issues of economic reforms and was a Member of the Management Board of the Agency of Credit Organisation Restructuring OJSC. Mr. Tosunyan graduated from the Moscow State University named after M.V. Lomonosov in 1977.

Artem Konstandyan has been a member of the Board of Directors since 2012. Since 2001, Mr. Konstandyan held various positions at Promsvyazbank OJSC, including the First Deputy Chairman of the Management Board and Director of the International Business Department, and currently serves as Chairman of the Management Board at Promsvyazbank. He graduated from the Finance Academy under the Government of the Russian Federation in 1996 and obtained a PhD in Economics in 2000.

Olga Gasparyan joined the Board of Directors this year. Mrs. Gasparyan has held various key positions at Ardshinbank since 2003 and currently serves there as Deputy Chief Financial Officer and Chief Economist. From 2009 to 2012, she was a member of the Management Board and Director of the Economic Analysis and Planning Department of Ardshinbank. Mrs. Gasparyan graduated from the Yerevan Polytechnic Institute in 1979.

Grigory Babadzhanyan joined the Board of Directors this year. Mr. Babadzhanyan has been working at Alfa-Bank JSC, one of the largest banks in the Russian Federation, since 2010 and currently serves as there as Deputy Director of Retail Business, Segment Director. From 2007 to 2010, he worked at VTB24 Bank as the Vice President, Head of CRM and Research. Mr. Babadzhanyan graduated from Moscow Aviation Institute in 2000 and obtained a PhD in Economics and Management of Industry from there in 2004.

The business address of each member of the Board of Directors is 13 and 13/1 Grigor Lusavorich Street, Yerevan, Armenia.

Management Board

The Management Board is responsible for the day-to-day management and administration of the Bank's activities. The Management Board's responsibilities include: (i) managing the Bank's property, including financial resources; (ii) implementing resolutions of the Bank's General Shareholders' Meeting and the Board of Directors; and (iii) taking decisions on all other matters that are not reserved for the General Shareholders' Meeting and the Board of Directors. The Members of the Management Board, including its Chairman, are appointed by the Bank's Board of Directors and are required to be registered with the CBA. The Management Board is supervised by the Bank's Board of Directors and the General Shareholders' Meeting and must submit reports about its activities to the Board of Directors regularly and at least once every three months.

As of the date of this Prospectus, the Management Board consists of seven members. The name, position and certain other information for each member of the Management Board are set out below:

Name	Year of Birth	Position	Member of the Management Board since
Mher Grigoryan	1972	Chairman of the Management Board, Chief Executive Officer	2011
Vahan Avetisyan	1978	Deputy Chairman of the Management Board, Chief Operations Officer	2012
Artak Arzoyan	1975	Member of the Management Board, Chief Risk Management Officer	2012
Ashot Abrahamyan	1970	Member of the Management Board, Head of Corporate Banking	2015
Artur Gyulazyan	1979	Member of the Management Board, Head of Retail Banking	2013
David Sargsyan	1977	Member of the Management Board, Chief Financial Officer	2014
Vahagn Durgaryan	1975	Member of the Management Board, Chief Accountant	2013

Mher Grigoryan has been a Chairman of the Management Board since 2011. Mr. Grigoryan is a distinguished banker with more than 20 years of experience in the Armenian banking industry. He joined the Bank in October 2011 from VTB-Armenia Bank CJSC, where he was the Deputy Chief Executive Officer. Prior to that, Mr. Grigoryan served as the Chief Executive Officer at Inecobank CJSC. Mr. Grigoryan has been a lecturer at the Russian-Armenian State Slavonic University since 2010. He graduated from the Moscow State University named after M.V. Lomonosov in 1991 and from the Yerevan State University in 1994.

Vahan Avetisyan has been a member of the Management Board since 2012. Mr. Avetisyan has been working in the banking and insurance industry in Armenia for over a decade. He was the executive director at Motor Insurers' Bureau from 2010 to 2012, and prior to that served as the Bank's Deputy Operations Director and the Head of the Operations Department from 2009 to 2010. Mr. Avetisyan was an Executive Director at Rasco Insurance LLC from 2007 to 2009, and the Executive Director of State Insurance—Armenia CJSC from 2001 to 2007. He graduated from the Yerevan State Institute of National Economy in 1999 and obtained a PhD in Economics from the National Academy of Science of the Republic of Armenia in 2002.

Artak Arzoyan has been a member of the Management Board since 2012. Mr. Arzoyan has 15 years of experience in the banking industry. He joined the Bank from ACRA Credit Reporting CJSC in February 2012, where he was the CEO from 2006 to 2012. Prior to that he was the Head of the Credit Registry at the CBA. Mr. Arzoyan graduated from Yerevan State Institute of National Economy and obtained a PhD in Economics from the Economics Institute of the National Academy of Sciences of the Republic of Armenia in 2005.

Ashot Abrahamyan has been a member of the Management Board since 2015. Mr. Abrahamyan has over 16 years of experience in banking and business consulting. He joined the Bank from ProCredit Bank Armenia where he was the Deputy CEO. Prior to that Mr. Abrahamyan worked at ProCredit Bank Ukraine as Executive Director and at IPC GmbH as Program Coordinator of the MSE (micro and small enterprises) lending program in Armenia. He studied finance and banking at the Technical University of Darmstadt, Germany and holds a Master's degree in Engineering Management from the State Engineering University of Armenia.

Artur Gyulazyan has been a member of the Management Board since 2013. Mr. Gyulazyan has over a decade of experience in banking industry. He joined the Bank in April 2009 from the CBA, where he worked in the Financial Supervision Department. Mr. Gyulazyan holds a Master's degree in Economics from Yerevan State Institute of Economy and an MS in International Management and Leadership from Glasgow University.

David Sargsyan has been a member of the Management Board since 2014. Mr. Sargsyan has 20 years of experience in the public sector and as a financial regulator. Formerly Minister of Finance of the Republic of Armenia, Secretary of the Cabinet, and Head of Banking Methodology and the Financial Stability Department at the CBA, Mr. Sargsyan joined the Bank in June 2014 in his current capacity. He holds a PhD in Economics from Yerevan State Institute of Economy.

Vahagn Durgaryan has been a member of the Management Board since 2013. Mr. Durgaryan worked as a Manager and a Supervisor at HSBC Bank Armenia CJSC from 2007 to 2010. Prior to that, he held various positions at the Bank, including Chief Accountant in the Avangard and Spitak branches of the Bank from 2003 to 2007. Mr. Durgaryan graduated from Yerevan State University in 1997.

The business address of each member of the Management Board is 13 and 13/1 Grigor Lusavorich Street, Yerevan, Armenia.

Corporate Governance

Corporate governance at the Bank is carried out in accordance with the requirements of the Armenian Law "On Banks and Banking," the Law "On Joint Stock Companies" and other regulations governing the operation of joint-stock companies and banks in Armenia, as well as the Bank's Charter and other internal documents of the Bank, including internal regulations on the General Shareholders' Meeting, the Board of Directors and the Management Board.

Committees of the Board of Directors

According to the Article 21 of the Armenian Law "On Banks and Banking," the Board of Directors may create committees of the Board of Directors. The decisions of the committees of the Board of Directors are of an advisory nature and are not binding on the Board of Directors. Descriptions of such currently existing committees of the Board of Directors are provided below.

Committee on Strategy

The Committee on Strategy coordinates the process of elaboration and implementation of the Bank's strategy. The Committee on Strategy develops proposals for defining the priorities of the Bank, including its long-term strategy and objectives, and makes recommendations to the Board of Directors. The Committee on Strategy has the following main functions:

- analysis of documents, suggestions and programmes relating to the Bank's strategic development prepared by the Management Board;
- providing recommendations to the Board of Directors with respect to the Bank's strategy;
- reviewing quarterly and annual reports of the Management Board and reporting to the Board of Directors;
- analysing the effectiveness of interaction between the Board of Directors and the Management Board;
- providing recommendations on: (i) improving the Bank's systems for planning, monitoring and analysis; (ii) improving the Bank's effectiveness; (iii) improving the Bank's capitalisation; (iv) distribution of profits; (iv) dividend policy; (v) major transactions; (vi) establishment of subsidiaries and participation in associations of banks; and (vii) opening and closing branches; and
- analysing the Bank's competitive position and making recommendations to the Board of Directors.

The Committee on Strategy meets as necessary, but at least twice a year.

As of the date of this Prospectus, the Committee on Strategy consists of the following members:

Name	Position
Karen Safaryan	Chairman
Abel Aganbegyan	Member
Alexander Arutyunov	Member
Garegin Tosunyan	Member
Olga Gasparyan	Member

Audit and Risk Committee

The Audit and Risk Committee develops the key policies and associated procedures of the Bank's risk management activities. The Audit and Risk Committee has the following main functions:

- recommendations to the Board of Directors with respect to candidacies of the Chairman and members of the Bank's Internal Audit Department;
- recommendations to the Board of Directors with respect to the appointment of the Bank's external auditors;
- recommendations to the Board of Directors to rectify and prevent in the future violations identified by the CBA or other regulatory authorities, external auditor or Internal Audit Department;
- recommendations to the Board of Directors with respect to internal regulations relating to risk management;
- recommendations with respect to the effectiveness of the Bank's risk management systems;
- supervising Bank officers involved in risk management; and
- preliminary review of the Bank's annual financial statements.

The Audit and Risk Committee meets as necessary, but at least twice a year.

As of the date of this Prospectus, the Audit and Risk Committee consists of the following members:

Name	Position
Aram Andreasyan	Chairman
Karen Safaryan	Member
Anushavan Danielyan	Member

Corporate Governance and Methodology Committee

The Corporate Governance and Methodology Committee coordinates corporate governance and policy implementation issues. The Corporate Governance and Methodology Committee has the following main functions:

- developing and periodically reviewing the Bank's internal documents relating to corporate governance, including the Bank's Charter and regulations on the Bank's governing bodies;
- developing the programme for Bank compliance with corporate governance requirements; and
- developing recommendations on the internal policies of the Board of Directors and its committees.

The Corporate Governance and Methodology Committee meets as necessary, but at least twice a year.

As of the date of this Prospectus, the Corporate Governance and Methodology Committee consists of the following members:

Name	Position
Garegin Tosunyan	Chairman
Mher Grigoryan	Member
Aram Andreasyan	Member

HR Policy and Motivation Committee

The HR Policy and Motivation Committee develops key principles of HR policy and staff motivation principles. The HR Policy and Motivation Committee has the following main functions:

- determining criteria for the candidates for the Bank's Management Board and its Chairman, as well as preliminary assessment of the candidates;
- reporting to the Board of Directors its assessment of the Bank's Chief Executive Officer;
- approving candidacies of the Bank's managers appointed by the Bank's Chief Executive Officer;
- recommendations to the Board of Directors with respect to management compensation;
- developing criteria for determining the amount of compensation of the members of the Board of Directors, Chief Executive Officer and members of the Management Board; and
- reviewing and reporting on the Bank's internal regulations relating to employee compensation and management.

The HR Policy and Motivation Committee meets as necessary, but at least twice a year.

As of the date of this Prospectus, the HR Policy and Motivation Committee consists of the following members:

Name	Position
Anushavan Danielyan	Chairman
Karen Safaryan	Member
Aram Andreasyan	Member
Rudik Mkrtumyan	Member

Compensation

In the three months ended 31 March 2015 and 2014, aggregate remuneration paid by the Bank to the members of its Board of Directors and Management Board was AMD 97 million and AMD 88 million, respectively. In 2014, 2013 and 2012, aggregate remuneration paid by the Bank to the members of its Board of Directors and Management Board was AMD 487 million, AMD 453 million and AMD 468 million, respectively.

As of the date of this Prospectus, the Bank had service contracts with each of the members of its Board of Directors. The members of the Management Board enter into employment contracts with the Bank, which set forth their compensation in their capacity as employees of the Bank.

Litigation Statement about Management

For the previous five years, none of the members of the Board of Directors or the Management Board:

- has had any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Conflict of Interest

No actual or potential conflicts of interest exist between the duties that any member of the Board of Directors or the Management Board owes to the Bank and such member's private interests or other duties, other than the potential conflict of interest that Karen Safaryan may have as the controlling shareholder of the Bank. See "*Risk Factors—Risks Relating to the Bank—The interests of the Bank's principal shareholder may conflict with those of Noteholders*."

SHAREHOLDERS

General

As of the date of this Prospectus, Ardshinbank's share capital amounted to AMD 17,925,200,000, comprising 179,252 ordinary shares. Ardshinbank has 2,762,911 authorised ordinary shares.

The table below sets forth information regarding the holders of Ardshinbank's ordinary shares as of the date of this Prospectus:

Shareholder	Total number of ordinary shares	Total % of issued share capital
Center for Business Investments LLC(1)	174,801	97.5169036%
Aram Andreasyan(2)	2,820	1.5732042%
Karen Safaryan(3)	670	0.3737755%
Khachik Zakaryan	480	0.2677794%
Rudik Mkrtumyan	480	0.2677794%
International Business Center JV CJSC	1	0.0005579%
Total	**179,252**	**100%**

Notes:

(1) Registered in the Republic of Armenia and currently owned by the estate of Mrs. Anya Babayeva, the deceased mother of Mr. Karen Safaryan, pending completion of the probate of the estate.

(2) Current member of the Board of Directors.

(3) Current Chairman of the Board of Directors.

Beneficial Owners

The controlling shareholder of Ardshinbank is Mr. Karen Safaryan. Upon the death of his mother, Anya Babayeva, on 27 November 2014, her will entered into probate, whereby the entirety of Mrs. Babayeva's estate (the "**Estate**"), including without limitation her shares in Center for Business Investments LLC, is in the process of being transferred to Karen Safaryan, the sole heir and beneficiary of the Estate, whose title to the shares is subject to registration in the shareholders' register of the Center for Business Investments LLC upon completion of the probate period (a process that typically lasts six months and is overseen by the State Notary). Karen Safaryan has been appointed as an executor of the Estate having full power and authority to enter into any sale, pledge, mortgage, assignment or any other transaction over property included in the Estate as he deems necessary before complete distribution of the Estate. Complete distribution of the Estate to Mr. Safaryan is expected to be formally completed in 2015.

Rights of Ardshinbank's Shareholders

Pursuant to the Bank's Charter and Armenian law, Ardshinbank's shareholders have the following rights:

(i) to participate in the General Shareholders' Meetings, either in person or through their representatives, and to vote on all matters that are decided at the meeting;

(ii) to receive dividends;

(iii) to propose candidates as potential members of the Board of Directors;

(iv) to challenge in the court decisions adopted by the General Shareholders' Meeting in violation of Armenian legislation;

(v) to receive part of the Bank's property in case of the Bank's liquidation;

(vi) to receive information about the Bank's operations and to have access to the Bank's financial statements, save for the documents containing bank, commercial or other confidential information;

(vii) to receive copies of the Bank's annual report and the report of the Bank's external auditors;

(viii) preemption rights to purchase additional shares issued by the Bank in proportion to their current shareholding;

(ix) to sell or otherwise transfer the Bank's shares owned by them to other persons if other shareholders do not exercise their preemption rights to purchase the shares;

(x) to require the Bank to buy back their shares in certain cases as provided for by Armenian legislation and the Bank's Charter; and

(xi) other rights envisaged by Armenian law and the Bank's Charter.

All of Ardshinbank's shareholders have voting rights on a 'one-share, one-vote' basis.

Approval of Acquisition of Interests in Armenian Banks

Under Armenian banking legislation, the CBA must approve in advance any acquisition of a direct or indirect interest in an Armenian bank that exceeds certain thresholds, whether such interest was acquired independently or jointly with another legal entity. The distribution of the Estate to Mr. Safaryan is not subject to such approval, since the CBA has already approved Mr. Safaryan's acquisition of an indirect interest in Ardshinbank in December 2008.

Dividends and Dividend Policy

Ardshinbank's dividend policy was approved by the Board of Directors on 6 May 2011 (the "**Dividend Policy**"). According to the Dividend Policy, any dividends shall be paid to the shareholders of the Bank out of net profits, calculated in accordance with the Bank's financial statements. The resolution to pay annual dividends, including the amount and the procedure for payment thereof, shall be determined by the General Shareholders' Meeting upon recommendation of the Board of Directors. The Board of Directors may also approve the payment of interim dividends, provided that any outstanding annual dividends have already been distributed.

The Bank did not pay any dividends in the years ended 31 December 2014, 2013 and 2012 and currently does not expect to pay dividends in 2015 or 2016.

CERTAIN TRANSACTIONS WITH RELATED PARTIES

The following is an overview of Ardshinbank's transactions with related parties as of the dates provided below. The financial information set forth herein has, unless otherwise indicated, been extracted without material adjustment from the Financial Statements.

Under IFRS rules, parties are generally considered to be related if one party has the ability to control the other party, is under common control with, or exercises significant influence over, the other party's financial or operational decisions, as defined by IAS 24 "Related Party Disclosures." In determining each possible related party relationship, one must consider the substance of the relationship and not merely the legal form.

The Bank enters into banking transactions in the normal course of its business with shareholders, management and companies with which it has significant shareholders in common. These transactions include extending loans, accepting deposits and issuing guarantees. The Bank provides loans to members of the Bank's management from time to time for different purposes, including car loans, general purpose loans and overdrafts. The Bank also offers deposit services to its management. It is Ardshinbank's policy to conduct transactions with related parties on the same terms and conditions as it applies to non-related party transactions.

The regulatory limits applicable to the Bank for related party transactions are 5% of the Bank's regulatory own capital for a single related party borrower (with no aggregation for its related affiliates) and 20% of the Bank's regulatory own capital for aggregated related party borrowers (including a group of related parties).

Transactions with Members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the three months ended 31 March 2015 and 2014 and for the years ended 31 December 2014, 2013 and 2012 is as follows:

	31 March		31 December		
	2015	2014	2014	2013	2012
	(AMD thousands)				
Salary	97,023	87,950	362,397	351,348	407,943
Bonuses	0	0	125,000	102,150	60,161
Total	**97,023**	**87,950**	**487,397**	**453,498**	**468,104**

The outstanding balances and average effective interest rates as of 31 March 2015 and as of the years ended 31 December 2014, 2013 and 2012 for transactions with members of the Board of Directors and the Management Board are as follows:

	31 March 2015 (AMD thousands)	Average effective interest rate (%)	31 December 2014 (AMD thousands)	Average effective interest rate (%)	31 December 2013 (AMD thousands)	Average effective interest rate (%)	31 December 2012 (AMD thousands)	Average effective interest rate (%)
Statement of Financial Position								
Loans to customers	131,565	10.0%	167,106	11.0%	73,752	11.6%	177,209	14.0%
Current accounts and deposits from customers	126,110	7.3%	104,589	10.0%	186,818	8.9%	223,320	8.2%
Items not recognised in statement of financial position								
Lending commitments	180,790	—	215,470	—	206,952	—	220,106	—

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board for the three months ended 31 March 2015 and 2014 and for the years ended 31 December 2014, 2013 and 2012 are as follows:

	31 March		31 December 31		
	2015	2014	2014	2013	2012
	(AMD thousands)				
Profit or loss					
Interest income	3,954	1,996	12,784	6,684	10,649
Interest expense	(411)	(3,843)	(9,756)	(13,005)	(24,282)
Fee and commission income	1,060	123	1,284	649	1,755

Transactions with Other Related Parties

Other related parties are (i) entities under common control with Ardshinbank, being entities ultimately controlled by Karen Safaryan; and (ii) close members of the families of and entities controlled by members of the Board of Directors and members of the Management Board.

The outstanding balances and the related average effective interest rates as of 31 March 2015 and profit or loss in respect of related transactions for the three months ended 31 March 2015 are as follows:

	Entities under common control		Other		
	AMD (thousands)	Average effective interest rate (%)	AMD (thousands)	Average effective interest rate (%)	Total AMD (thousands)
Statement of financial position					
ASSETS					
Loans to customers	3,843,411	11.9%	262,536	11.2%	4,105,947
LIABILITIES					
Current accounts and deposits from customers	346,906	12.5%	332,075	8.0%	678,981
Deposits and balances from banks and other borrowings	1,158,831	18.0%	0	—	1,158,831
Items not recognised in the statement of financial position					
Lending commitments	164,125		33,172		197,297
Guarantees given	0		41,203		41,203

	Entities under common control	Other	
	AMD (thousands)	AMD (thousands)	Total AMD (thousands)
Profit (loss)			
Interest income	102,811	7,014	109,825
Interest expense	(11,273)	(6,748)	(18,021)
Fee and commission income	2,424	1,230	3,654
Fee and commission expense	(33,665)	0	(33,665)
General administrative expenses	(9,848)	(212)	(10,060)

Since 31 March 2015 further financings have been issued to entities ultimately controlled by Karen Safaryan so that (as of 15 June 2015) such financings (loans and guarantees) in aggregate amount to approximately AMD 4 billion. These loans are secured by mortgages of real estate. All financings provided to such entities were granted on market terms.

The outstanding balances and the related average effective interest rates as of 31 December 2014 and profit or loss in respect of related transactions for the year ended 31 December 2014 are as follows:

	Entities under common control		Other		
	AMD (thousands)	Average effective interest rate (%)	AMD (thousands)	Average effective interest rate (%)	Total AMD (thousands
Statement of financial position					
ASSETS					
Loans to customers	2,413,963	12.0%	1,314,717	14.9%	3,728,680
LIABILITIES					
Current accounts and deposits from customers	387,577	14.0%	396,085	8.0%	783,662
Items not recognised in the statement of financial position					
Lending commitments	141,789		50,346		192,135
Guarantees given	0		39,924		39,924

	Entities under common control	Other	Total AMD (thousands)
	AMD (thousands)	AMD (thousands)	
Profit (loss)			
Interest income	378,407	163,886	542,293
Interest expense	(46,124)	(25,141)	(71,265)
Fee and commission income	3,111	5,947	9,058
Fee and commission expense	(131,748)	—	(131,748)
General administrative expenses	(46,138)	(850)	(46,988)

The outstanding balances and the related average effective interest rates as of December 3 2013 and profit or loss in respect of related transactions for the year ended 31 December 2013 are as follows:

	Entities under common control		Other		
	AMD (thousands)	Average effective interest rate (%)	AMD (thousands)	Average effective interest rate (%)	Total AMD (thousands)
Statement of financial position					
ASSETS					
Loans to customers	3,710,102	11.4%	0	—	3,710,102
LIABILITIES					
Current accounts and deposits from customers	397,161	14.0%	210,144	7.0%	607,305
Items not recognised in the statement of financial position					
Lending commitments	18,903		228,770		247,673
Guarantees given	0		47,221		47,221

	Entities under common control	Other	Total AMD (thousands)
	AMD (thousands)	AMD (thousands)	
Profit (loss)			
Interest income	294,255	174,227	468,482
Interest expense	(41,938)	(12,148)	(54,086)
Fee and commission income	4,289	4,362	8,651
Fee and commission expense	(33,000)	(8,718)	(41,718)
General administrative expenses	(72,363)	—	(72,363)

The outstanding balances and the related average effective interest rates as of 31 December 2012 and profit or loss in respect of related transactions for the year ended 31 December 2012 are as follows:

	Entities under common control		Other		
	AMD (thousands)	Average effective interest rate (%)	AMD (thousands)	Average effective interest rate (%)	Total AMD (thousands)
Statement of financial position					
ASSETS					
Loans to customers	4,209,577	13.8%	3,635	17.2%	4,213,212
LIABILITIES					
Current accounts and deposits from customers	454,601	9.6%	142,154	8.4%	596,755
Items not recognised in the statement of financial position					
Lending commitments	167,863		7,312		175,175
Guarantees given	600		0		600

	Entities under common control	Other	Total AMD (thousands)
	AMD (thousands)	AMD (thousands)	
Profit (loss)			
Interest income	429,540	937	430,477
Interest expense	(11,379)	(15,448)	(26,827)
Fee and commission income	14,492	1,921	16,413

THE BANKING SECTOR IN ARMENIA

Introduction

The banking sector constitutes the largest part of the financial markets in Armenia, accounting for about 90% of the assets of the financial system as of 31 December 2014. Following the adoption of the Law of the Republic of Armenia on the Central Bank of Armenia, adopted on 30 June 1996, as amended (the "**CBA Law**"), the CBA became the sole regulator and supervisor of the financial services sector in Armenia, including in respect of, inter alia, banks, credit organisations, insurance companies, security market participants, currency exchange bureaus and money remittance service providers. The CBA is authorised to issue and revoke licences, carry out on- and off-site inspections and impose restrictions and sanctions. The CBA is also authorised to place banks and insurance companies into temporary administration, liquidation or insolvency regimes, as the case may be.

The CBA

The CBA is the central bank of the Republic of Armenia. It is an autonomous public entity governed by the CBA Law.

The CBA Law sets out the objectives, authority, structure and management of the CBA. The key objective of the CBA is to preserve price stability in Armenia by developing, approving and conducting a monetary policy focused on inflation targeting. The CBA Law sets out further objectives of the CBA, including the creation of requisite conditions for financial stability, liquidity, solvency and the normal functioning of the banking sector, and the creation and development of an efficient payment and settlement system. The CBA Law establishes the CBA's relationship with Government authorities, banks and other legal entities and establishes the CBA as the authority responsible for the circulation of the dram and for currency control. The CBA is responsible for implementing monetary and foreign exchange policies, supervising the banking sector, regulating other financial services (including insurance and trading in securities), as well as holding foreign reserves and acting as the fiscal agent and banker for the Government.

The CBA is independent of the Government and National Assembly, with such independence guaranteed by the Constitution of the Republic of Armenia.

The supreme governing body of the CBA is its board (the "**CBA Board**"), which consists of the chairman, his deputy and five members. The CBA Board members, with the exception of the chairman and deputy chairman, are appointed by the President of Armenia for a period of five years.

The chairman of the CBA is the highest official of the CBA. In the absence of the chairman, or if the chairman is unable to perform his or her duties, the chairman is substituted by the deputy chairman, and in case of the deputy chairman's absence, or the inability of the deputy chairman to perform his or her duties, the eldest member of the CBA Board shall act in his place. The chairman is appointed by the National Assembly, at the recommendation of the President, for a period of six years, and the deputy chairman is appointed by the President for a period of six years. The chairman coordinates the work of the CBA, represents the CBA abroad and in meetings of international organisations and implements other rights assigned exclusively to the CBA Board. The chairman and the deputy chairman as well as members of the CBA Board cannot be members of any political party, may not hold another office and may not carry out other paid work.

As of the date of this Prospectus, the chairman of the CBA Board is Mr. Arthur Javadyan (whose current terms ends in 2020) and the deputy chairman is Mr. Nerses Yeritsyan. The other members of the CBA Board are Mr. Armenak Darbinyan, Mr. Oleg Aghasyan, Mr. Vakhtang Abrahamyan, Mr. Ashot Mkrtchyan and Mr. Artur Stepanyan.

Banking Sector

As of 31 December 2014, there were 21 commercial banks and one development bank in Armenia, of which 19 had foreign capital participation. Foreign capital participation exceeded 50% of total share capital in 14 banks in Armenia as of 31 December 2014.

As of 31 December 2014, total assets of the Armenian banking sector equalled AMD 3,403.6 billion, compared to AMD 2,936.5 billion as of 31 December 2013 and AMD 2,470.6 billion as of 31 December 2012. Between 31 December 2010 and 31 December 2014, total assets of the Armenian banking sector increased by AMD 1,843.2 billion, or 118.1%, in large part due to significant growth in lending. As of 31 December 2014, loans accounted for AMD 2,069.3 billion of total assets, compared to AMD 888,612 million of total assets as of 31 December 2010, an increase of 132.9%. Loans account for the largest share of banking sector assets, comprising 60.8% of total assets as of 31 December 2014.

As of 31 December 2014, total liabilities of the Armenian banking sector amounted to AMD 2,941.8 billion, compared to AMD 2,487.7 billion as of 31 December 2013 and AMD 2,077.0 billion as of 31 December 2012. Between 31 December 2010 and 31 December 2014, total liabilities of the Armenian banking sector increased by AMD 1,700.3 billion, or 136.9%, in large part due to substantial growth in deposits. As of 31 December 2014, demand and time deposits accounted for AMD 1,604.2 billion of total liabilities, compared to AMD 673.1 billion of total liabilities as of 31 December 2010, an increase of 138.3%. A 128.1% increase in other liabilities to banks from AMD 267.8 billion as of 31 December 2010 to AMD 610.9 billion as of 31 December 2014 also contributed to growth in total liabilities of the banking sector. Time deposits represent the single largest component of banking sector liabilities, accounting for 38.5% of total liabilities as of 31 December 2014.

As of 31 December 2014, banks with majority foreign capital participation accounted for 59.0% of the banking sector's total assets and 58.9% of the banking sector's total capital.

Lending to customers is the primary activity of banks operating in Armenia. Between 2010 and 2014, the gross loan portfolio increased from 25.3% of GDP to an estimated 45.3% of GDP. As of 31 December 2014, corporate loans accounted for 59.0% of the gross loan book of the banking sector, with loans to individuals accounting for the remaining 41.0%.

In 2005, the CBA established the Deposit Guarantee Fund, which guarantees local-currency deposits of up to AMD 4 million and foreign-currency deposits of up to the equivalent of AMD 2 million.

The following table sets forth the aggregate balance sheet and certain key ratios of the Armenian banking sector as of the dates indicated:

Aggregate Balance Sheet and Key Ratios of Banking Sector in Armenia

	As of 31 December				
	2010	2011	2012	2013	2014
	(AMD millions, unless otherwise indicated)				
Cash	74,900	89,164	99,041	110,005	113,286
Balances on correspondent accounts	205,044	324,034	322,718	549,430	575,895
Other claims on banks	72,830	90,593	80,213	79,790	76,435
Government securities	151,298	167,502	178,384	224,019	236,758
Other securities	5,695	4,960	5,681	17,062	25,268
Repo agreements (without interbank repos)	21,453	24,178	13,354	15,241	15,231
Loans	888,612	1,210,495	1,535,190	1,706,100	2,069,276
Accrued interest	15,496	16,107	27,816	34,632	52,324
Fixed assets	67,031	71,874	79,854	83,105	87,901
Other assets	58,112	67,816	128,379	117,113	151,268
Total assets	**1,560,472**	**2,066,723**	**2,470,631**	**2,936,499**	**3,403,642**
Current accounts	11,539	8,666	7,292	10,404	9,356
Other liabilities to banks	267,811	384,129	453,044	416,084	610,866
Liabilities to other financial institutions	138,279	221,836	289,329	339,448	490,017
Demand deposits (legal and natural persons)	265,045	375,760	355,599	522,137	472,561
Time deposits (legal and natural persons)	408,017	558,460	776,848	999,118	1,131,686
Accrued interest	11,654	15,749	22,754	25,088	30,333
Other liabilities	139,177	146,197	172,176	175,398	196,960
Total liabilities	**1,241,521**	**1,710,797**	**2,077,042**	**2,487,677**	**2,941,779**
Share capital	203,799	233,945	244,127	255,530	282,608
Reserves	15,079	18,642	20,033	22,655	27,335
Retained earnings	81,950	85,375	109,013	136,428	129,773
Equity	**318,951**	**355,926**	**393,589**	**448,822**	**461,862**
Total liabilities and equity	**1,560,472**	**2,066,723**	**2,470,631**	**2,936,499**	**3,403,642**
Key Ratios					
Loans/total assets (%)	57.0	59.0	62.0	58.1	60.8
Liquid assets/total assets (%)	29.0	28.0	26.0	29.1	25.1
Loans/non-bank deposits (%)	132.0	130.0	136.0	112.2	129.0
Total deposits/total liabilities (%)	54.0	55.0	55.0	61.2	54.5
Demand deposits/total deposits (%)	39.4	40.2	31.4	34.3	29.5

Source: CBA.

The following table sets forth the aggregate profit and loss statement and certain key ratios of the Armenian banking sector for the years indicated:

Aggregate Profit and Loss Statement and Key Ratios of the Banking Sector in Armenia

	For the year ended 31 December				
	2010	2011	2012	2013	2014
	(AMD millions, unless otherwise indicated)				
Interest income	136,160.8	175,483.8	225,728.3	254,575.0	278,812.6
Interest expense	58,669.9	81,462.6	111,193.9	135,119.7	149,846.3
Net interest income	**77,490.9**	**94,021.1**	**114,534.4**	**119,455.4**	**128,966.3**
Non-interest income	40,663.7	48,585.5	56,480.6	67,129.2	82,045.5
Non-interest expense	69,352.3	81,592.0	96,474.8	106,176.9	114,689.9
Net non-interest expense	**(28,688.6)**	**(33,006.5)**	**(39,994.2)**	**(39,047.7)**	**(32,644.3)**
Asset loss provisioning	(72,735.4)	(86,383.2)	(149,798.1)	(222,914.1)	(309,556.9)
Recoveries from asset loss provisioning	62,832.2	68,228.8	129,986.2	191,762.4	242,838.0
Pre-tax profit	**38,897.4**	**42,851.8**	**54,728.3**	**49,255.9**	**29,603.0**
Profit tax	8,692.5	9,672.2	12,257.1	11,157.1	8,417.4
Net profit	**30,204.9**	**33,180.0**	**42,471.2**	**38,098.8**	**21,185.6**
Dividends	152.0	196.1	196.1	340.5	0.0
Retained earnings	30,052.9	32,983.5	42,275.1	37,758.4	21,185.6
Key ratios					
Return on average assets *(%)*	2.2	1.9	1.1	1.4	0.7
Return on average equity *(%)*	10.2	9.8	11.5	9.2	4.6
Net interest margin *(%)*	43.8	42.0	40.6	37.1	35.7

Source: CBA.

Non-Performing Loans

The CBA classifies a loan as non-performing where: (i) payments of principal or interest are past due by 90 days or more; (ii) at least 90 days of interest payments have been capitalised, refinanced or delayed by agreement; or (iii) payments of principal or interest are overdue by less than 90 days, but there are other good reasons to doubt that payments will be made in full.

The following table sets forth certain statistics concerning non-performing loans in the Armenian banking sector as of the dates indicated:

Non-Performing Loans

	As of 31 December				
	2010	2011	2012	2013	2014
Non-performing loans (*AMD millions*)	28,635	43,697	58,372	79,685	149,872
Total outstanding loans (*AMD millions*)	934,383	1,273,678	1,627,588	1,789,596	2,220,746
Non-performing loans/total loans (%)	3.1	3.4	3.6	4.5	6.8
Reserves for loan losses/total loans (%)	1.7	1.9	2.0	2.2	2.8
Non-performing loan coverage ratio (%)(1)	56.7	55.4	55.1	49.5	41.3

Note:

(1) The ratio of reserves for loan losses to non-performing loans.

Source: CBA.

Between 2010 and 2014, non-performing loans have increased annually in absolute terms and as a share of total loans. As of 31 December 2013, outstanding non-performing loans increased by 36.5% compared to 31 December 2012 (or to 4.5% of total loans as of 31 December 2013 compared to 3.6% of total loans as of 31 December 2012), mainly due to an increase in watch category loans (loans which are past due by 90 days) and to a change in the accounting treatment of a large (performing) loan that was transferred from the balance sheet of an Armenian bank to the balance sheet of its parent company. Non-performing loans increased substantially in 2014 compared to 2013. As of 31 December 2014, outstanding non-performing loans increased by 88.1%

compared to 31 December 2013 (or to 6.8% of total loans as of 31 December 2014 compared to 4.5% of total loans as of 31 December 2013), as a result of several factors, including high growth rates in loans, a slowdown in economic growth and a decrease in remittances.

Banking Supervision

Key Prudential Requirements

The principal laws regulating the Armenian banking sector are the CBA Law and the Law on Banks and Banking of Armenia, dated 30 June 1996, as amended (the "**Banking Law**"). The Banking Law (i) sets out the list of permitted and prohibited activities for banks and (ii) establishes the framework for the registration and licensing of banks in Armenia and the regulation and supervision of banking activity. The CBA regulates financial institutions in line with risk-based supervision principles and organises banking supervision through specialised-function units. The CBA also has the authority to revoke the banking licence of any bank that becomes insolvent, as well as under certain other circumstances.

Capital adequacy

The CBA is currently drafting amendments to Armenia's prudential standards in order to introduce Basel III principles, and has developed an indicative time-frame for local implementation (in 2015, the CBA postponed implementation from 2017 to 2020 to give flexibility to banks to fulfil the new Tier II minimum capital requirements). In particular, steps are being taken in Armenia to improve capital quality, implement new approaches to liquidity risk management and improve corporate governance, all of which are designed to gradually harmonise the regulatory framework governing Armenia's banking system with Basel III.

To improve corporate governance, the CBA made certain amendments in 2013 to the legislation governing internal control procedures in Armenian banks. Pursuant to these amendments, banks are required to have separate risk management and compliance functions. The amendments are expected to assist each bank in the timely identification, measurement, control and monitoring of different risks. The new requirements came into force on 1 July 2014.

Currently, each commercial bank in Armenia must maintain regulatory capital of at least AMD 5,000 million. A bank's regulatory capital ratio, i.e., the ratio of regulatory capital to risk-weighted assets, must be at least 12%. To reduce foreign currency-induced credit risk, banks are required to assign a risk weight to foreign currency-denominated loans that is 50% higher than the risk weight that would be attributed to an equivalent dram-denominated loan. This approach effectively raises the prudentially-mandated ratio above the corresponding BIS (Basel I) requirement. From 1 January 2017, each commercial bank in Armenia will be required to maintain regulatory capital of at least AMD 30 billion, which is expected to lead to consolidation in the country's banking sector. From 1 January 2018, a bank's tier 1 capital adequacy ratio must be at least 10%. See "*Risk Management—Compliance with CBA Norms*" for a discussion of Ardshinbank's compliance with the CBA's regulatory risk management requirements.

The following table sets forth certain statistics relating to capital adequacy of the Armenian banking sector as of the dates indicated:

Capital Adequacy Ratios

	As of 31 December				
	2010	2011	2012	2013	2014
Equity/total assets	20.4	17.2	15.9	15.3	14.0
CBA total capital adequacy ratio	22.2	18.3	16.8	16.7	14.1

Source: CBA.

Banks are required to set aside sufficient capital to cover potential losses on loans and other assets, to review these provisions and to report them to the CBA on a monthly basis. CBA regulations set forth the provisioning requirements for the creation of loan loss reserves. For regulatory purposes, banks classify loans into the following five categories: (i) standard, (ii) watch, (iii) sub-standard, (iv) doubtful and (v) loss. Loans are classified based on the financial position of the borrower, the quality of the borrower's servicing of the debt, the number of past due days and any other relevant factors. Assets are also classified by the CBA.

Liquidity

For each reporting month, banks are required to maintain highly liquid assets equal to at least 15.0% of total assets. The minimum ratio of a bank's highly liquid assets expressed in Group I currencies, which comprise the dollar, euro, Japanese yen, British pound, Swiss franc, Canadian dollar, Swedish krona, Danish krone and banking gold, to total assets expressed in Group I currencies is 4.0%. Should liabilities expressed in any Group II currency (being any currency that is not a Group I currency), exceed 5.0% of a bank's total liabilities according to the month's average daily calculation, then, for each Group II currency the following standard shall apply: the average ratio of highly liquid assets expressed in dollars, euros and the applicable Group II currency to total assets expressed in dollars, euros and the applicable Group II currency must be at least 4.0%.

Banks are required to keep highly liquid assets for any reporting month of not less than 60.0% of demand liabilities for such reporting month. The minimum ratio of a bank's highly liquid assets expressed in Group I currencies to demand liabilities expressed in Group I currencies is 10.0%. Should liabilities expressed in any Group II currency exceed 5.0% of a bank's total liabilities according to the month's average daily calculation, then, for each Group II currency, the following standard shall apply: the average ratio of highly liquid assets expressed in dollars, euros and the applicable Group II currency to demand liabilities expressed in dollars, euros and the applicable Group II currency must be at least 10.0%.

A bank's gross foreign currency position as a share of total capital must not exceed 10.0%. A bank's maximum open position in any foreign currency as a share of total capital must not exceed 7.0%.

Stress tests

The CBA performs stress tests at least quarterly on the Armenian banking industry. The tests follow best international practices and are designed to highlight the sensitivity of Armenian banks to changes in the credit or liquidity environment, to movements in interest rates and foreign exchange rates, and to changes generally in the macroeconomic environment (including possible contagion effects).

Payment and Settlement Systems

The CBA is empowered to assist banks in organising facilities for the clearing and settlement of interbank payments and may establish procedures and issue regulations relating thereto as it deems appropriate to ensure the efficient operation of the payment system.

From 1996 to 2001, the interbank electronic payments system (known as BANKMAIL) and the Government securities accounting and settlements system (known as BOOKENTRY) were introduced, and the SWIFT system was put into more widespread use in international payments. A national payments and settlements system was developed in compliance with international standards, including the creation of a unified payment and settlement system, known as the Armenian Card or ArCa payment system.

In 2014, an average of 71,000 non-cash payments were made daily in Armenia, on average equal to AMD 102 billion per day. In 2014, compared with 2013, the daily average amount of non-cash payments carried out through the CBA's payment and settlement systems decreased by 43% (to AMD 266.1 billion), while the number of daily transactions decreased by 36% (to 14,000).

In 2014, the overall amount of non-cash payments declined. As a result, the daily average non-cash payments/ GDP ratio decreased to 2.1% as of 31 December 2014, a decrease of 1.1 percentage points (compared to 2013).

As of 31 December 2014, 19 commercial banks in Armenia provided and serviced payment cards; 18 of these banks also participated in the ArCa unified card payment system. In 2014, 132 new automated teller machines ("**ATMs**") were installed in Armenia, with 1,387 ATMs in operation as of 31 December 2014. Commercial banks also installed 120 points-of-sale terminals, bringing the total number of such terminals as of 31 December 2014 to 6,954, of which 743 were installed in bank branches. In 2014, the number of payment cards increased by approximately 4%, bringing the total number of cards in circulation to 1.6 million. The number of active ArCa cards decreased by approximately 3% in 2014 (compared to 2013), bringing the total number of such cards to approximately 547,000 as of 31 December 2014. The number of international cards grew by approximately 8% in 2014, with Visa and MasterCard increasing by approximately 9% (to approximately 712,000 cards) and 7% (to approximately 21,000 cards), respectively. The number of international cards, other than Visa and MasterCard, declined by approximately 3% in 2014 (to approximately 46,000 cards).

Regulation of Accounting and Reporting Rules

The CBA is responsible for promulgating accounting and reporting rules and procedures consistent with IFRS. The Law on Accounting of Armenia, adopted on 26 December 2002, sets out the basis for accounting and financial reporting in Armenia.

Foreign Capital in the Banking Sector

There are no restrictions under Armenian law on the foreign ownership of banks. The CBA believes that, in general, increasing foreign investment in the Armenian banking sector has supported the development of a competitive and resilient banking market.

AML Legislation

Armenia's first legislation designed to prevent money laundering and terrorism financing was signed into law in 2004 and came into force in 2005. The second piece of legislation on money laundering and terrorism financing—the Law on Combating Money Laundering and Terrorism Financing of Armenia (the "**AML/CFT Law**")—was adopted on 21 June 2008, came into force on 31 August 2008 and was substantially amended in June 2014 (with such amendments entering into force in October 2014). The amendments implemented recommendations from the IMF and the Council of Europe's Committee on Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism ("**MONEYVAL**") and pursuant to the 40+9 Recommendations of the Financial Action Task Force ("**FATF**").

The AMT/CFT Law defines the role and responsibilities of the CBA and its national financial intelligence unit, the FMC, in policing money laundering and terrorism financing. The AMT/CFT Law also governs the relationships between various stakeholders of the AML/CFT system (including the FMC, law enforcement and supervisory authorities and reporting entities), as well as sets out the framework for international cooperation. The AML/CFT Law lists the entities that are required to disclose certain financial transactions, as well as regulates the scope of information that such reporting entities must provide. Under the AML/CFT Law, financial institutions, including all banks, are deemed 'reporting entities' and are obliged to file reports with the FMC on all non-cash transactions in excess of AMD 20 million, all cash transactions in excess of AMD 5 million and all suspicious transactions or business relationships, regardless of the amount involved. To assist reporting entities, the FMC has shared with them a matching algorithm programme that is designed to recognise key words, phrases and metadata related to suspicious individuals and entities, including those designated under applicable sanctions regimes.

By Presidential decree, the Interagency Committee on Combating Counterfeit Money, Fraud with Plastic Cards and Other Payment Instruments, Money Laundering and Terrorism Financing (the "**Interagency Committee**") was established in 2002. It is the principal forum for cooperation and coordination among the country's authorities responsible for preventing money laundering and terrorism financing. It includes representatives of the CBA, law enforcement bodies, the Ministry of Foreign Affairs, the Ministry of Finance and the Union of Banks, among others. The main responsibilities of the Interagency Committee include: (i) the issuance of policy recommendations in the sphere of anti-money laundering and terrorism financing; (ii) the development of strategies to implement such recommendations; and (iii) cooperation with applicable national and international authorities.

In 2005, the FMC was established as an autonomous unit within the CBA and, for purposes of the AML/CFT Law, acts as an intermediary between reporting entities and law enforcement authorities. The FMC carries out its work in accordance with the AML/CFT Law, Government decrees, CBA resolutions, decisions of the CBA chairman and the FMC Statute, approved on 8 May 2009 by Decision No. 117A of the CBA Board, and guidance from the CBA Board. The primary responsibilities of the FMC are to (i) gather and analyse information from reporting entities, state bodies and organisations, (ii) refer suspicious activity to the relevant authorities for criminal prosecution and (iii) cooperate and exchange information with international financial intelligence units. There are four departments within the FMC – the Legal Compliance Division, the Analyses Division, the Information Systems Design and Development Division, and the International Relations Division. The FMC prepares quarterly and annual reports on its activities.

Armenia is a member of MONEYVAL and maintains observer status within the Eurasian Group on Combating Money-Laundering and Terrorism Financing. Both of these groups implement and enforce FATF recommendations. In addition, since 2007, the FMC has been a member of the Egmont Group of Financial Intelligence Units (the "**Egmont Group**"), which provides the FMC with the opportunity to cooperate with financial intelligence units from approximately 150 countries and exchange information with these units through a secured system. The FMC participates in plenary sessions and working group meetings of the Egmont Group. Armenia actively cooperates with its international partners on matters related to sanctions.

The CBA requires banks to conduct relationships with clients according to the "Core Principles for Effective Banking Supervision" ("**CPEBS**") published by the Basel Committee on Banking Supervision. All banks and other financial institutions employ officers whose responsibility is to ensure internal compliance with CPEBS.

The CBA is authorised to carry out on-site and off-site inspections of AML/CFT issues arising in the financial sector and has dedicated budget resources and personnel to carry out such inspections and communicate to the FMC any breach of the AML/CFT Law or related regulations. Representatives of the FMC are also involved in inspections carried out by the Financial Supervision Department of the CBA.

Financial Stability and Restructuring Reforms

Monetary Policy of the CBA

The CBA, and, in particular, its Monetary Policy Department (the "**MPD**"), is responsible for the formulation and implementation of Armenia's monetary and foreign exchange policies. The MPD is composed of four divisions—the Monetary and Fiscal Analysis Division, the External Sector Analysis and Forecasting Division, the Real Sector Analysis and Forecasting Division and the Macroeconomic Forecasting Division. A team within the MPD, known as the Forecasting Team, meets eight times per year in order to discuss monetary policy, present inflation forecasts for the upcoming 36 months and advise the chairman of the CBA on policies to minimise deviation from the targeted rate of inflation, including by means of interest rate adjustments. The Forecasting Team also assists in the preparation of inflation reports. The CBA's interest rates and the press release on policy rates are published on the CBA website in Armenian and English.

In 2011, the CBA established a consultative body known as the Financial Stability Committee, which is responsible for the assessment of financial stability. The Financial Stability Committee is composed of the chairman and deputy chairman of the CBA and the heads of the Financial System Stability and Development Department, MPD, Financial Supervisory Department, Financial Department and Financial System Regulation Department. The Financial Stability Committee employs various tools to monitor the stability of Armenia's financial system, including various stress-testing models, identifies potential risks to the stability of Armenia's financial system, considers appropriate measures to ensure financial stability and suggests policies and other actions. The Financial Stability Committee meets every quarter, although in extraordinary situations a special session may be convened.

The CBA's primary policy objective is to ensure price stability, and since 2006 the CBA has pursued a policy of inflation targeting to meet this objective. Each year, an inflation target is set out in the State Budget. Inflation reports, consisting of (i) a monetary policy programme with a forecast horizon and (ii) a report on the implementation of such monetary policy programme, are submitted to, although not subject to the approval of, the National Assembly. Since January 2006, the CBA has maintained an annual inflation target of 4%, with a tolerance band of 1.5%.

Implementation

Since 1 July 2006, the CBA has been implementing an inflation-targeting strategy. The CBA carries out inflation targeting mainly through adjustments in the interest rate on short-term loans from the CBA to the domestic banking system (the "**Refinancing Rate**"). From January 2010 to September 2011, the Refinancing Rate was increased successively from 5% to 8.5% in an effort to strengthen stability of the dram. From 7 September 2011 to 13 August 2013, the Refinancing Rate remained unchanged at 8.0%, reflecting overall price stability in the Armenian economy during this period. Following a three-month increase in the Refinancing Rate to 8.5%, the CBA responded to low inflationary expectations by instituting a series of reductions in the Refinancing Rate, beginning in November 2013 and culminating in the second half of 2014, when the Refinancing Rate reached 6.75% between August 2014 and December 2014. On 24 December 2014, in response to an increase in inflationary expectations due to dram depreciation, the CBA increased the Refinancing Rate to 8.5%, then to 9.5% on 22 January 2015 and further to 10.5% on 10 February 2015, where it remains (as of 15 June 2015).

In addition to the Refinancing Rate, the CBA may choose to use other monetary policy instruments, including open-market operations, standing facilities and minimum reserve requirements.

To manage short-term deviations in liquidity and interest rates, the CBA uses various adjustment instruments, including repo, reverse repo, deposit auction and foreign currency swap transactions. The CBA also employs a variety of structural instruments that are designed to encourage long-term adjustments to liquidity and interest rates. The CBA also engages in the purchase and sale of Government securities on the domestic market.

Armenian banks may make use of the CBA's standing facilities, consisting of one-day deposit facilities and one-day Lombard repos. Deposit facilities have the effect of absorbing market liquidity, while Lombard repos expand liquidity in the financial system. Through the use of deposit facilities and Lombard repos, an interest rate corridor is set for the interbank market, thereby limiting interest rate volatility. Only treasury bills issued by the Ministry of Finance or the CBA (which, however, is not currently issuing treasury bills), or securities issued by certain commercial entities which have been assigned a high rating by the CBA, can be used in repo transactions.

Between 21 January 2010 and 14 August 2013, the deposit facility rate progressively increased, from 2.5% to 7.0%, where it remained from 14 August through 13 November 2013. Beginning 13 November 2013, the deposit facility rate underwent a series of reductions, reaching 5.25% in August 2014, where it remained until 24 December 2014. In line with the increase in the Refinancing Rate (as discussed above), the deposit facility rate was increased to 7% on 24 December 2014, to 8% on 21 January 2015, and then on 10 February 2015 to its current level of 9%. (as of 15 June 2015). From January 2010 until November 2014, changes in the one-day Lombard rate generally followed the same pattern as with the deposit facility rate, except for an adjustment that took place in June 2010, when the rate fell from 12.25% to 10.25%. From November 2012 to November 2014, the rates on standing facilities were ±1.5 percentage points from the Refinancing Rate. Beginning in November 2014, the CBA began a series of increases in the one-day Lombard rate, raising it to 10.25% on 24 November (from 8.25%), and then to 21% on 3 December 2014. The one-day Lombard rate was reduced to 17% on 21 January 2015 and then further reduced in increments to its current rate of 12% (as of 15 June 2015). The purpose of the movement in the Lombard rate beyond the 1.5 percentage point corridor was to mitigate short-term instability in the financial markets.

To safeguard the stability of the local banking sector, the CBA establishes minimum reserve requirements, which are determined separately for dram liabilities and foreign currency liabilities. By changing the reserve ratio, the CBA affects the ability of commercial banks to lend and thus influences the liquidity of the market. The reserve requirements are applied to all bank liabilities, except capital and equivalent long-term funding sources. In June 2013, as a measure to de-dollarise the economy and promote local lending in drams, the CBA lowered the minimum reserve requirement ratio on dram-denominated liabilities to 4% from 8%; such rate was lowered further to 2% in December 2013. The CBA believes that these decreases should lead to a tightening of interest rate spreads on the domestic interbank market and boost the demand for Government securities. The minimum reserve requirement ratio on foreign currency-denominated liabilities was 12% until 17 December 2014, when it was increased to 24% in an effort to defend the dram. Such ratio was subsequently lowered to 20% as the dram stabilised. The sharp increase in the ratio, nevertheless, reflects the CBA's continued efforts to de-dollarise the Armenian economy, an initiative rendered more difficult by the recent depreciation in the dram. The CBA expects the minimum reserve requirement ratio on most foreign-currency liabilities to remain high in the near-term in furtherance of its de-dollarisation policy. At the end of 2014, the reserve requirement ratio was lowered to 0% for dram-denominated and foreign currency-denominated liabilities that meet certain conditions as set forth by the CBA.

At the beginning of 2015, the CBA Board adopted a policy of diversified reserve requirement ratios for both long- and short-term liabilities. Pursuant to this policy, effective March 2015, the reserve requirement ratio for long-term dram-denominated and foreign currency-denominated liabilities provided by multilateral international financial institutions (IFIs) will be set at 1% and 6%, respectively.

THE ISSUER

General

The Issuer is a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated on 10 June 2015 under the law of The Netherlands, with its corporate seat in Amsterdam, The Netherlands and registered with the trade register of the Dutch chamber of commerce under number 63492652. Its registered office is 200 Prins Bernhardplein, 1097 JB, Amsterdam, The Netherlands, and the telephone number of the registered office is +31 20 5214 777.

Corporate Purpose of the Issuer

According to the articles of association of the Issuer, the objects of the Issuer are:

- to acquire, purchase, manage, dispose of and encumber registered claims arising out or in connection with loans provided by a third party or by third parties and to exercise all rights attached to such claims;
- to issue and acquire bonds and to sell or otherwise dispose of any and all of its assets;
- to borrow, lend and raise funds, including but not limited to, the issuance of bonds;
- to vest security rights on its assets through the establishment of mortgages, pledges or other security for its debts and other obligations or for the debts and other obligations of its affiliates or of third parties;
- to reduce risks of interest rate fluctuations and other financial risks, *inter alia*, by entering into derivative contracts, including but not limited to, swap agreements, option agreements and other agreements related to the foregoing; and
- to carry out all that which is incidental or related to the above, in the broadest sense.

Business Activity

The Issuer has not previously engaged in any business or any activities other than those incidental to its incorporation, the issue of the Notes and the Loan, including the authorisation thereof, and activities incidental to the exercise of its rights and compliance with its obligations under the Notes, the Loan Agreement, the Subscription Agreement, the Agency Agreement, the Trust Deed and the other documents and agreements entered into in connection with the issue of the Notes and the Loan.

The Issuer is organised as a special purpose company. The Issuer is established to raise capital through the issuance of debt securities and to use amounts equal to the proceeds of each such issuance to make loans to the Borrower.

Since the date of incorporation, the Issuer has not commenced any operations, and no financial statements of the Issuer have been prepared as of the date of the Prospectus. The Issuer's financial year runs from 1 July up to and including 30 June of the following year. The first audited financial statements of the Issuer will be in respect of the period from incorporation through 30 June 2016. The Issuer will not prepare interim financial statements.

Share Capital

The Issuer has an issued share capital of U.S.$ 1.00, divided into 10 shares each with each a nominal value of U.S.$ 0.10 per share. The shares are fully paid up.

Sole shareholder

The issued and outstanding shares in the Issuer's share capital are owned and controlled by its sole shareholder, Stichting Dilijan Finance, a foundation (*stichting*) established under the laws of The Netherlands, with its corporate seat in Amsterdam, The Netherlands and registered with the trade register of the Dutch chamber of commerce under number 63487616**.** Its registered office is 200 Prins Bernhardplein, 1097 JB, Amsterdam, The Netherlands.

Management

The Issuer is managed by its management board, consisting of one or more managing directors. The number of managing directors shall be laid down by the general meeting, and the managing directors shall be appointed by the general meeting.

The current sole director of the Issuer is Intertrust Management B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*), incorporated under the laws of The Netherlands, with its corporate seat in Amsterdam (The Netherlands), and its place of business at 200 Prins Bernhardplein, 1097 JB, Amsterdam, The Netherlands, registered with the trade register under number 33226415.

The authority to represent the Issuer is vested exclusively in (i) the management board, or (ii) any managing director acting individually. The management board may appoint proxyholders with general or limited power to represent the Issuer.

THE LOAN AGREEMENT

This Agreement is made on 27 July 2015 **between**:

(1) **ARDSHINBANK CLOSED JOINT-STOCK COMPANY** incorporated as a closed joint-stock company under the laws of the Republic of Armenia and having its registered office at 13 G. Lusavorich str., Yerevan 0015, the Republic of Armenia (the "**Borrower**"); and

(2) **DILIJAN FINANCE B.V.**, a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*), incorporated under the laws of the Netherlands, having its statutory seat (*statutaire zetel*) in Amsterdam, the Netherlands, its principal place of business at Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands and registered with the trade register of the Dutch chamber of commerce under number 63492652 (the "**Lender**").

Whereas:

(A) The Lender has, at the request of the Borrower, agreed to make available to the Borrower a loan facility in the amount of U.S.$ 100,000,000 on the terms and subject to the conditions of this Agreement.

(B) It is intended that the Lender will issue loan participation notes for the sole purpose of financing the loan facility.

Now it is hereby agreed as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the meanings indicated:

"**Account**" means the account in the name of the Lender with the Account Bank, account number 17663668 (or such other account as may from time to time be agreed by the Lender with the Trustee and the Borrower pursuant to the Trust Deed and notified to the Borrower in writing at least five Business Days in advance of such change);

"**Account Bank**" means Citibank, N.A., London Branch;

"**Advance**" means the advance to be made by the Lender under Clause 3 (*Drawdown*) of the sum equal to the amount of the Facility;

"**Affiliate**" of any specified person means any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person. For the purpose of this definition, "**control**" when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing;

"**Affiliate Transaction**" has the meaning given to it in Clause 11.4 (*Transactions with Affiliates*);

"**Agency**" means any agency, authority, central bank, department, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Agency Agreement**" means the agency agreement relating to the Notes dated on or around 29 July 2015 between the Lender, the Borrower, the Trustee, the Principal Paying Agent and the other agents named therein;

"**Agreement**" means this loan agreement;

"**Assigned Rights**" has the meaning given to it in the Trust Deed;

"**Auditors**" means the auditors for the time being of the financial statements of the Borrower (or, if applicable, the consolidated financial statements of the Group) prepared in accordance with IFRS consistently applied or, if they are unable or unwilling to carry out any action requested of them under this Agreement, another internationally recognised firm of accountants;

"**Authorised Signatory**" means, in relation to the Borrower, any director of the Borrower or any other person who is duly authorised and in respect of whom the Lender and the Trustee has received a certificate signed by a director or another Authorised Signatory of the Borrower setting out the name and signature of such person and confirming such person's authority to act;

"**Basel I**" means the report entitled "International Convergence on Capital Measurement and Capital Standards" published by the Basel Committee in July 1988;

"**Basel II**" means the report entitled "International Convergence of Capital Measurement and Capital Stock Standards" published by the Basel Committee in June 2004 and as subsequently amended and supplemented by the Basel Committee;

"**Basel III**" means the report entitled "A global regulatory framework for more resilient banks and banking systems" published by the Basel Committee in December 2010 as revised in June 2011 together with the additional "Minimum requirements to ensure loss absorbency at the point of non-viability" published by the Basel Committee in January 2011 and in each case as subsequently amended and supplemented by the Basel Committee;

"**Basel Committee**" means the Basel Committee on Banking Supervision;

"**BCBS Capital Adequacy Ratio**" means at any time the total capital ratio as calculated in accordance with the Relevant BCBS Standard;

"**Board of Directors**" means, as to any person, the board of directors or equivalent competent governing body of such person, or any duly authorised committee thereof;

"**Business Day**" means a day on which, if on that day a payment is to be made hereunder, commercial banks generally are open for business in Yerevan, New York City and in the city where the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent is located;

"**Capital**" means the Capital of the Borrower as such term is defined in the Relevant BCBS Standard;

"**CBA**" means the Central Bank of Armenia or such other governmental or other authority as shall from time to time carry out functions in relation to the supervision of banks in the Republic of Armenia as are, on the date hereof, carried out by the Central Bank of Armenia;

"**Certification Date**" has the meaning given to it in Clause 11.15 (*Compliance Certificates*);

"**Change of Control**" means that the individuals referred to in the Prospectuses as the owners of the majority of the share capital of the Borrower at the date thereof, or any spouse, parent or sibling of such individuals, cease to own together, directly or indirectly more than 50 per cent. of the issued or allotted share capital of the Borrower carrying voting rights and such event results in a Rating Decline;

"**Change of Control Put Event**" means the occurrence of a Change of Control;

"**Change of Control Put Option**" means the put option granted to Noteholders pursuant to the Conditions;

"**Change of Control Put Period**" has the meaning given to it in the Conditions;

"**Change of Control Put Settlement Date**" means the tenth Business Day after the expiration of the Change of Control Put Period;

"**Closing Date**" means 29 July 2015 (or such later date not later than 12 August 2015 as may be agreed between the Lender and the Borrower);

"**Conditions**" means the terms and conditions of the Notes;

"**Currency Agreements**" means, in respect of a person, any spot or forward foreign exchange agreements and currency swaps, currency options or other similar financial agreements or arrangements as to which such person is a party or a beneficiary;

"**Default**" means any event which is, or after notice or passage of time or after making any determination under this Agreement or the fulfilment of any other requirement (or any combination of the foregoing) would be, an Event of Default;

"**Dispute**" has the meaning given to it in Clause 24.2 (*Arbitration*);

"**Due Amount**" has the meaning given to it in Clause 13.4 (*Currency Indemnity*);

"**Dutch Treaty**" means the double taxation agreement in force between the Republic of Armenia and the Netherlands from time to time;

"**Event of Default**" has the meaning given to it in Clause 12.1 (*Events of Default*);

"**Event of Illegality**" has the meaning given to it in Clause 6.3 (*Prepayment in the Event of Illegality*);

"**Exempt Reorganisation**" means a Reorganisation or any type of corporate restructuring or other analogous event in a jurisdiction other than the Republic of Armenia (as determined under the legislation of such relevant jurisdiction) whereby another bank is merged with or into, or a portion of another banks' assets is transferred to, the Borrower;

"Exempt Transaction" means:

(a) any transaction solely for the provision of credit scoring and/or information technology services; or

(b) any transaction solely for the provision of hedging services;

"**Existing Financial Indebtedness**" means any Financial Indebtedness outstanding as at the date of this Agreement, as set out in the Schedule 1 hereto (*Existing Financial Indebtedness*);

"**Facility**" means the U.S.$ 100,000,000 term loan facility granted by the Lender to the Borrower as specified in Clause 2 (*Facility*);

"**Facility Fee**" has the meaning specified in Clause 2.3 (*Facility Fee*);

"**Final Repayment Date**" means 29 July 2020;

"**Financial Indebtedness**" means any indebtedness for or in respect of:

(a) moneys borrowed;

(b) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;

(c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

(d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with IFRS, be treated as a finance or capital lease;

(e) receivables or other payment rights sold or discounted (other than any receivables or other payment rights to the extent they are sold on a non-recourse basis);

(f) any amount raised under any other transaction (including any forward sale or purchase agreement) of a type not referred to in any other paragraph of this definition having the commercial effect of a borrowing;

(g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account; or, if any actual amount is due as a result of the termination or close-out of that derivative transaction, that amount shall be taken into account);

(h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution;

(i) any amount raised by the issue of redeemable shares;

(j) any amount of any liability under an advance or deferred purchase agreement if one of the primary reasons behind the entry into this agreement is to raise finance; and

(k) (without double counting) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (j) above;

"**Fitch**" means Fitch Ratings Ltd.;

"**first currency**" has the meaning given to it in Clause 13.4 (*Currency Indemnity*);

"**Global Certificate**" means the Rule 144A Global Certificate or, as the context may require, the Regulation S Global Certificate and "**Global Certificates**" shall be construed accordingly;

"**Gross Foreign Currency Position**" means the difference between foreign currency assets and liabilities and assets and liabilities in Armenian drams carrying foreign currency risk, calculated in accordance with the regulations of the CBA in effect from time to time;

"**Group**" means the Borrower and its Subsidiaries from time to time taken as a whole, and a "member of the Group" means any of the Borrower or any of its Subsidiaries from time to time;

“**Hedging Transaction**” means any payment or close out netting or set-off arrangement pursuant to any hedging transaction entered into by the Borrower for the purpose of:

(a) hedging any risk to which the Borrower is exposed in the ordinary course of its banking business and not as a result of any default or omission by the Borrower; or

(b) its interest rate or currency management operations which are carried out in the ordinary course of its banking business and for non-speculative purposes only;

“**IFRS**” means the International Financial Reporting Standards promulgated by the International Accounting Standards Board or any successor board or agency and in effect on the date hereof;

“**indemnified party**” has the meaning given to it in Clause 13.1 (*Indemnification*);

“**Interest Payment Date**” means 29 January and 29 July of each year;

“**Interest Period**” has the meaning given to it in Clause 4.2 (*Payment*);

“**Interest Rate Agreements**” means, in respect of a person, any interest rate protection agreements or other types of interest rate hedging agreements (including, without limitation, interest rate swaps, caps, floors, futures, collars and similar agreements) as to which such person is a party or a beneficiary;

“**LCIA**” means the London Court of International Arbitration;

“**Lender Assets**” has the meaning given to it in Clause 23 (*Limited Recourse and Non Petition*);

“**Lien**” means any mortgage, pledge, encumbrance, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction) and any title retention agreement having a similar effect);

“**Loan**”, at any time, means an amount equal to the aggregate principal amount of the Facility advanced by the Lender pursuant to this Agreement and outstanding at such time;

“**Loss**” has the meaning given to it in Clause 13.1 (*Indemnification*);

“**Material Adverse Effect**” means a material adverse effect on (a) the business, financial condition, or results of operations of the Borrower or the Group; (b) the Borrower’s ability to perform or comply with its obligations under this Agreement; or (c) the validity or enforceability of this Agreement or the rights or remedies of the Lender hereunder;

“**Material Subsidiary**” means, as at the date of determination, any Subsidiary of the Borrower which accounted for more than 10 per cent. of Total Assets, or, as the case may be, Total Operating Income of the Group as of the end of the most recent fiscal year or for the most recent fiscal year, respectively as determined by reference to the most recent financial statements of the Borrower, or the Group, as the case may be, prepared in accordance with IFRS consistently applied;

“**Moody’s**” means Moody’s Investors Service Limited;

“**Multilateral Debt**” means any Financial Indebtedness due to any international or supranational bank, financial institution or organisation such as the World Bank and the International Monetary Fund or any similar international or supranational bank, financial institution or organisation;

“**Noteholder**” means, in relation to a Note, the person in whose name such Note is for the time being registered in the register of the Noteholders (or, in the case of a joint holding, the first named holder thereof);

“**Notes**” means the U.S.$ 100,000,000 12 per cent. amortising loan participation notes due 2020 proposed to be issued by the Lender pursuant to the Trust Deed for the purpose of financing the Loan;

“**Notified Party**” has the meaning given to it in Clause 6.3 (*Prepayment in the Event of Illegality*);

“**Notifying Party**” has the meaning given to it in Clause 6.3 (*Prepayment in the Event of Illegality*);

“**Officers’ Certificate**” means a certificate signed, in the case of the Borrower, by two Authorised Signatories of the Borrower;

“**Opinion of Counsel**” means a written opinion from legal counsel who is acceptable to the Trustee (acting reasonably (as interpreted in accordance with the Trust Deed)), which counsel may be an employee of or counsel to the Borrower;

"**Original Financial Statements**" means the most recent audited IFRS financial statements of the Borrower as of the Closing Date;

"**Paying Agent**" has the meaning given to it in the Agency Agreement;

"**Permitted Liens**" means:

(a) any Lien over or affecting any asset acquired by a member of the Group after the date hereof and subject to which such asset is acquired, if:

(i) such Lien was not created in contemplation of the acquisition of such asset by a member of the Group; and

(ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the Group;

(b) any Lien over or affecting any asset of any company which becomes a member of the Group after the date hereof, where such Lien is created prior to the date on which such company becomes a member of the Group, if:

(i) such Lien was not created in contemplation of the acquisition of such company; and

(ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such company;

(c) any netting or set-off arrangement entered into by any member of the Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances;

(d) any title transfer or retention of title arrangement entered into by any member of the Group in the normal course of its trading activities on the counterparty's standard or usual terms;

(e) any Lien arising by operation of law and in the normal course of business;

(f) Liens incurred, or pledges and deposits in connection with workers' compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;

(g) Liens for ad valorem, income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Borrower or the Group has set aside in its books of account reserves to the extent required by IFRS, as consistently applied;

(h) any Lien granted by any Subsidiary of the Borrower in favour of the Borrower;

(i) any Lien existing on the Closing Date;

(j) any Lien over assets or revenues which are the subject of a Permitted Securitisation; provided that all payment obligations secured by such Lien or having the benefit of such Lien are to be discharged solely from such assets or revenues;

(k) any Lien relating to Currency Agreements or Interest Rate Agreements entered into in the ordinary course of business and for bona fide hedging purposes;

(l) any extension, renewal of or substitution for any Lien permitted by any of the preceding paragraphs (a) through (k), provided, *however*, that such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien; with respect to Liens incurred pursuant to this paragraph (l) the principal amount secured has not increased (other than any increase representing costs, fees, expenses or commission associated with such extension, renewal or substitution) and the Liens have not been extended to any additional property or assets (other than the proceeds of the property or assets in question);

(m) any Lien over or with respect to any present or future assets or revenues of the Group or any part thereof, which is created pursuant to any Repo transaction, where the aggregate value of the assets or revenues which are the subject of all such transactions does not at any time exceed 10 per cent. (by value) of Total Assets; and

(n) any other Lien securing Financial Indebtedness the outstanding principal amount of which (when aggregated with the outstanding principal amount of any other Financial Indebtedness which has the benefit of a Lien given by any member of the Group or in respect of which a Lien has otherwise arisen, in each case, under this paragraph (n)) does not at any time exceed 10 per cent. (by value) of Total Assets.

"**Permitted Securitisation**" means a secured or true-sale financing of receivables which is originated by the Borrower on an arm's length basis and on commercially reasonable terms whereby all payment obligations are to be discharged solely from such receivables, provided that the aggregate value of such receivables, when added to the aggregate value of receivables subject to any Lien described under paragraph (j) of the definition of Permitted Liens, does not at any time exceed 10 per cent. (by value) of Total Assets;

"**person**" means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organisation, government or any agency or political subdivision thereof or any other entity;

"**Principal Paying Agent**" has the meaning given to it in the Agency Agreement;

"**Prospectuses**" has the meaning given to it in the Subscription Agreement;

"**Qualifying Jurisdiction**" means any jurisdiction in which the Lender or any successor thereto is entitled to receive payment of interest on the Loan under a double taxation agreement in force on such date (subject to the completion of any necessary procedural formalities) providing for full or partial exemption from Armenian withholding tax on interest derived from a source within the Republic of Armenia to a resident of such jurisdiction;

"**Rate of Interest**" has the meaning given to it in Clause 4.1 (*Rate of Interest*);

"**Rating Agency**" means Fitch or Moody's, or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Borrower, from time to time with the prior written approval of the Lender (and, following the assignment of the Assigned Rights, the Trustee without regard to the Lender);

"**Rating Categories**" means (1) with respect to Fitch, any of the following categories (any of which may or may not include a "+" or "-"): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (2) with respect to Moody's, any of the following categories (any of which may or may not include a "1", "2" or "3"): Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories); and (3) the equivalent of any such categories of Fitch or Moody's used by another internationally recognised rating agency, if applicable;

"**Rating Decline**" means that at any time within 90 days (which period shall be extended so long as the corporate credit rating of the Borrower or the credit rating in respect of the Notes is under publicly announced consideration for possible downgrade by any Rating Agency) after the announcement or the occurrence of a Change of Control the corporate rating of the Borrower or the rating of the Notes is decreased or downgraded by a Rating Agency by one or more Rating Categories below the corporate rating of the Borrower or the rating of the Notes as of the date hereof (or if a Rating Agency has not assigned any such rating as of the date hereof, below the first such rating assigned to the Borrower or the Notes by such internationally recognised rating agency after the date hereof) as a result of such Change of Control, as specified by the relevant Rating Agency;

"**Registrar**" has the meaning given to it in the Trust Deed;

"**Regulation S Global Certificate**" means the single, permanent global Note in fully registered form, without interest coupons, substantially in the form set out in Part A of Schedule 1 of the Trust Deed;

"**Relevant BCBS Standard**" means the standard established by Basel I, Basel II and/or Basel III as and to the extent the relevant standard has, at the time the calculation is made, been implemented by the CBA;

"**Reorganisation**" has the meaning given to it in Clause 11.2 (*Mergers*);

"**Repayment Date**" means each of 29 January 2019, 29 July 2019, 29 January 2020 and 29 July 2020;

"**Repo**" means a sale, transfer or other disposal by the Borrower of any assets on terms whereby they are or may be leased to or re-acquired by a member of the Group;

"**Reserved Rights**" has the meaning given to it in the Trust Deed and the Conditions;

"**Rule 144A Global Certificate**" means the single, permanent global Note in fully registered form, without interest coupons, substantially in the form set out in Part B of Schedule 1 of the Trust Deed;

"**Rules**" has the meaning given to it in Clause 24.2 (*Arbitration*);

"**Same-Day Funds**" means same day, freely transferable, clearly identifiable cleared U.S. dollar-funds or such other funds for payment in U.S. dollars as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in London of the type contemplated hereby;

"**second currency**" has the meaning given to it in Clause 13.4 (*Currency Indemnity*);

"**Securities Act**" means the United States Securities Act of 1933, as amended;

"**Self-Liquidating Trade Finance**" means any Financial Indebtedness in respect of amounts used to purchase any asset and which is repayable with the income generated by that asset;

"**Short-Term Wholesale Indebtedness**" means Financial Indebtedness due to any bank or financial institution with an original maturity of one year or less, but excluding:

(a) Self-Liquidating Trade Finance; and

(b) Multilateral Debt;

"**Subscription Agreement**" means the subscription agreement relating to the Notes dated the date hereof between the Lender, the Borrower and the lead manager named therein;

"**Subsidiary**" means, in relation to any person (the "**first person**") at any particular time, any other person (the "**second person**"):

(a) whose affairs and policies the first person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and IFRS, consolidated with those of the first person,

provided that no company established for the purpose of a Permitted Securitisation shall be a Subsidiary;

"**successor**" means, in the case of a merger, consolidation or combination of a person, or the sale, assignment, transfer, conveyance or other disposal of all or substantially all of a person's assets, the corporation formed by or resulting from such consolidation or merger or which shall have received such assets;

"**Tax**" means any present or future taxes, duties, assessments, fees or other governmental charges imposed or levied by or on behalf of any Qualifying Jurisdiction or the Republic of Armenia;

"**Total Assets**" means, as at any date of determination, the aggregate of the Borrower's total assets or, if consolidated financial statements are then prepared, the consolidated total assets of the Group shown on the balance sheet of the Borrower, or the consolidated balance sheet of the Group, as applicable, as of the end of the most recent semi-annual period, in each case prepared in accordance with IFRS consistently applied;

"**Total Liabilities**" means, as at any date of determination, the aggregate of the Borrower's total liabilities or, if consolidated financial statements are then prepared, the consolidated total liabilities of the Group shown on the balance sheet of the Borrower, or the consolidated balance sheet of the Group, as applicable, as of the end of the most recent semi-annual period, in each case prepared in accordance with IFRS consistently applied;

"**Total Operating Income**" means, as at any date of determination, the operating income of the Borrower or, if consolidated financial statements are then prepared, the consolidated operating income of the Group, as shown on the statement of profit or loss and other comprehensive income of the Borrower, or the consolidated statement of profit or loss and other comprehensive income of the Group, as applicable, for the most recent fiscal year in each case prepared in accordance with IFRS consistently applied;

"**Treaty**" means a double taxation agreement between any jurisdiction and the Republic of Armenia which makes provision for either: (i) full exemption from Republic of Armenia Tax on interest; or (ii) partial exemption from Republic of Armenia Tax on interest, reducing the rate of such Tax to a rate which is no higher than the minimum rate prescribed by the Dutch Treaty;

"**Trust Deed**" means the trust deed relating to the Notes to be dated the Closing Date between the Lender and the Trustee;

"**Trustee**" means Citibank, N.A., London Branch, as trustee under the Trust Deed and any successor thereto and any additional trustee, in each case as provided thereunder;

"**U.S. dollars**" and "**U.S.$**" mean the lawful currency of the United States of America; and

"**VAT**" means value added tax and any other tax of a similar nature.

1.2 **Other Definitions**

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in, or are defined by cross-reference to definitions in or other provisions of, the Trust Deed, the Notes (including the Conditions), the Agency Agreement or the Subscription Agreement shall have the meanings given to such terms therein.

1.3 **Interpretation**

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

1.3.1 all references to "**Clause**" or "**sub-Clause**" are references to a Clause or sub-Clause of this Agreement;

1.3.2 the terms "**hereof**", "**herein**" and "**hereunder**" and other words of similar import shall mean this Agreement as a whole and not any particular part hereof;

1.3.3 words importing the singular number include the plural and vice versa;

1.3.4 all references to "**taxes**" include all present or future taxes, levies, imposts and duties of any nature and the terms "**tax**" and "**taxation**" shall be construed accordingly;

1.3.5 any reference to this Agreement or any other document, agreement or deed shall be to this Agreement or such other document, agreement or deed as amended, restated, novated or extended from time to time; and

1.3.6 the table of contents and the headings are for convenience only and shall not affect the construction hereof.

2. FACILITY

2.1 **Facility**

On the terms and subject to the conditions set out herein, the Lender hereby agrees to lend to the Borrower and the Borrower hereby agrees to borrow from the Lender U.S.$ 100,000,000.

2.2 **Purpose**

The proceeds of the Advance will be used by the Borrower for the purposes set out in the Prospectuses and, accordingly, the Borrower shall apply all amounts raised by it hereunder for such purposes, but the Lender shall not be concerned with the application thereof.

2.3 **Facility Fee**

The Borrower shall pay fees and expenses in an amount to be agreed in writing separately to the Lender in consideration for the arrangement of the Facility (the "**Facility Fee**") as set out in Clause 3.2 (*Payment of the Facility Fee*) below.

3. DRAWDOWN

3.1 **Drawdown**

On the terms and subject to the conditions of this Agreement, on the Closing Date the Lender shall make the Advance to the Borrower and the Borrower shall make a single drawing in the full amount of the Facility.

3.2 **Payment of the Facility Fee**

In consideration of the Lender making the Advance to the Borrower, the Borrower hereby agrees to pay to the Lender, in Same-Day Funds, the Facility Fee promptly, but in any event no later than 10.00 a.m. (London time) on 28 July 2015.

3.3 **Disbursement**

Subject to the conditions set out herein, on the Closing Date the Lender shall transfer the amount of the Advance to the Borrower's account as follows:

Ardshinbank Closed Joint-Stock Company
13, G. Lusavorich str.
0015 Yerevan
Republic of Armenia
Bank: CITIBANK N.A., New York, USA
Account Number: ●
SWIFT: CITIUS33

3.4 **Ongoing Fees and Expenses**

In consideration of the Lender making available the Loan to the Borrower, the Borrower shall pay in one or more instalments on demand to the Lender each year an additional fee equating to all properly incurred and documented ongoing fees, taxes and expenses of the Lender (including, without limitation, any corporate service provider fees, stock exchange fees, listing fees, audit fees, legal fees and the anticipated winding-up expenses of the Lender) as set out in an invoice from the Lender to the Borrower. Before such payment is made by the Borrower, the Lender shall submit an invoice providing, in reasonable detail, the nature and calculation of the relevant payment or expense.

4. INTEREST

4.1 **Rate of Interest**

The Borrower will pay interest in U.S. dollars to the Lender on the outstanding principal amount of the Loan from time to time at the rate of 12 per cent. per annum (the "**Rate of Interest**").

4.2 **Payment**

Interest at the Rate of Interest shall accrue from day to day, starting from (and including) the Closing Date and shall be paid in respect of each Interest Period in arrear not later than 10.00 a.m. (New York City time) on each Interest Payment Date. Interest on the Loan will accrue to (but excluding) the Final Repayment Date (or any date upon which the Loan is prepaid pursuant to Clause 6 (*Repayment and Prepayment*)) unless payment of principal due on such date is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to (but excluding) the date on which payment in full of the principal thereof is made. The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the Rate of Interest to the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded down). If interest is required to be calculated for any period of less than a year, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed. "**Interest Period**" means each period beginning on (and including) the Closing Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

5. CONDITIONS PRECEDENT

The obligation of the Lender to make the Advance shall be subject to the further conditions precedent that as at the Closing Date (a) the Lender shall have received the full amount of the proceeds of the issue of the Notes pursuant to the Subscription Agreement; and (b) the Lender shall have received in full the amount referred to in Clause 2.3 (*Facility Fee*).

6. REPAYMENT AND PREPAYMENT

6.1 **Repayment**

Except as otherwise provided herein, the Borrower shall repay an amount equal to U.S.$ 25,000,000 not later than 10 a.m. (New York City time) on each Repayment Date.

6.2 **Prepayment in the Event of Taxes or Increased Costs**

If, as a result of the application of any amendments or clarification to, or change (including a change in interpretation or application) in, or determination under, (a) the Dutch Treaty or the laws or regulations of the Republic of Armenia or the Netherlands or of any political sub-division thereof or any authority thereof or therein having power to tax, (b) any other applicable Treaty, (c) any applicable Tax law, or (d) the enforcement of the security provided for in the Trust Deed, in each case arising after the date of this Agreement, the Borrower would thereby be required to make or increase any payment due hereunder as provided in Clause 7.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 7.3 (*Withholding on the Notes*) (other than, in each case, where the increase in payment is in respect of any amounts due or paid pursuant to Clause 2.3 (*Facility Fee*)), or if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 9 (*Change in Law or Increase in Cost*), and in any such case such obligation cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty), upon not less than 30 calendar days' nor more than 60 calendar days' prior written notice to the Lender (which notice shall be irrevocable), prepay the Loan in whole (but not in part) at any time.

Prior to giving any such notice in the event of an increase in payment pursuant to Clause 7.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), the Borrower shall deliver to the Lender (with a copy to the Trustee) an Officers' Certificate confirming that the Borrower would be required to increase the amount payable or to pay the additional amounts, supported by an opinion of an independent tax adviser of recognised standing in the relevant jurisdiction.

6.3 **Prepayment in the Event of Illegality**

If, at any time, by reason of the introduction of any change after the date of this Agreement in any applicable law, regulation, regulatory requirement or directive of any applicable Agency, (i) the Lender reasonably determines (such determination being accompanied by an Opinion of Counsel if so requested and satisfactory to the Borrower, with the cost of such Opinion of Counsel being borne solely by the Borrower) that it is or would be unlawful or contrary to any applicable law, regulation, regulatory requirement or directive of any Agency or otherwise for the Lender to allow all or part of the Loan or the Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Loan or (ii) the Borrower reasonably determines (such determination being accompanied by an Opinion of Counsel if so requested and satisfactory to the Lender, with the cost of such Opinion of Counsel being borne solely by the Borrower) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Borrower to borrow the Loan or to allow all or part of the Loan to remain outstanding or to give effect to any of its obligations in connection with this Agreement and/or to pay interest at the rate then applicable to such Loan (in each case, an "**Event of Illegality**"), then upon notice by the Lender to the Borrower or by the Borrower to the Lender, as the case may be, in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), the Borrower and the Lender shall consult in good faith as to a basis which eliminates the application of such Event of Illegality; *provided, however*, that the notifying party (the "**Notifying Party**") shall be under no obligation to continue such consultation if a basis has not been determined within 30 days of the date on which it so notified the other party (the "**Notified Party**"). If such a basis has not been determined within the 30 days, then upon written notice by the Notifying Party to the Notified Party and the Trustee, the Borrower shall prepay the Loan in whole (but not in part) on the next Interest Payment Date or on such earlier date as the Notifying Party shall (acting reasonably) certify to be necessary to comply with such requirements.

6.4 **Prepayment upon Change of Control Put Event**

6.4.1 Promptly, and in any event within 30 calendar days after becoming aware of the occurrence of any Change of Control Put Event, the Borrower shall deliver to the Lender and the Trustee a written notice in the form of an Officers' Certificate, which notice shall be irrevocable, stating that a Change of Control Put Event has occurred and stating the circumstances and relevant facts giving rise to such Change of Control Put Event.

6.4.2 If, following a Change of Control Put Event, any Noteholder has exercised its Change of Control Put Option, the Borrower shall on the Change of Control Put Settlement Date, prepay 101 per cent. of the principal amount of the Loan in an amount which corresponds to the aggregate principal amount of the Notes (as notified to the Borrower by the Paying Agents) in relation to which the Change of Control Put Option has been duly exercised together with interest accrued (if any) to, but excluding, the Change of Control Put Settlement Date in accordance with the Conditions.

6.5 **Reduction of Loan upon Cancellation of Notes**

The Borrower or any Subsidiary of the Borrower may from time to time, in accordance with the Conditions, purchase Notes in the open market or by tender or by a private agreement at any price and deliver to the Lender such purchased Notes having an aggregate principal value of at least U.S.$ 200,000, together with a request for the Lender to present such Notes to the Registrar for cancellation, or, where the Notes are represented by the Global Certificates, may also from time to time procure the delivery to or to the order of the Registrar or relevant clearing system of instructions (in each case, with a copy to the Lender) to cancel a specified aggregate principal amount of Notes (being at least U.S.$ 200,000) represented thereby (which instructions shall be accompanied by evidence satisfactory to the Registrar or relevant clearing system that the Borrower is entitled to give such instructions), whereupon the Lender shall, pursuant to Clause 8.1 (*Redemption, reduction and cancellations*) of the Agency Agreement, request the Registrar or relevant clearing system to cancel such Notes (or specified aggregate principal amount of Notes represented by the Global Certificates). Upon any such cancellation by or on behalf of the Registrar or relevant clearing system, the principal amount of the Loan corresponding to the principal amount of such Notes shall be extinguished for all purposes as of the date of such cancellation.

6.6 **Payment of Other Amounts**

If the Loan is to be prepaid by the Borrower pursuant to any of the provisions of Clause 6.2 (*Prepayment in the Event of Taxes or Increased Costs*), 6.3 (*Prepayment in the Event of Illegality*) or 6.4 (*Prepayment upon Change of Control Put Event*), the Borrower shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon (calculated up to but excluding the date of scheduled prepayment) and all other sums payable by the Borrower pursuant to this Agreement in relation to the prepaid amount. For the avoidance of doubt, if the principal amount of the Loan is reduced pursuant to the provisions of Clause 6.5 (*Reduction of Loan upon Cancellation of Notes*), then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which the Loan is so reduced and the Lender shall not be entitled to any interest in respect of the cancelled Notes.

6.7 **Provisions Exclusive**

The Borrower shall not voluntarily prepay or repay all or any part of the amount of the Loan except at the times and in the manner expressly provided for in this Agreement. The Borrower shall not be permitted to re-borrow any amounts prepaid or repaid.

7. PAYMENTS

7.1 **Making of Payments**

All payments of principal, interest and additional amounts (other than those in respect of Reserved Rights) to be made by the Borrower under this Agreement shall be made unconditionally by credit transfer to the Lender not later than 10 a.m. (New York City time) on each Interest Payment Date or each Repayment Date or the date of any payment (as the case may be) in Same-Day Funds to the Account, or as the Trustee may otherwise direct following the occurrence of a Default or a Relevant Event (as defined in the Trust Deed).

The Borrower shall, before 10 a.m. (local time) on the second Business Day prior to each Interest Payment Date or each Repayment Date or such other date (as the case may be), procure that the bank effecting such payments on its behalf confirms to the Principal Paying Agent or to the Borrower (who shall immediately provide the same to the Principal Paying Agent) by authenticated SWIFT the payment instructions relating to such payment.

The Lender agrees with the Borrower that it will not deposit any other monies into the Account and that no withdrawals shall be made from the Account other than as provided for and in accordance with the Trust Deed and the Agency Agreement.

7.2 **No Set-Off, Counterclaim or Withholding; Gross-Up**

All payments to be made by the Borrower under this Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any such Taxes, it shall, on the due date of such payment, increase the payment due hereunder to such amount as may be necessary to ensure that the Lender receives a net amount in U.S. dollars equal to the full amount which it would have received had payment not been made subject to such Taxes, and shall account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under applicable law, and shall deliver to the Lender without undue delay evidence of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes (including penalties or interest) the Borrower shall reimburse the Lender in U.S. dollars for such properly documented payment on demand. For the avoidance of doubt, this Clause 7.2 is without prejudice to any obligations of the Lender in Clause 7.5 (*Mitigation*) and Clause 7.6 (*Tax Treaty Relief*).

7.3 **Withholding on the Notes**

Without prejudice to the provisions of Clause 7.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), if the Lender notifies the Borrower (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) that it has become obliged to make any withholding or deduction for or on account of any Taxes imposed, levied, collected, withheld or assessed by or on behalf of the Netherlands (or another relevant Qualifying Jurisdiction) or any political subdivision or any authority thereof or therein having the power to tax from any payment which it is obliged to make, or would otherwise be obliged to make but for the imposition of any such withholding or deduction for or on account of such Taxes, under or in respect of the Notes, the Borrower agrees to pay into the Account in Same-Day Funds, no later than the date on which payment is due to the Noteholders, such additional amounts as are equal to the additional amounts which the Lender would be required to pay in order that the net amounts received by the Noteholders, after such withholding or deduction, will equal the respective amounts which would have been received by the Noteholders in the absence of such withholding or deduction; *provided, however*, that the Lender shall immediately upon receipt from any Paying Agent of any reimbursement of the sums paid pursuant to this provision, to the extent that any Noteholders are not entitled to such additional amounts pursuant to the Conditions, pay such additional amounts to the Borrower (it being understood that neither the Lender, the Principal Paying Agent or any Paying Agent shall have any obligation to determine whether any Noteholder is entitled to any such additional amounts). The Lender will (insofar as permitted by applicable laws) provide the Borrower with such information as the Lender has access to in its capacity as issuer of the Notes that may be of assistance in determining whether the Noteholders are entitled to additional amounts pursuant to the Conditions.

Any notification by the Lender to the Borrower in connection with this Clause 7.3 shall be given as soon as reasonably practicable after the Lender becomes aware of any obligation on it to make any such withholding or deduction.

7.4 **Reimbursement**

To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which the Borrower has made a payment pursuant to this Clause 7 or obtains any other reimbursement in connection therewith, the Lender shall promptly pay to the Borrower so much of the benefit it received as will leave the Lender in substantially the same position as it would have been had no additional amount been required to be paid by the Borrower pursuant to this Clause 7 or had no reimbursement been paid to the Lender; *provided, however*, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to the Borrower, the amount of any such payment and the timing of any such payment, shall be determined reasonably by the Lender. Subject to Clauses 7.5 (*Mitigation*) and 7.6 (*Tax Treaty Relief*), the Lender shall have the absolute discretion whether, and in what order and manner, it claims any credits, allowances or refunds available to it, and the Lender shall in no circumstances be obliged to disclose to the Borrower any information regarding its tax affairs or its computations, *provided that* the Lender shall notify the Borrower of any tax credit or allowance or other reimbursement it receives. Any such refund or reimbursement shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, allowance, refund or other reimbursement and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to the Borrower hereunder and shall be accepted by the Borrower in full and final settlement of its rights of reimbursement under this Agreement in respect of such deduction or withholding.

7.5 **Mitigation**

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clauses 7.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 7.3 (*Withholding on the Notes*), then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or the Borrower's obligations, under such Clauses, such party shall as soon as reasonably practicable upon becoming aware of such circumstances notify the other party, and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that both parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be available to it to avoid such obligation or mitigate the effect of such circumstances. The Borrower agrees to reimburse the Lender upon receipt of an original demand for payment for all properly incurred and documented costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause 7.5.

7.6 **Tax Treaty Relief**

7.6.1 The Lender shall once in each calendar year, prior to the first Interest Payment Date in that calendar year, at the expense of the Borrower, use its best efforts to obtain and deliver, to the Borrower no later than 10 Business Days prior to such Interest Payment Date, a tax residency certificate issued by the competent authorities of the Netherlands (or another relevant Qualifying Jurisdiction) confirming that the Lender is resident for tax purposes in the Netherlands (or such other relevant Qualifying Jurisdiction) and that it has fulfilled any conditions which must be fulfilled under the applicable Treaty for residents of the Netherlands (or another relevant Qualifying Jurisdiction) to obtain either: (a) full exemption from Tax in the Republic of Armenia on interest payable to the Lender in respect of payments due under the Facility; or (b) partial exemption from Tax in the Republic of Armenia on such interest, reducing the rate of such Tax to a rate which is no higher than the minimum rate prescribed by a Treaty.

7.6.2 The Lender shall use its reasonable and timely efforts to assist the Borrower, at the expense of the Borrower, in obtaining relief from withholding of Armenian income tax pursuant to the applicable Treaty, including completing any and all procedural formalities necessary (including but not limited to any requirements of such applicable Treaty, in each case subject to being informed of any such formalities by the Borrower).

8. THIS CLAUSE HAS BEEN RESERVED

9. CHANGE IN LAW OR INCREASE IN COST

9.1 **Compensation**

In the event that after the date of this Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof and/or any compliance by the Lender in respect of the Loan or the Facility with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central bank or other fiscal, monetary or other authority, agency or any official of any such authority, which:

9.1.1 subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than any Taxes payable by the Lender on its overall net income, any taxes referred to in Clause 7.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), or any Taxes referred to in Clause 7.3 (*Withholding on the Notes*));

9.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income or as a result of any taxes referred to in Clause 7.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or any taxes referred to in Clause 7.3 (*Withholding on the Notes*)); or

9.1.3 imposes or will impose on the Lender any other condition affecting this Agreement, the Facility or the Loan,

and if as a result of any of the foregoing:

(i) the cost to the Lender of making, funding or maintaining the Loan or the Facility is increased;

(ii) the amount of principal, interest or additional amounts payable to or received by the Lender hereunder is reduced; or

(iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan,

then, subject to the following and in each such case:

(a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower together with a certificate signed by a director of the Lender or by any persons empowered by the authorised signatories of the Lender on behalf of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, setting out in reasonable detail the basis on which such amount has been calculated, and providing all relevant supporting documents evidencing the matters set out in such certificate; and

(b) upon demand by the Lender to the Borrower, the Borrower, in the case of sub-Clauses (i) and (iii) above, shall pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of sub-Clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or forgone interest or other return; *provided however*, that the amount of such increased cost, reduced amount or payment made or forgone shall be deemed not to exceed an amount equal to the proportion which is directly attributable to this Agreement, and *provided, further*, that the Lender will not be entitled to such additional amount where such reduction, payment or forgone interest or other return arises as a result of the negligence or wilful default of the Lender,

provided that this Clause 9.1 will not apply to or in respect of any matter for which the Lender has already been compensated under Clauses 7.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) and 7.3 (*Withholding on the Notes*).

9.2 **Mitigation**

In the event that the Lender becomes entitled to make a claim pursuant to Clause 9.1 (*Compensation*), the Lender shall consult in good faith with the Borrower and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, the Borrower's obligations to pay any additional amount pursuant to such Clause except that nothing in this Clause 9.2 shall obligate the Lender to incur any costs or expenses in taking any action hereunder which, in the reasonable opinion of the Lender, is prejudicial to it unless the Borrower agrees to reimburse the Lender such costs or expenses.

10. REPRESENTATIONS AND WARRANTIES

10.1 **The Borrower's Representations and Warranties**

The Borrower represents and warrants to the Lender, with the intent that such shall form the basis of this Agreement, on the date hereof and which shall be deemed to be repeated by the Borrower on the Closing Date, that:

10.1.1 the Borrower has been duly registered and is validly existing as a closed joint-stock company under the laws of the Republic of Armenia with powers and authority to own, lease and operate its properties and assets and conduct its business as described in the Prospectuses, and is duly qualified to transact business in each jurisdiction in which its ownership, leasing or operation of its properties or assets or the conduct of its business requires such qualification;

10.1.2 this Agreement constitutes a valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganisation, moratorium and similar laws of general applicability relating to or affecting creditors' rights and subject, as to enforceability, (i) to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law); and (ii) with respect to the enforceability of a judgment, to the laws of the relevant jurisdiction where such judgment must be enforced and whether there is a treaty in force relating to the mutual recognition of foreign judgments;

10.1.3 the execution and delivery of this Agreement by the Borrower, the compliance by the Borrower with the provisions of this Agreement and the consummation of the other transactions herein contemplated do not (i) require the consent, approval, authorisation, registration or qualification of or with any governmental authority, except such as have been obtained or made; (ii) conflict with or result in a breach or violation of any of the terms and provisions of, or constitute a default under, (a) any indenture, mortgage, deed of trust, lease or other agreement or instrument to which the Borrower is a party or by which the Borrower or any of its properties are bound; or (b) the constitutive documents of the Borrower; or (iii) conflict with or violate any statute or any judgment, decree, order, rule or regulation of any court or other governmental authority or any arbitrator applicable to the Borrower;

10.1.4 (i) the execution and delivery of this Agreement have been duly authorised by all necessary corporate action of the Borrower, (ii) this Agreement has been duly executed and delivered by the Borrower; and (iii) the Borrower has received all licences, approvals, registrations and permissions necessary to effect the transactions contemplated by this Agreement;

10.1.5 no Event of Default exists and no event has occurred which, with notice or lapse of time or both, would constitute a default in the due performance and observance of any term, covenant or condition of any agreement or instrument evidencing any Financial Indebtedness of the Borrower, and is continuing and no such event will occur upon the making of the Advance;

10.1.6 save as disclosed in the Prospectuses, there are no judicial, arbitral or administrative actions, proceedings or claims pending or, to the knowledge of the Borrower, threatened, against the Borrower, the adverse determination of which could reasonably be expected to have a Material Adverse Effect;

10.1.7 the Borrower's obligations under the Loan rank at least *pari passu* with all its other unsecured and unsubordinated obligations, except as otherwise provided by mandatory provisions of applicable law applying to companies generally;

10.1.8 except for the Liens permitted under this Agreement or the U.S.$ 75 million Facility Agreement dated 5 December 2014 between the Borrower and Wilmington Trust (London) Limited (as amended as of the date hereof), the Borrower has the right of ownership (as that expression is defined under the laws of the Republic of Armenia) to its property, free and clear of all Liens (except to the extent that any such Lien could not reasonably be expected to result in a Material Adverse Effect);

10.1.9 the Borrower owns or possesses, or can acquire on reasonable terms, all material patents, patent applications, trademarks, service marks, trade names, licences, know-how, copyrights, trade secrets and proprietary or other confidential information necessary to operate the business now operated by it and the Borrower has not received any notice of infringement of or conflict with asserted rights of any third party with respect to any of the foregoing;

10.1.10 all licences, consents, certificates, authorisations and permits which are necessary to enable the Borrower to own its assets and carry on its business, the absence of which could reasonably be expected to have a Material Adverse Effect, are in full force and effect;

10.1.11 (i) the Borrower maintains insurance of the types and in amounts adequate for its business and, to the Borrower's knowledge, consistent with insurance coverage maintained by companies carrying on similar business or owning assets of a similar nature in the jurisdiction in which it operates; and (ii) the Borrower has no reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business;

10.1.12 the Borrower has not violated any (i) Armenian or foreign, including in each instance applicable federal, state or local, law or regulation relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants; (ii) any applicable Armenian or foreign, including in each instance federal, state or local, law or regulation relating to discrimination in the hiring, promotion or pay of employees; or (iii) any applicable Armenian or foreign, including in each instance, federal, state or local wages and hours laws or regulations (in each case, except to the extent that any such violation could not reasonably be expected to result in a Material Adverse Effect);

10.1.13 save as disclosed in the Prospectuses, there has been no material adverse change since the date of the Original Financial Statements in the financial condition or results of business operations of the Borrower;

10.1.14 the execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, but without limitation to, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Republic of Armenia or any political subdivision or taxing authority thereof or therein (other than state duty paid on any claim, petition or other application filed with an Armenian court);

10.1.15 the Borrower has access, subject to the laws of the Republic of Armenia, to the internal currency market in the Republic of Armenia and, to the extent necessary, valid agreements with Armenian commercial banks for purchasing U.S. dollars to make payments of amounts which may be payable pursuant to this Agreement;

10.1.16 there are no labour strikes, disputes, disturbances, lockouts, slowdowns or stoppages of employees of the Borrower which are currently pending, or, to the best knowledge of the Borrower, threatened in writing that could reasonably be expected to have a Material Adverse Effect;

10.1.17 save as disclosed in the Prospectuses, in any proceedings taken in the Republic of Armenia in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation thereto will be recognised and enforced in the Republic of Armenia after compliance with the applicable procedures and rules and all other legal requirements and court practice in the Republic of Armenia; and

10.1.18 subject to the performance by the relevant parties of the relevant established procedures in connection with the obtaining of an applicable withholding tax exemption for payments hereunder, under the laws of the Republic of Armenia, in conjunction with the Dutch Treaty in force as of the date hereof, the Borrower will not be required to make any deduction or withholding from any payment it may make hereunder, other than as provided under the laws of the Republic of Armenia.

10.2 **Lender's Representations and Warranties**

The Lender represents and warrants to the Borrower as follows:

10.2.1 the Lender is duly incorporated and validly existing under the laws of the Netherlands and has full power and capacity to execute this Agreement and to undertake and perform the obligations expressed to be assumed by it herein and the Lender has taken all necessary action to approve and authorise the same;

10.2.2 the execution of this Agreement and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein will not conflict with, or result in a breach of or default under, the laws of the Netherlands, any agreement or instrument to which it is a party or by which it is bound or in respect of any Financial Indebtedness in relation to which it is a surety or the constitutive documents of the Lender;

10.2.3 this Agreement has been duly authorised and executed by and constitutes a legal, valid and binding obligation of the Lender enforceable against it in accordance with its terms, subject to applicable bankruptcy, examinership, insolvency, liquidation, administration, moratorium, re-organisation and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity;

10.2.4 all authorisations, consents and approvals required by the Lender in the Netherlands for or in connection with the execution of this Agreement and the performance by the Lender of the obligations expressed to be undertaken by it herein have been obtained and are in full force and effect;

10.2.5 the Lender is a resident of the Netherlands (and is not resident elsewhere) for taxation purposes and subject to taxation in the Netherlands not merely on the basis of the source of its income or location of its property but on the basis of its registration as a legal entity, location of its management body or other similar criteria. The Lender is entitled to the benefits of the Dutch Treaty. The Lender will also be able to receive certification to the effect that it is resident in the Netherlands for taxation purposes from the relevant Dutch authority. At the date hereof, the Lender reasonably believes that it does not have a permanent establishment or presence in the Republic of Armenia save for any which may be created solely as a result of the Lender entering into and performing its obligations under this Agreement or any other loan agreements entered into with the Borrower and the transactions contemplated herein and therein;

10.2.6 the Lender will fully account for the Notes and the Loan on its balance sheet;

10.2.7 the Lender does not own, either directly or indirectly, any shares of the Borrower;

10.2.8 the Lender has taken no action (other than entering into loan arrangements with the Borrower and the transactions and documents connected therewith) which would cause it to become registered in the Republic of Armenia for VAT purposes;

10.2.9 there is no reference to the Republic of Armenia as the actual place of the Lender's activity in the memorandum or articles of association of the Lender; and

10.2.10 the sole member of the board of directors of the Lender is an entity that is a tax resident in the Netherlands.

11. COVENANTS

So long as the Loan or any other sum owing hereunder remains outstanding:

11.1 Negative Pledge

The Borrower shall not, and shall procure that none of its Material Subsidiaries shall, directly or indirectly, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Financial Indebtedness, unless, at the same time or prior thereto, the Borrower's obligations hereunder are secured equally and rateably with such other Financial Indebtedness or have the benefit of such other arrangements as may be approved by an Extraordinary Resolution (as defined in the Trust Deed).

11.2 Mergers

The Borrower shall not enter into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Armenian legislation, as these terms are construed by applicable Armenian legislation (each, a "**Reorganisation**"), but excluding, for the avoidance of doubt, a change in the shareholdings of the shareholders of the Borrower or any Exempt Reorganisation), if any such Reorganisation could reasonably be expected to result in a Material Adverse Effect.

The Borrower shall procure that, save for an Exempt Reorganisation, none of its Material Subsidiaries:

(i) enters into any Reorganisation; or

(ii) in the case of a Material Subsidiary incorporated in a jurisdiction other than the Republic of Armenia participates in any type of corporate restructuring or other analogous event (as determined under the legislation of the relevant jurisdiction),

if any such Reorganisation or corporate restructuring could reasonably be expected to result in a Material Adverse Effect.

11.3 Disposals

11.3.1 Subject to sub-Clause 11.3.2 below, whilst any Notes remain outstanding the Borrower shall not and shall procure that none of its Material Subsidiaries shall sell, lease, transfer or otherwise dispose of, to a person other than the Borrower or a Material Subsidiary of the Borrower, by one or more transactions or series of transactions (whether related or not), assets representing in aggregate more than 10 per cent. (by value) of the Total Assets, unless such transaction is on an arm's-length basis and on commercially reasonable terms and has been approved by a resolution of the competent decision-making body of the Borrower or, as the case may be, the relevant Material Subsidiary of the Borrower, in accordance with applicable law and/or the constituent documents of the Borrower or the relevant Material Subsidiary, as the case may be, resolving that the transaction complies with the requirements of this Clause 11.3.

11.3.2 Sub-Clause 11.3.1 shall not apply to:

(a) sales of stock in trade or other sales or disposals of current assets and payments of cash on an arm's length basis in the ordinary course of business;

(b) the disposal of any revenues or assets (or part thereof) pursuant to any Repo transaction that would, if it created a Lien, be permitted under clause (m) of the definition of Permitted Lien; or

(c) the disposal of any revenues or assets (or any part thereof) pursuant to a Permitted Securitisation.

11.4 Transactions with Affiliates

The Borrower shall not, and shall procure that none of its Subsidiaries shall, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**") including, without limitation, intercompany loans unless:

(a) the terms of such Affiliate Transaction are no less favourable to the Borrower or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm's length transaction with a person that is not an Affiliate of the Borrower or such Subsidiary; and

(b) with respect to any Affiliate Transaction (other than an Exempt Transaction) involving the transfer of assets or provision of services, in each case having a value greater than 20 per cent of the Capital (as determined based on the most recent IFRS financial statements of the Borrower), the terms of such Affiliate Transaction shall be set forth in writing and such Affiliate Transaction shall be approved by a decision adopted by a competent decision-making body of the Borrower as if it were an "interested party transaction" (as such term is defined by applicable Armenian law) of the Borrower or, as the case may be, of the relevant Subsidiary in accordance with applicable law, and resolving compliance with paragraph (a) above; or

(c) such Affiliate Transaction is made pursuant to a contract existing on the date of this Agreement.

This Clause 11.4 does not apply to:

(i) customary directors' fees, indemnification and similar arrangements (including the payment of directors' and other officers' insurance premiums), consulting fees, employee salaries, bonuses, employment arrangements, compensation or employee benefit arrangements, including stock options or legal fees, so long as the Board of Directors of the Borrower or the relevant Subsidiary has approved the terms thereof in good faith and deemed the services therefore or thereafter to be performed for such compensation or payments to be fair consideration therefore; or

(ii) any Affiliate Transaction between the Borrower and its wholly-owned Subsidiaries or between wholly-owned Subsidiaries of the Borrower.

11.5 Maintenance of Authorisations

The Borrower shall and shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things reasonably necessary, in the opinion of the Borrower or the relevant Material Subsidiary, as the case may be, to ensure the continuance of its corporate existence, its business and material intellectual property relating to its business and the Borrower shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Republic of Armenia for the execution, delivery or performance of the Loan Agreement or for the validity or enforceability thereof.

11.6 Maintenance of Property

The Borrower shall, and shall procure that each of its Material Subsidiaries shall, cause all material property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgment of the Borrower or any Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times.

11.7 **Payment of Taxes and Other Claims**

The Borrower shall, and shall ensure that its Material Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties:

(a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of, the Borrower and its Material Subsidiaries; and

(b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of the Borrower or any of its Material Subsidiaries;

provided, however, that none of the Borrower nor any Material Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such Tax, assessment, charge or claim:

(a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS, as consistently applied or other appropriate provision, has been made; or

(b) whose amount, together with all such other unpaid or undischarged Taxes, assessments, charges and claims, does not in the aggregate exceed U.S.$ 10 million (or its equivalent in other currencies).

11.8 **Financial Information**

11.8.1 The Borrower shall as soon as the same become available, but in any event within 120 calendar days after the end of each of its financial years, deliver to the Lender and the Trustee copies of its financial statements (or consolidated financial statements of the Group, if available), prepared in accordance with IFRS for such financial year.

11.8.2 The Borrower shall as soon as the same become available, but in any event within 90 calendar days after the end of the second quarter of each of its financial years, deliver to the Lender and the Trustee copies of its financial statements (or consolidated financial statements of the Group, if available), prepared in accordance with IFRS for such period.

11.8.3 The Borrower shall ensure that each set of financial statements delivered by it pursuant to this Clause 11.8 is:

(a) prepared on the same basis as was used in the preparation of its Original Financial Statements and in accordance with IFRS consistently applied; and

(b) in the case of financial statements provided pursuant to sub-Clause 11.8.1 above, accompanied by a report thereon of the Auditors (including opinions of such Auditors with accompanying notes and annexes); and

(c) in the case of financial statements provided pursuant to sub-Clause 11.8.2 above, certified by an officer of the Borrower as giving a true and fair view of the Borrower's or the Group's, as applicable, financial condition as at the end of the period to which those financial statements relate and of the results of the Borrower's or the Group's, as applicable, operations during such period.

11.9 **Capital Adequacy Ratio**

The Borrower shall at all times:

(a) maintain compliance with the prudential supervision ratios and other requirements of the CBA applicable to banks; and

(b) ensure that its BCBS Capital Adequacy Ratio is no less than the greater of (i) 12 per cent. and (ii) such other minimum percentage as may be specified by the Basel Committee.

11.10 **Short-Term Wholesale Indebtedness to Total Liabilities Ratio**

The Borrower shall ensure that, as of the end of each semi-annual period for which financial statements are required to be prepared pursuant to Clause 11.8 (*Financial Information*), its ratio of Short-Term Wholesale Indebtedness to Total Liabilities shall not exceed 20 per cent.

11.11 Foreign Gross Currency Position

The Borrower shall ensure that, as of the end of each semi-annual period for which financial statements are required to be prepared pursuant to Clause 11.8 (*Financial Information*), its ratio of Gross Foreign Currency Position to Capital does not exceed 10 per cent.

11.12 Change of Business

The Borrower shall procure that no substantial change is made to the general nature of the business of the Borrower from that carried on at the Closing Date.

11.13 Ranking of Claims

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* with the claims of all its other unsecured creditors, save for obligations mandatorily preferred by law applying to companies generally.

11.14 Financial Indebtedness

(a) The Borrower shall not (and the Borrower shall ensure that no other member of the Group will) incur or allow to remain outstanding any Financial Indebtedness.

(b) Paragraph (a) above does not apply to:

   (i) any Financial Indebtedness arising under this Agreement;

   (ii) any Financial Indebtedness arising under a loan or guarantee made by it or the acceptance by it of a deposit, in each case in the ordinary course of its banking business;

   (iii) any Existing Financial Indebtedness;

   (iv) any Financial Indebtedness arising from any refinancing of any of the Existing Financial Indebtedness, provided that the principal amount of any such Existing Financial Indebtedness is not increased as a result of that refinancing;

   (v) any Financial Indebtedness arising under any Hedging Transaction; or

   (vi) any Financial Indebtedness which is not permitted by the preceding clauses and the outstanding principal amount of which (when aggregated with all other Financial Indebtedness not described under clauses (i) to (v) above) does not exceed 7.5 per cent. (by value) of Total Assets.

11.15 Compliance Certificates

The Borrower shall send to the Lender and the Trustee, within 14 days after each date the financial statements are sent to the Lender and the Trustee pursuant to Clause 11.8 (*Financial Information*), and also within 14 days of any request by the Lender or the Trustee, in each case acting reasonably (in the case of the Trustee, as interpreted in accordance with the Trust Deed), an Officers' Certificate:

(a) to the effect that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Borrower, as at a date (the "Certification Date") being not more than seven days before the date of the Officers' Certificate:

   (i) no Default, Event of Default or Change of Control Put Event had occurred since the date of this Agreement or the Certification Date of the last such Officers' Certificate (if any), whichever date is later, or, if such an event had occurred, giving details of it;

   (ii) that the Borrower has complied and has procured compliance by each of its Material Subsidiaries (if any) with its obligations under the Conditions and this Agreement; and

(b) listing those Subsidiaries of the Borrower which as at the last day of the relevant financial period were Material Subsidiaries. An Officers' Certificate stating that, in the opinion of the Authorised Signatories signing such certificate, a Subsidiary of the Borrower is or is not or was or was not at any particular time a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Lender and Borrower.

12. **EVENTS OF DEFAULT**

12.1 **Events of Default**

If one or more of the following events of default (each, an "Event of Default") shall occur, the Lender shall be entitled to the remedies set out in Clause 12.3 (*Remedies*)*:*

12.1.1 **Failure to Pay**: save as provided in Clause 12.1.2, the Borrower fails to pay any sum due from it hereunder at the time, in the currency and in the manner specified herein, and such failure is not remedied within five Business Days of the due date for payment;

12.1.2 **Breach of obligations on Prepayment upon Change of Control Put Event**: the Borrower fails to pay the sum due on the Change of Control Put Settlement Date pursuant to Clause 6.4 (*Prepayment upon Change of Control Put Event*) and such failure is not remedied within 10 Business Days of such date;

12.1.3 **Breach of other obligations or undertakings**: the Borrower defaults in the performance or observance of, or compliance with, any of its other obligations or undertakings in respect of this Agreement and such default (provided that it is capable of remedy) is not remedied within 30 days after written notice of such default shall have been given to the Borrower by the Lender;

12.1.4 **Cross Default**: (i) any Financial Indebtedness of the Borrower or any Material Subsidiary becomes due and payable prior to its scheduled maturity by reason of an event of default (howsoever described); or (ii) the Borrower or any Material Subsidiary fails to make any payment of principal in respect of any Financial Indebtedness on the due date for payment or (as the case may be) within any originally applicable grace period for the payment thereof, *provided that* the aggregate principal amount of any such Financial Indebtedness of the Borrower or such Material Subsidiary, in the case of (i) and/or (ii) above, is at least U.S.$ 10 million (or its equivalent in any other currency);

12.1.5 **Insolvency**: the Borrower or any of its Material Subsidiaries generally suspends or announces an intention to suspend payment of, or is unable to, or admits an inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts, in each case, pursuant to or for the purposes of any applicable law, or is adjudicated or found to be bankrupt or insolvent by a court of competent jurisdiction; or

12.1.6 **Moratorium**: (i) proceedings are initiated against the Borrower or any of its Material Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, administrator or other similar official (and such application is not being contested in good faith by the Borrower and is not discharged or stayed within 60 days), or an administrator or liquidator is appointed in respect of the Borrower or any of its Material Subsidiaries or the whole or any part of the business or operations of any of them (and such appointment is not being contested in good faith by the Borrower and is not discharged or stayed within 60 days) or (ii) the Borrower or any of its Material Subsidiaries takes any action for a readjustment or deferment of any of its obligations, or makes a general assignment or an arrangement or composition with or for the benefit of its creditors, or declares a moratorium, in each case in respect of all of, or a material part of, its Financial Indebtedness;

12.1.7 **Winding-up**: an order is made by a court of competent jurisdiction or an effective resolution is passed for the winding-up or dissolution of the Borrower or any of its Material Subsidiaries, provided that such event is not being contested in good faith by the Borrower or any of its Material Subsidiaries, as the case may be, and is not discharged or stayed within 60 days, or the Borrower or any of its Material Subsidiaries ceases or threatens to cease to carry on all or a substantial part of its business or operations, save in each case for the purpose of and followed by an amalgamation, reorganisation, merger or consolidation or solvent voluntary winding-up;

12.1.8 **Seizure of assets**: any Agency (i) seizes, compulsorily acquires, expropriates or nationalises all or a substantial part of the assets or shares of the Borrower or (ii) assumes custody or control over all or substantially all of its assets or shares; or

12.1.9 **Unlawfulness or Invalidity**: the validity of this Agreement is contested by the Borrower or any person acting on its behalf or the Borrower or any person acting on its behalf shall deny any of the Borrower's obligations under this Agreement or as a result of any change in, or amendment to, the laws or regulations in the Republic of Armenia, which change or amendment takes place after the date hereof, it becomes unlawful for the Borrower to perform or comply with any of its obligations under or in respect of this Agreement or any of such obligations becomes unenforceable or invalid.

12.2 **Notice of Default**

The Borrower shall deliver to the Lender and the Trustee, immediately upon becoming aware of the same, written notice in the form of an Officers' Certificate of any event which is a Default or an Event of Default, its status and what action the Borrower is taking or proposes to take with respect thereto.

12.3 **Remedies**

If any Event of Default shall occur and be continuing, the Lender or the Trustee, as applicable may, by notice to the Borrower, (a) declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate; and (b) declare the Loan to be immediately due and payable by the Borrower, and (c) declare all other amounts accrued and/or payable hereunder by the Borrower up to (and including) the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower; *provided, however,* that if any event of any kind referred to in sub-Clause 12.1.5 (*Insolvency*) or sub-Clause 12.1.7 (*Winding-up)* above occurs with respect to the Borrower, all amounts payable hereunder by the Borrower that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, declaration, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

12.4 **Rights Not Exclusive**

The rights provided for herein are cumulative to the extent permitted by law and are not exclusive of any other rights, powers, privileges or remedies provided by law.

13. INDEMNITY

13.1 **Indemnification**

The Borrower undertakes to the Lender, that if the Lender, any Affiliate, director, officer, employee or agent of the Lender or any person controlling the Lender (each an "**indemnified party**") incurs any loss, liability, cost, claim, charge, expense (including, without limitation, properly incurred legal fees, costs and expenses), demand or damage (a "**Loss**") as a result of or in connection with the Loan, this Agreement (or the enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or the Notes being outstanding, the Borrower shall pay to the Lender on demand an amount equal to such documented Loss and all properly incurred and documented costs, charges and expenses which may be incurred as a result of or arising out of or in relation to any failure to pay by the Borrower or delay by the Borrower in paying the same, unless such Loss was either caused by such indemnified party's gross negligence, bad faith, fraud or wilful misconduct or arises out of a breach of the representations and warranties of the Lender contained in this Agreement. The Lender shall not have any duty or obligation whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause 13.1.

13.2 **Independent Obligation**

Clause 13.1 (*Indemnification*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

13.3 **Evidence of Loss**

A certificate of the Lender, supported by relevant documentation, setting forth the amount of a Loss described in Clause 13.1 (*Indemnification*) and specifying in full detail the basis therefor shall, in the absence of manifest error, be conclusive evidence of the amount of such Loss.

13.4 **Currency Indemnity**

To the fullest extent permitted by law, the obligations of the Borrower under this Agreement in respect of any amount due in the currency (the "**first currency**") in which the same is payable shall, notwithstanding any payment in any other currency (the "**second currency**") (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the first currency that the Lender may, acting reasonably and in accordance with normal banking procedures, purchase with the sum paid in the second currency (after any premium and costs of exchange) on the Business Day immediately following the day on which the Lender receives such payment. If the amount in the first currency that may be so purchased for any reason falls short of the amount originally due (the "**Due Amount**"), the Borrower hereby agrees to indemnify and hold harmless the Lender against any deficiency in the first currency. Any obligation of the Borrower not discharged by payment in the first currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Agreement, shall continue in full force and effect. If the amount in the first currency that may be purchased exceeds that Due Amount the Lender shall promptly pay the amount of the excess to the Borrower.

14. SURVIVAL

The obligations of the Borrower pursuant to Clauses 7.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), 7.3 (*Withholding on the Notes*), 13 (*Indemnity*) and 15.2 (*Stamp Duties*) shall survive the execution and delivery of this Agreement, the drawdown of the Facility and the repayment of the Loan, in each case by the Borrower.

15. GENERAL

15.1 Evidence of Debt

The entries made by the Lender in the accounts maintained by the Lender in accordance with its usual practice and evidencing the amounts from time to time lent by and owing to it hereunder in the Account shall, in the absence of manifest error, constitute *prima facie* evidence of the existence and amounts of the Borrower's obligations recorded hereunder.

15.2 Stamp Duties

15.2.1 The Borrower shall pay all stamp, registration and documentary taxes or other charges (if any) imposed on the Borrower by any person in the United Kingdom, the Republic of Armenia, Luxembourg, Belgium, the United States or the Netherlands which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to pay such taxes or similar charges upon presentation by the Lender to the Borrower of documentary evidence of such costs and expenses.

15.2.2 The Borrower agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes or other charges (if any) imposed by any person in the United Kingdom, the Republic of Armenia, Luxembourg, Belgium, the United States or the Netherlands which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and any documents related hereto, the Borrower shall reimburse the Lender on demand an amount equal to such stamp or other documentary taxes or duties and shall indemnify the Lender against any and all properly incurred costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to procure the payment of such amounts upon presentation by the Lender to the Borrower of documentary evidence of such costs and expenses.

15.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power or privilege hereunder and no course of dealing between the Borrower and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege.

15.4 **Prescription**

In the event that any Notes become void pursuant to Condition 11 (*Prescription*), the Lender shall forthwith repay to the Borrower the principal or interest amount in respect of such Note subject to the Lender having previously received from the Borrower a corresponding principal or interest amount pursuant to this Agreement.

16. NOTICES

All notices, requests, demands or other communications to or upon the respective parties hereto shall be given or made in the English language by fax or otherwise in writing and shall be deemed to have been duly given or made at the time of delivery, if delivered by hand, courier or airmail or in the case of a fax, when the relevant delivery receipt is received by the sender, to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

16.1 **if to the Borrower:**

Ardshinbank Closed Joint-Stock Company
13 G. Lusavorich Str,
Yerevan 0015
Armenia
Fax: +374 10567486
Attention: David Sargsyan, Chief Financial Officer

16.2 **if to the Lender:**

Dilijan Finance B.V.
200 Prins Bernhardplein, 1097 JB Amsterdam,
The Netherlands
Fax: +31 20 521 4777
Attention: The Managing Director

or to such other address or facsimile number as any party may hereafter specify in writing to the other.

17. ASSIGNMENT

17.1 **General**

This Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender or the forming of an opinion or the making of any determination, following notification to the Borrower of the assignment and/or enforcement of the security, each as referred to in Clause 17.3 (*By the Lender)*, shall include references to the exercise of such rights or discretions or the forming of an opinion or the making of any determination by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any determinations by the Lender, or any discussions between the Lender and the Borrower or any agreements of the Lender or the Borrower, pursuant to Clause 7.4 (*Reimbursement*), 7.5 (*Mitigation*) or 9.2 (*Mitigation*).

17.2 **By the Borrower**

The Borrower shall not be entitled to assign or transfer all or any part of its rights or obligations hereunder to any other person.

17.3 **By the Lender**

Subject to the provisions of Clause 16 (*Substitution*) of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement other than the Reserved Rights except (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of certain of the Lender's rights and benefits under this Agreement;

and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under this Agreement, in each case, pursuant to Clause 4 (*Security Interests*) of the Trust Deed. Nothing herein shall prevent the Trustee from assigning or transferring any rights held by it in relation to or under this Agreement, provided that any such assignment or transfer is in accordance with the Trust Deed.

18. SEVERABILITY

In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, save that the Contracts (Rights of Third Parties) Act 1999 shall apply in favour of the Trustee and the Principal Paying Agent pursuant to Clause 7.1 (*Making of Payments*), 11 (*Covenants*), to the Trustee pursuant to Clause 17 (*Assignment)* and to the Lead Manager (as defined in the Subscription Agreement) pursuant to Clause 23 (*Limited Recourse and Non Petition*).

20. LANGUAGE

The language which governs the interpretation of this Agreement is the English language.

21. AMENDMENTS

Except as otherwise provided by its terms, this Agreement may not be varied except by an agreement in writing signed by the parties hereto.

22. COUNTERPARTS

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties hereto.

23. LIMITED RECOURSE AND NON PETITION

The Borrower hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, actually received from the Borrower (after any tax deduction required by law to be made by the Borrower in respect of such sums and for which the Lender has not received a corresponding additional payment from the Borrower pursuant to this Agreement (also after any tax deduction as may be required by law)) by or for the account of the Lender pursuant to this Agreement (the "**Lender Assets**"), subject always to (i) the Security Interests (as defined in the Trust Deed); and (ii) to the fact that any claims of the Lead Manager shall rank in priority to claims of the Borrower and, consequently, any amounts payable by the Lender hereunder after giving effect to the prior ranking claims under the Security Interests shall first be applied in discharging, in full, any claim by the Lead Manager, provided always that the total of all such claims shall not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the same, neither the Borrower nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum.

Neither the Borrower nor any other person acting on its behalf shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender under this Agreement, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

The Borrower shall have no recourse against any director, shareholder, or officer of the Lender in respect of any obligations, covenants or agreement entered into or made by the Lender in respect of this Agreement, except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

24. GOVERNING LAW; ARBITRATION; SUBMISSION TO JURISDICTION AND WAIVER

24.1 Governing Law

This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English law.

24.2 Arbitration

Subject to Clause 24.3 (*Courts*), any dispute, difference, controversy or claim arising out of or in connection with this Agreement (including regarding the existence, validity, interpretation, performance, breach or termination of this Agreement and any dispute relating to non-contractual obligations arising out of or in connection with this Agreement) (a "**Dispute**") shall be referred to and finally resolved by arbitration administered by the LCIA under the 2014 LCIA Rules (the "**Rules**"), which Rules are deemed incorporated into this Agreement, as amended herein.

The arbitral tribunal shall consist of three arbitrators. The Borrower shall nominate one arbitrator; the Lender shall nominate the second arbitrator. Failing such nomination within 30 days of receiving notice of the nomination of an arbitrator by the other side, the relevant arbitrator shall be selected and appointed by the LCIA as soon as possible. A third arbitrator, who shall serve as Chairman, shall be nominated by the two party-nominated arbitrators within 30 days of the confirmation of the appointment of the second arbitrator, or, in default of such agreement, shall be selected and appointed by the LCIA as soon as practicable.

If all the parties to an arbitration so agree, there shall be a sole arbitrator selected and appointed by the LCIA, as soon as practicable.

The seat (legal place) of arbitration shall be London, England and the language of the arbitration shall be English.

Where related Disputes arise under this Agreement, upon the application of any party to an arbitration pursuant to this Clause 24.2, the arbitral tribunal may consolidate the arbitration with any other arbitration or proposed arbitration involving any of the parties and relating to this Agreement and/or any other contract (whether or not such other proceedings have yet been instituted), provided that no date for the final hearing of the arbitration or any other such arbitration has been fixed. The arbitral tribunal shall not consolidate such arbitrations unless it determines in its reasonable opinion that: (a) the relevant Disputes sought to be consolidated are so closely connected that it is expedient for them to be resolved in the same arbitration proceedings; and (b) no party to the proceedings sought to be consolidated would be materially prejudiced as a result of such consolidation through undue delay or otherwise;

Save as otherwise agreed by all of the parties to the consolidated proceedings or as determined by the arbitral tribunal which ordered consolidation, the parties to each Dispute which is a subject of an order for consolidation shall be treated as having consented to that Dispute being finally decided:

24.2.1 by the arbitral tribunal which ordered the consolidation (and, where more than one arbitral tribunal orders consolidation of the same Dispute, the arbitral tribunal which was also first formed), unless the LCIA determines that that arbitral tribunal would not be suitable (for reason of lack of impartiality and/or independence or otherwise) in which case the LCIA shall determine the procedure for appointing the arbitral tribunal to determine the consolidated proceedings by reference to the procedure set out above and having given the parties a reasonable opportunity to state their views; and

24.2.2 in accordance with the procedure, at the seat and in the language specified in the arbitration agreement in the contract under which the arbitral tribunal which ordered the consolidation (and, where more than one arbitral tribunal orders consolidation of the same Dispute, the arbitral tribunal which was also first formed) was appointed;

In the event of inconsistent rulings on consolidation by differently constituted arbitral tribunals, unless the LCIA determines that any party would be unduly prejudiced as a result, the ruling of the arbitral tribunal first formed shall be determinative and shall be final and binding on the parties to the arbitrations sought to be consolidated.

The parties hereby exclude the jurisdiction of the courts under Sections 45 and 69 of the Arbitration Act 1996.

24.3 **Courts**

Before an arbitral tribunal has been appointed to determine a Dispute, the Lender may, at its sole option, by notice in writing to the Borrower, require that all Disputes or a specific Dispute be heard by a court of law in accordance with this Clause 24.3. If the Lender gives such notice, any Dispute to which such notice refers shall be determined as follows:

24.3.1 the courts of England shall have exclusive jurisdiction to resolve such Dispute;

24.3.2 the parties hereto agree that the courts of England are the most appropriate and convenient courts to resolve such Dispute and accordingly no party, subject to sub-Clause 24.3.3, will argue to the contrary; and

24.3.3 this Clause 24.3 is for the benefit of the Lender only. As a result the Lender shall not be prevented from taking proceedings relating to such Dispute in any other courts with jurisdiction. To the extent allowed by law, the Lender may take concurrent proceedings in any number of jurisdictions in respect of such Dispute.

24.4 **Process Agent**

The Borrower agrees that the process by which any proceedings are commenced in England pursuant to this Clause 24 may be served on it by being delivered to Law Debenture Corporate Services Limited, Fifth Floor, 100 Wood Street, London EC2V 7EX. If such person is not or ceases to be effectively appointed to accept service on behalf of the Borrower, the Borrower shall, on the written demand of the Lender, appoint a further person in England to accept services of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice to the Borrower. Nothing in this paragraph shall affect the right of the Lender to serve process in any other manner permitted by law.

24.5 **Waiver**

To the extent that the Borrower may now or hereafter be entitled, in any jurisdiction in which any legal action or proceedings may at any time be commenced pursuant to or in accordance with this Agreement, to claim for itself or any of its undertaking, properties, assets or revenues present or future any immunity (sovereign or otherwise) from suit, jurisdiction of any court, attachment prior to judgment, attachment in aid of execution of a judgment, execution of a judgment or award or from set-off, banker's lien, counterclaim or any other legal process or remedy with respect to its obligations under this Agreement and/or to the extent that in any such jurisdiction there may be attributed to the Borrower any such immunity (whether or not claimed), the Borrower hereby irrevocably agrees not to claim, and hereby waive, any such immunity to the fullest extent permitted by the laws of such jurisdiction.

24.6 **Consent**

The Borrower irrevocably and generally consents in respect of any proceedings brought pursuant to the terms of this Agreement to the giving of any relief or the issue and service on it of any process in connection with those proceedings including, without limitation, the making, enforcement or execution against any assets whatsoever of any order or judgment which may be made or given in those proceedings.

SCHEDULE 1

Existing Financial Indebtedness

Lender	Type of loan	Date of loan agreement	Maturity date	Outstanding Balance as at 3 July 2015 (kAMD) (unless otherwise stated)
Asian Development Bank	Micro, Small and Medium Enterprises ("MSME")	28-Dec-11	08-Dec-16	712,771
Asian Development Bank	MSME	02-May-12	08-Dec-16	722,984
Asian Development Bank	MSME	14-Jun-12	08-Dec-16	712,669
Asian Development Bank	MSME	03-Jun-13	08-Dec-16	1,425,078
Lender 1A	Trade finance	10-Jul-13	10-Jul-18	676,489
Lender 1B	Trade finance	08-Nov-13	08-Nov-16	306,075
Lender 1C	Trade finance	18-Mar-11	18-Mar-16	106,358
Black Sea Trade & Development Bank	Housing	07-Sep-12	09-Sep-19	1,307,836
Black Sea Trade & Development Bank	Housing	17-Dec-12	17-Dec-19	1,302,967
Black Sea Trade & Development Bank	SME	04-Nov-14	10-Dec-19	4,755,227
Lender 2A	Trade finance	16-Oct-14	15-Oct-15	18,226,906
Lender 2B	Trade finance	30-Mar-15	16-Mar-17	7,751,911
Lender 2C	Trade finance	18-Apr-15	11-Apr-16	2,632,882
Lender 2D	Trade finance	11-May-15	04-Nov-15	3,949,575
Lender 3A	Trade finance	21-Aug-14	01-Oct-19	267,606
Lender 3B	Trade finance	25-Mar-15	01-Oct-19	697,781
Lender 4A	Trade finance	11-Mar-15	04-Mar-16	134,256
Lender 4B	Trade finance	11-Mar-15	04-Mar-16	125,179
Lender 4C	Trade finance	10-Apr-15	04-Apr-16	66,934
Lender 4D	Trade finance	10-Apr-15	04-Apr-16	76,739
Lender 4E	Trade finance	05-May-15	29-Apr-16	108,441
Lender 4F	Trade finance	05-May-15	29-Apr-16	127,631
Lender 5A	Trade finance	05-Jun-15	02-Dec-15	124,611
Lender 5B	Trade finance	17-Jun-15	14-Dec-15	10,391
Lender 5C	Trade finance	25-Sep-13	18-Sep-15	53,058
Lender 5D	Trade finance	24-Oct-14	19-Oct-15	18,785
Lender 5E	Trade finance	29-Oct-14	23-Oct-15	74,098
Lender 6	Trade finance	17-Dec-14	19-Dec-16	131,170
Ark Finance B.V.	Loan-linked notes	05-Dec-14	09-Dec-17 (final repayment date)	35,782,657
Dilijan Finance B.V.	Loan-linked notes	27 July 2015	29 July 2020	U.S.$ 100,000,000 as of date of issuance

Lender	Type of loan	Date of loan agreement	Maturity date	Outstanding Balance as at 3 July 2015 (kAMD) (unless otherwise stated)
German Armenian Fund—MSME—KFW[1]	Small and medium enterprises ("SME"), Housing, Renewable energy	15-Dec-08	01-Oct-26	13,840,969
German Armenian Fund[1]	SME	02-Jun-15	02-Jun-22	1,349,566
German Armenian Fund[1]	SME	11-Jun-15	13-Jun-22	1,055,439
Home for Youth RCO[1]	Housing, study, consumer	20-Oct-10	17-Jun-24	2,601,059
International Fund for Agriculture Development[1]	Agriculture	10-Oct-08	20-Jan-20	645,433
Lender 7A	Trade finance	23-May-13	28-Jun-17	97,044
Lender 7B	Trade finance	13-Dec-12	28-Jun-17	151,893
Lender 7C	Trade finance	13-Feb-13	28-Jun-17	49,682
National Mortgage Company[1]	Housing	25-Jan-10	20-May-24	2,976,605
OPEC Fund of International Development	SME	11-Jan-11	09-Oct-17	2,145,035
OPEC Fund of International Development[2]	Renewable energy	12-Jun-15	13-Jun-22	2,660,786
OPEC Fund of International Development	Renewable energy	26-Jun-15	13-Jun-22	2,086,459
World Business Capital, Inc.	SME	28-Mar-13	22-Mar-21	3,892,604
World Business Capital, Inc.	SME	01-Apr-09	25-Mar-19	1,944,304
World Bank—International Bank for Reconstruction and Development (GAF)[1]	MSME	06-Apr-12	23-Jun-20	279,630
Eurasian Development Bank	SME	11-Nov-14	25-Nov-19	4,768,841

1 The Bank and these institutions have entered into general loan agreements, through which the Bank may apply for loans. These loans are consolidated, with a number of tranches with each institution. The date shown in the column titled 'Date of loan agreement' above shows the date of the earliest tranche and the date shown in the column titled 'Maturity date' above shows the date of the last maturity date.

2 Loan agreement in the amount of U.S.$ 10 million has been signed. The second disbursement in the amount of USD 4.4 million was received on 26 June 2015.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contains summaries of certain provisions of the Trust Deed and which will be attached to the Notes in definitive form, if any, and (subject to the provisions thereof) apply to the Global Certificate.

The U.S.$ 100,000,000 12 per cent. Amortising Loan Participation Notes due 2020 (the "**Notes**" which expression includes any further Notes issued pursuant to Condition 15 (*Further Issues*) and forming a single series therewith) of Dilijan Finance B.V. (the "**Issuer**", which expression shall include any entity substituted for the Issuer from time to time pursuant to Condition 10(C) (*Substitution*)) are constituted by a trust deed (as amended or supplemented from time to time, the "**Trust Deed**") dated on or about 29 July 2015 and made between the Issuer and Citibank, N.A., London Branch (the "**Trustee**", which expression shall include any trustees or trustee for the time being under the Trust Deed) as trustee for the Noteholders (as defined below).

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a U.S.$ 100,000,000 5 year loan (the "**Loan**") to Ardshinbank Closed Joint-Stock Company (the "**Borrower**"). The terms of the Loan are set out in a loan agreement (as amended or supplemented from time to time, the "**Loan Agreement**") dated on or about 27 July 2015 between the Issuer (as lender) and the Borrower.

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely on the covenant to pay under the Loan Agreement, the benefit of the Security Interests (as defined below) and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other asset of the Issuer.

The Issuer has charged by way of first fixed charge in favour of the Trustee for the benefit of the Trustee and the Noteholders certain of its rights and interests as Lender under the Loan Agreement as security for its payment obligations in respect of the Notes and under the Trust Deed (the "**Charge**") and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the "**Assigned Rights**" and, together with the Charge, the "**Security Interests**") in each case excluding the Reserved Rights. "**Reserved Rights**" are the rights excluded from the Charge and the Assigned Rights, being all and any rights, interests and benefits in respect of the obligations of the Borrower under Clauses 2.3 (*Facility Fee*), 3.2 (*Payment of Facility Fee*), 3.4 (*Ongoing Fees and Expenses*), sub-Clause (i) of 6.3 (*Prepayment in the Event of Illegality*) (other than the right to receive any amount payable under such Clause), 7.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) (to the extent that the Borrower shall reimburse the Issuer on demand for any amount paid by the Issuer in respect of taxes, penalties or interest), 7.3 (*Withholding on the Notes*) (to the extent that the Issuer has received amounts to which the Noteholders are not entitled), 7.4 (*Reimbursement*), 7.6 (*Tax Treaty Relief*), 9 (*Change in Law or Increase in Cost*), 13 (*Indemnity*), 14 (*Survival*) and 15.2 (*Stamp Duties*) (to the extent that the Borrower shall reimburse the Issuer for any amount paid by the Issuer in respect of such taxes, charges or costs) of the Loan Agreement.

In certain circumstances, the Trustee may (subject to its being indemnified and/or secured and/or pre-funded to its satisfaction) be required by Noteholders holding at least 25 per cent. in aggregate of the principal amount of the Notes for the time being outstanding (as defined in the Trust Deed) or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Borrower) pursuant to an agency agreement (as amended or supplemented from time to time, the "**Agency Agreement**") dated on or about 29 July 2015 and made between the Borrower, the Issuer, the Trustee, Citibank, N.A., London Branch, at its specified office in London, as the principal paying agent (the "**Principal Paying Agent**" which expression shall include any successor principal paying agent appointed from time to time in connection with the Notes, and together with any additional paying agents appointed from time to time in respect of the Notes, the "**Paying Agents**" and each a "**Paying Agent**") and Citigroup Global Markets Deutschland AG, at its specified office in Germany, as the registrar (the "**Registrar**", which expression shall include any successor registrar appointed from time to time in connection with the Notes) and as a transfer agent (a "**Transfer Agent**" which expression shall include any successor and together with any additional transfer agents appointed from time to time in respect of the Notes, the "**Transfer Agents**"). References herein to the "**Agents**" are to the Registrar, the Paying Agents and the Transfer Agents, and any reference to an "**Agent**" is to any one of them.

Copies of the Trust Deed, the Loan Agreement and the Agency Agreement are available for inspection and collection by Noteholders during normal business hours at (i) the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent; and (ii) the registered office of the Issuer.

Certain provisions of these terms and conditions (the "**Conditions**") are summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of all of the provisions of the Loan Agreement and the Agency Agreement that are applicable to them.

Capitalised expressions used but not defined herein shall have the meaning given to them in the Trust Deed.

1. STATUS

The obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

The Notes are limited recourse secured obligations of the Issuer.

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely to finance the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by, or for the account, of the Issuer pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights.

Any payment in respect of the Notes equivalent to the sums actually received by, or for the account of, the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights, will be made *pro rata* among all Noteholders, on the same Business Day (as defined in the Loan Agreement) as, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower.

Noteholders have notice of, and have accepted, these Conditions and the contents of the Trust Deed, the Agency Agreement and the Loan Agreement. It is hereby expressly provided that, and Noteholders are deemed to have accepted that:

(a) neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed, in the Loan Agreement (in the case of the Issuer) or in Condition 1(f) below, liability or obligation in respect of, the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal, interest or any additional amounts, if any, due or to become due from the Borrower under the Loan Agreement;

(b) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower;

(c) neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;

(d) the Trustee shall not at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Agents of their respective obligations under the Agency Agreement;

(e) the financial servicing and performance of the terms of the Notes depend upon the performance by the Borrower of its obligations under the Loan Agreement, the Borrower's covenant to make payments under the Loan Agreement and the Borrower's credit and financial standing;

(f) the Issuer and the Trustee shall be entitled to rely (in the case of the Trustee in accordance with the Trust Deed) on certificates of the Borrower (and where applicable, certification by third parties) as a means of monitoring whether the Borrower is complying with its obligations under the Loan Agreement, and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation to the Loan Agreement and, subject as further provided in the Trust Deed, neither the Issuer as Lender under the Loan Agreement nor the Trustee will be liable for any failure to make the usual, or any, investigations which might be made by an Issuer or security holder in relation to the property which is subject to the Security Interests and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security; the Trustee has no responsibility for the value of such security;

(g) neither the Trustee nor the Issuer shall at any time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until the Issuer or the Trustee, as the case may be, has received from the Borrower the funds that are necessary to cover the costs and expenses in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds; and

(h) the Issuer will not be liable for any shortfall in respect of amounts payable by it in respect of the Notes resulting from any withholding or deduction or for any payment on account of tax required to be made by the Issuer on or in relation to any sum received by it under the Loan Agreement, which will or may affect payments made or to be made by the Borrower under the Loan Agreement, save to the extent that it has received additional amounts under the Loan Agreement in respect of such withholding or deduction for or on account of tax or payment, and the Issuer shall, furthermore, not be obliged to take any actions or measures as regards such deduction or withholding or payment, other than those set out in the Loan Agreement. The Trustee shall have no liability for any such shortfall in respect of any deduction, withholding or payment.

In the event that the payments under the Loan Agreement are made by the Borrower to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes (unless upon due presentation of a Note, payment is improperly withheld or refused).

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or have direct recourse to the Borrower, except through action by the Trustee pursuant to the relevant Security Interests granted to the Trustee in the Trust Deed. Neither the Issuer nor, following the enforcement of the Security Interests, the Trustee shall be required to take any action, step or proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured and/or pre-funded to its satisfaction.

Notwithstanding any other provision hereof, the obligations of the Issuer under the Notes shall be solely to make payments of amounts in aggregate equal to each sum actually received by or for the account of the Issuer (after deduction or withholding of such taxes or duties as may be required to be made by the Issuer by law in respect of such sum or in respect of the Notes and for which the Issuer has not received a corresponding payment pursuant to the Loan Agreement) from the Borrower in respect of principal, interest or, as the case may be, other amounts relating to the Loan (less any amounts in respect of the Reserved Rights), the right to receive which will, *inter alia*, be assigned to the Trustee as security for the Issuer's payment obligations in respect of the Notes. Accordingly, all payments to be made by the Issuer under the Notes will be made only from and to the extent of such sums received or recovered by or on behalf of the Issuer or the Trustee (following a Relevant Event as defined in the Trust Deed or (if applicable) an Event of Default). Noteholders shall look solely to such sums for payments to be made by the Issuer under the Notes, the obligation of the Issuer to make payments in respect of the Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets in respect thereof. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received or recovered, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

None of the Noteholders, the other creditors or the Trustee (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors or the Trustee, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes, other than in the case of fraud by such director, shareholder or officer of the Issuer.

2. FORM AND DENOMINATION

The Notes are issued in registered form without coupons attached in the denomination of U.S.$ 200,000 and integral multiples of U.S.$ 1,000 in excess thereof (each an "**Authorised Holding**").

3. REGISTER, TITLE AND TRANSFERS

(A) Register

The Registrar will maintain a register (the "**Register**") in respect of the Notes outside the United Kingdom in accordance with the provisions of the Agency Agreement on which shall be entered the names and addresses of the Noteholders and the particulars of the Notes held by them and of all transfers and redemptions of Notes. A certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Certificate will be serially numbered with an identifying number which will be recorded in the Register. Each Noteholder shall be entitled to receive only one Certificate in respect of its entire holding.

In these Conditions, the "**holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(B) Title

Title to the Notes will pass by transfer and registration in the Register. The holder of each Note shall (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Certificate) and no person shall be liable for so treating such holder.

(C) Transfers

Subject to the terms of the Agency Agreement and to Conditions 3(F) (*Closed Periods*) and 3(G) (*Regulations Concerning Transfers and Registration*) below, a Note may be transferred in whole or in part upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or a Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Notes will be issued to the transferor.

No transfer of a Note will be valid unless and until entered on the Register. A Note may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number) or a nominee.

(D) Registration and Delivery of Certificates

Within five business days of the surrender of a Certificate in accordance with Condition 3(C) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount to the Notes transferred to each relevant holder for collection at its Specified Office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this Condition 3(D), "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or the Transfer Agent has its Specified Office.

(E) No Charge

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agent but subject to the person making such application for transfer paying or procuring the payment of (or the giving of such indemnity as the Issuer, the Registrar or the Transfer Agent, as the case may be, may require in respect of) any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(F) Closed Periods

The Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(G) Regulations Concerning Transfers and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations and is available at the Specified Offices of the Transfer Agent.

4. RESTRICTIVE COVENANT

As provided in the Trust Deed, so long as any of the Notes remains outstanding, the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution, agree to any amendments to or any modification of, or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement, and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement, as the case may be. Any such amendment, modification, waiver, or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

Save as provided above, so long as any Note remains outstanding, the Issuer shall not, without the prior written consent of the Trustee, *inter alia*, incur any other indebtedness for borrowed moneys other than issues of notes on a limited recourse basis for the sole purpose of making loans to the Borrower, engage in any business (other than entering into any agreements related to the Notes or any other issue of notes as aforesaid and performing any acts incidental to or necessary in connection with the Notes or such related agreements (including the holding of any security in connection therewith), making the Loan to the Borrower pursuant to the Loan Agreement or any future loans to the Borrower and performing any act incidental to or necessary in connection therewith), declare any dividends, have any subsidiaries or employees (save for its directors), purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity (to the extent the same is within the control of the Issuer) to any person (otherwise than as contemplated in these Conditions and the Trust Deed), issue any further shares save those required to convert to a public limited company (to the extent the same is within the control of the Issuer) or make any distribution to its shareholders, give any guarantee or assume any other liability or, except where required under the laws of the Netherlands, petition for any winding-up or bankruptcy.

5. INTEREST

On 29 January and 29 July of each year, commencing on 29 January 2016 and ending on 29 July 2020 (each, an "**Interest Payment Date**"), or as soon thereafter as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement which interest under the Loan is equal to 12 per cent. per annum (as set out in Clause 4 (*Interest*) of the Loan Agreement).

If interest is required to be calculated for any period of less than a year, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest shall accrue (as well after as before judgment) at the rate of interest set out in Clause 4 (*Interest*) of the Loan Agreement, provided that the Issuer shall only be obliged to account to the relevant Noteholder for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement.

6. REDEMPTION

(A) Scheduled Redemption

Unless the Loan is previously prepaid or repaid in accordance with the terms of the Loan Agreement, the Borrower will be required to repay the Loan in an amount equal to U.S.$ 25,000,000, together with accrued, but unpaid, interest on each of 29 January 2019, 29 July 2019, 29 January 2020 and 29 July 2020 (each a "**Repayment Date**") and, subject to such repayments, as set out in the Loan Agreement, a corresponding principal amount of the Notes then outstanding will on each relevant Repayment Date, or as soon thereafter as such repayment of the Loan is actually received, be redeemed or repaid by the Issuer on a pro rata basis without preference to any Noteholder.

(B) Early Redemption

If the Loan should become repayable in whole (and be repaid in whole) pursuant to the terms and conditions of the Loan Agreement in advance of any Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at par together with accrued, but unpaid, interest and (subject to the Loan being repaid together with accrued, but unpaid, interest) shall be redeemed or repaid and the Issuer will endeavour to give not less than eight days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14 (*Notices*).

Under the Loan Agreement:

(i) the Borrower may prepay the Loan in whole (but not in part) in the circumstances set out in Clause 6.2 (*Prepayment in the Event of Taxes or Increased Costs*) of the Loan Agreement; and

(ii) the Borrower may prepay the Loan or the Issuer may require the Borrower to prepay the Loan, in each case, in whole (but not in part) in the circumstances set out in Clause 6.3 (*Prepayment in the Event of Illegality*) of the Loan Agreement.

To the extent that the Issuer receives amounts of principal, interest or additional amounts (other than amounts in respect of the Reserved Rights) from the Borrower under the Loan Agreement following prepayment of the Loan, the Issuer shall pay an amount equal to such amounts to Noteholders on the business day (as defined in Condition 7 (*Payments*)) of the receipt of such amounts, subject as provided in Condition 7 (*Payments*).

(C) Change of Control

If a Change of Control (as defined in the Loan Agreement) occurs (a "**Change of Control Put Event**"), the holder of a Note will have the option (the "**Change of Control Put Option**") to require the Issuer to redeem such Note on the Change of Control Put Settlement Date (as defined below) at 101 per cent. of its principal amount together with accrued interest (if any) to the Change of Control Put Settlement Date.

Promptly upon the Issuer becoming aware (either by receiving written notice from the Borrower or otherwise) that a Change of Control Put Event has occurred, the Issuer shall give notice (a "**Change of Control Put Event Notice**") to the Noteholders in accordance with Condition 14 (*Notices*) notifying them of such event and setting out the procedure for exercising the Change of Control Put Option.

In order to exercise the Change of Control Put Option, the holder of a Note must deliver within the period commencing on (and including) the date the Change of Control Put Event Notice is given and ending on (and including) the date 30 days after the Change of Control Put Event Notice is given (the "**Change of Control Put Period**"), to the specified office of the Principal Paying Agent, evidence satisfactory to the Principal Paying Agent of such holder's entitlement to such Note and a duly completed put option notice (a "**Change of Control Put Option Notice**") specifying the principal amount of the Notes in respect of which the Change of Control Put Option is exercised, in the form obtainable from the Principal Paying Agent. The Principal Paying Agent will provide such Noteholder with a non-transferable receipt. On the Business Day following the end of the Change of Control Put Period, the Principal Paying Agent shall notify in writing the Issuer and the Borrower of the exercise of the Change of Control Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Change of Control Put Option. Provided that the Notes that are the subject of any such Change of Control Put Option Notice have been delivered to the Principal Paying Agent prior to the expiry of the Change of Control Put Period, then the Issuer shall (subject (i) to the receipt of sufficient funds to do so from the Borrower; and (ii) as provided in Condition 8 (*Taxation*)) redeem all such Notes on the date falling five Business Days after the expiration of the Change of Control Put Period (the "**Change of Control Put Settlement Date**"). No Change of Control Put Option Notice, once delivered in accordance with this Condition 6(C), may be withdrawn.

(D) Purchase

The Issuer, the Borrower or any Subsidiary (as defined in the Loan Agreement) of the Borrower may from time to time purchase Notes in the open market or by tender or by a private agreement at any price. Any Notes so purchased, whilst held by or on behalf of the Issuer, the Borrower or any of its Subsidiaries shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purpose of calculating quorums at meetings.

(E) Cancellation

The Loan Agreement provides that the Borrower or any Subsidiary of the Borrower may, among other things, from time to time deliver to the Issuer Notes, having an aggregate principal value of at least U.S.$ 200,000 together with a request for the Issuer to present such Notes to the Registrar for cancellation, whereupon the Issuer shall, pursuant to the Agency Agreement, request the Registrar to cancel such Notes. Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes surrendered for cancellation shall be extinguished as of the date of such cancellation, together with accrued, but unpaid, interest (if any) thereon, and no further payment shall be made or required to be made by the Issuer in respect of such Notes.

The Issuer may compel any beneficial owner of Notes initially sold pursuant to Rule 144A under the U.S. Securities Act of 1933 (the "**Securities Act**") to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is a U.S. person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and a qualified purchaser (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940).

The Issuer may compel any beneficial owner of Notes initially sold pursuant to Rule 144A or Regulation S under the Securities Act to sell its interest in such Notes, or may sell such interest on behalf of such holder, if the Issuer has reason to believe that such holder is a Benefit Plan Investor (as defined in the Trust Deed).

7. PAYMENTS

(A) Principal

Payments of principal shall be made by the Paying Agents by U.S. dollar cheque drawn on, or, upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with a bank in New York City upon surrender of the relevant Certificates at the Specified Office of any Paying Agent.

(B) Interest

Payments of interest shall be made by the Paying Agents by U.S. dollar cheque drawn on, or, upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with a bank in New York City, and (in the case of interest payable on redemption) upon surrender (or, in the case either of an interest payment prior to redemption or of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

(C) Payments Subject to Fiscal Laws

All payments in respect of the Notes are subject in all cases to, but without prejudice to the provisions of Condition 8 (*Taxation*), (i) any applicable fiscal or other laws, regulations and directives in the place of payment or other laws, regulations or directives to which the Issuer agrees to be subject to and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, or any regulations or agreements thereunder or official interpretations thereof, or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any law implementing such an intergovernmental agreement) (collectively, "**FATCA**"), and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(D) Payments on Business Days

If the due date for payments of interest or principal is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 7, "**business day**" means a day on which (a) U.S. dollar deposits may be dealt in on the London inter-bank market, and commercial banks and foreign exchange markets are open in London, and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in New York City and in the city where the Specified Officer of the Principal Paying Agent is located.

(E) Record Date

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's Specified Office) on the fifteenth day before the due date for any such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the opening of business on the relevant Record Date.

(F) Accrued Interest

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the issue date of the Notes, shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

(G) Payments by Borrower

Save as directed by the Trustee at any time after the Security Interests become enforceable, the Issuer will require the Borrower to make all payments of principal, interest and additional amounts, if any, to be made pursuant to the Loan Agreement to an account in the name of the Issuer with the Principal Paying Agent. Pursuant to the Charge, the Issuer will charge by way of first fixed charge all its rights, title and interest in and to all sums of money (with the exception of sums relating to the Reserved Rights) then or in the future deposited in such account in favour of the Trustee for the benefit of the Trustee and the Noteholders.

(H) Successor Paying Agents

The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent, any other Paying Agent, the Registrar or any Transfer Agent and appoint a successor Registrar or Principal Paying Agent and/or additional or successor Paying Agents or Transfer Agents provided that the Issuer maintains (i) a Principal Paying Agent; (ii) for so long as the Notes are listed and/or admitted to trading on any stock exchange, a Paying Agent as may be required by the rules and regulations of such stock exchange; (iii) a Registrar having a Specified Office outside the United Kingdom; and (iv) a Paying Agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any law implementing or complying with, or introduced in order to conform to, such Directive. Any such variation, termination or appointment of successor or other Agents shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the continuing Agents, the Borrower, the Trustee and to the Noteholders in accordance with Condition 14 (*Notices*).

(I) Fractions

Each payment by the Issuer to a Noteholder will be rounded down to the nearest cent.

8. TAXATION

All payments in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of The Netherlands or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law.

In the event any such taxes are required to be deducted or withheld, the Issuer shall, subject as provided below, make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required. However, the Issuer shall only make such additional payments to the extent and at such time as it shall receive equivalent sums from the Borrower under the Loan Agreement. To the extent that the Issuer does not receive any such equivalent sum, the Issuer shall account to the relevant Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer; provided that no such additional amount will be payable in respect of any Note:

(a) to a Noteholder who (i) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (ii) is liable for such taxes or duties by reason of his having some connection with The Netherlands (for the avoidance of doubt including the ownership of shares in the Issuer), other than the mere holding or enforcement of such Notes or the receipt of payments in respect thereof;

(b) in respect of a Certificate presented (where such presentation is required) for payment of principal or interest on redemption more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Certificate had been presented for payment on such 30th day;

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC (as amended from time to time), or any law or regulation implementing or complying with, or introduced in order to conform to, such Directive;

(d) in respect of a Note held by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a Member State of the European Union; or

(e) where such withholding or deduction is imposed on any payment arising from FATCA.

As used herein, "**Relevant Date**" means (i) the date on which the equivalent payment under the Loan Agreement first becomes due but (ii) if the full amount payable by the Borrower has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, means the date on which such full amount shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14 (*Notices*).

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8. If the Issuer becomes subject to any taxing jurisdiction other than or in addition to the Netherlands, references in these Conditions and in the Trust Deed to the Netherlands shall be construed as references to the Netherlands and/or such other jurisdiction.

9. ENFORCEMENT

The Trust Deed provides that only the Trustee (subject to Condition 1 (*Status*)) may pursue remedies under general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing.

The Trust Deed provides that the Trustee may (i) at any time after an Event of Default (as defined in the Loan Agreement) has occurred, declare all amounts payable under the Loan Agreement by the Borrower to be immediately due and payable; (ii) at any time after a Relevant Event (as defined in the Trust Deed) has occurred, exercise any rights under the Security Interests; and (iii) at any time, at its discretion and without notice take such other action, steps or proceedings under the Notes, Trust Deed and the Loan Agreement as it may think fit, but it shall not be bound to make any such declaration, exercise such rights or take such action, steps or proceedings unless (a) requested to do so by Noteholders whose Notes constitute at least 25 per cent. in aggregate of the principal amount of the Notes for the time being outstanding, or directed to do so by an Extraordinary Resolution, and (b) it is indemnified and/or secured and/or pre-funded to its satisfaction. Upon repayment of the Loan following an Event of Default and a declaration as provided herein, the Notes will be, subject to the provisions of the Trust Deed and these Conditions, redeemed or repaid at their principal amount, together with accrued, but unpaid, interest thereon and thereupon shall cease to be outstanding.

10. MEETINGS OF NOTEHOLDERS; MODIFICATION; WAIVER; SUBSTITUTION OF THE ISSUER

(A) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by an Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Any meeting of Noteholders may be convened by one or more persons holding not less than 10 per cent. in aggregate of the principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more persons holding or representing a clear majority in aggregate of the principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders, whatever the principal amount of Notes held or represented, unless the business of such meeting includes certain matters listed in paragraph 5 of Schedule 4 (*Provisions for Meetings of the Noteholders*) of the Trust Deed, in which case the necessary quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than 25 per cent., in aggregate of the principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a Written Resolution or an Electronic Consent (in each case as defined in the Trust Deed) signed or given, as the case may be, by holders of in aggregate not less than two thirds of the aggregate principal amount of the Notes outstanding shall have effect as an Extraordinary Resolution.

(B) Modification and Waiver

The Trustee may agree, without the consent of the Noteholders (save as provided in the Trust Deed), to any modification of the Notes and the Trust Deed, the Agency Agreement or the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or (in the opinion of the Trustee) is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions, the Trust Deed or the Agency Agreement or by the Borrower of the terms of the Loan Agreement or determine that any Default, Event of Default or Relevant Event shall not be treated as such, if in the sole opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders; provided always that the Trustee may not exercise such power of waiver in contravention of a request given by the holders of 25 per cent. in aggregate of the principal amount of the Notes for the time being outstanding or of any express direction by an Extraordinary Resolution of the Noteholders. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14 (*Notices*).

(C) Substitution

The Trust Deed contains provisions to the effect that the Issuer may, having obtained the prior written consent of the Borrower and the Trustee (which latter consent may be given without the consent of the Noteholders) and subject to having complied with certain requirements as set out therein, including (i) the substitute obligor's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes and (ii) immediately after giving effect to the substitution, no Default, Event of Default or Rating Decline (as defined in the Loan Agreement) having occurred, substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*) or the Issuer shall use its best endeavours to ensure that the substitute obligor does so.

(D) Exercise of Powers

In connection with the exercise of any of its powers, trusts, authorities or discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not be obliged to have regard to the consequences of such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. The Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Borrower or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

11. PRESCRIPTION

Notes will become void unless presented for payment within ten years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12. TRUSTEE AND AGENTS

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking any actions including proceedings to enforce payment unless indemnified and/or secured and/or pre-funded to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and/or the Borrower and any entity relating to the Issuer and/or the Borrower without accounting for any profit.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Borrower in respect of the

Loan Agreement. The Trustee is entitled to assume that the Borrower is performing all of its obligations pursuant to the Loan Agreement (and shall not incur liability for doing so until it has actual knowledge to the contrary).

The Trustee shall have no liability to Noteholders for any shortfall they may suffer if it is liable for tax in respect of any payments received by it or as a result of the Security Interests being held or enforced by it.

The Trust Deed contains provisions for the appointment of new trustees by the Issuer (subject to approval by an Extraordinary Resolution) and for the removal of a Trustee by an Extraordinary Resolution, provided that at all times there remains a trustee (being a trust corporation (as defined in the Trust Deed)) in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders in accordance with Condition 14 (*Notices*). The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders provided that such retirement shall not become effective unless there remains a Trustee in office after such retirement.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

13. REPLACEMENT OF CERTIFICATES

If a Certificate shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of any stock exchange on which the Notes are from time to time listed or quoted, be replaced at the Specified Office of the Registrar or a Transfer Agent (or any other place of which notice shall have been given to the Noteholders in accordance with Condition 14 (*Notices*)), on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14. NOTICES

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. The Issuer shall also ensure that all notices are duly published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been given on the date of such notice.

In case by reason of any other cause it shall be impracticable to give any notice to Noteholders as provided above, then such notification to such Noteholders as shall be given with the prior written approval of the Trustee shall constitute sufficient notice to such Noteholders for every purpose hereunder.

15. FURTHER ISSUES

The Issuer may from time to time, with the consent of the Borrower but without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue price, the issue date and/or first payment of interest) so as to be consolidated and form a single series with the Notes (the "**Further Notes**"); provided that such further notes must either be fungible with the existing Notes for U.S. federal income tax purposes or be assigned a different security code than the existing Notes. Such Further Notes shall be issued under a deed supplemental to the Trust Deed. In relation to any issue of Further Notes, the Issuer will enter into a loan agreement with the Borrower on substantially the same terms as the Loan Agreement, subject to any modifications which, in the sole opinion of the Trustee, only relate to Reserved Rights and would not be materially prejudicial to the interests of Noteholders, or may amend and restate the same with the Borrower. The Issuer will, if applicable, provide a fixed charge in favour of the Trustee in respect of certain of its rights and interests under such loan agreement and will assign absolutely certain of its rights under such loan agreement. Application will be made for such Further Notes to be listed and admitted to trading on the stock exchange on which the Notes are from time to time listed or quoted.

16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. GOVERNING LAW, ARBITRATION AND JURISDICTION

The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with them shall be governed by, and construed in accordance with, English law.

The Issuer has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England.

SUBSCRIPTION AND SALE

The Lead Manager has, pursuant to the Subscription Agreement dated 27 July 2015 between the Issuer, Ardshinbank and the Lead Manager (the "**Subscription Agreement**"), upon the terms and subject to the conditions therein, agreed to subscribe and pay for the Notes at the issue price of 100% of their principal amount.

The Lead Manager is entitled to certain commissions and the reimbursement of certain expenses from the Issuer. The Issuer is required to be put in funds in respect of such commissions and expenses of the Lead Manager by Ardshinbank. The Lead Manager is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

The Lead Manager and its affiliates have engaged in transactions with Ardshinbank in the ordinary course of their banking business, and the Lead Manager has performed various investment banking, financial advisory and other services for Ardshinbank, for which it has received customary fees, and the Lead Manager and its affiliates may provide such services in the future.

Selling Restrictions

United States of America

The Notes and the Loan have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Lead Manager has agreed that, except as permitted by the Subscription Agreement to which it is a party, it will not offer or sell the Notes (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the Offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells the Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account of benefit of, U.S. persons. Terms used in this paragraph have the meanings givens to them by Regulation S.

In addition, until 40 days after the later of the commencement of the Offering and the Issue Date, an offer or sale of the Notes within the United States by a dealer that is not participating in the Offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance upon Regulation S. The Subscription Agreement provides that the Lead Manager may directly or through its U.S. broker-dealer affiliates only, arrange for the offer and resale of the Notes within the United States only to persons whom it reasonably believes are QIBs and QPs who can represent that (i) they are QIBs who are QPs; (ii) they are not broker-dealers who own and invest on a discretionary basis less than U.S.$ 25 million in securities of unaffiliated issuers; (iii) they are not participant-directed employee plans, such as a plan under subsection 401(k) of the Code; (iv) they are acting for their own account, or the account of a QIB who is a QP; (v) they are not formed for the purpose of investing in the Notes or the Issuer; (vi) each account for which they are purchasing will hold and transfer at least U.S.$ 200,000 in principal amount of Notes at any time; (vii) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories; (viii) they understand that such Notes may not be offered, sold, pledged or otherwise transferred except to a person that is a QIB who is a QP purchasing for its own account or for the account of a QIB who is a QP; and (ix) they will provide notice of the transfer restrictions set out in the Prospectus to any subsequent transferees.

The Issuer and the Lead Manager reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States or to any U.S. person other than any QIB who is also a QP and to whom an offer has been made directly by the Lead Manager or its U.S. broker-dealer affiliate. Distribution of this Prospectus by any non-U.S. person outside the United States or by any QIB that is a QP within the United States to any U.S. person or to any other person within the United States, other than any QIB that is a QP and those persons, if any, retained to advise such non-U.S. person or QIB that is a QP with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB that is a QP and those persons, if any, retained to advise such non-U.S. person or QIB that is a QP, is prohibited.

United Kingdom

The Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of FSMA does not apply to the Issuer or Ardshinbank; and

(b) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Armenia

The Lead Manager has acknowledged that no Armenian prospectus has been registered or is intended to be registered with respect to the Notes, and the Notes have not been and are not intended to be registered in the Republic of Armenia. Consequently, the Lead Manager has represented, warranted and agreed that it and its affiliates have not offered or sold or otherwise transferred, and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter, any Notes to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Republic of Armenia or to any person located within the territory of the Republic of Armenia unless and to the extent otherwise permitted under Armenian law.

The Netherlands

The Lead Manager has represented, warranted and agreed that the Notes (including rights representing an interest in a Global Certificate) will not be offered, sold, resold, delivered or transferred in The Netherlands to any person which is not a qualified investor (*gekwalificeerde beleggers*) within the meaning of the Dutch FMSA.

BOOK ENTRY, DELIVERY AND FORM

The Global Certificates

The Notes will be evidenced on issue by: (i) a Regulation S Global Certificate deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and (ii) a Rule 144A Global Certificate deposited with a custodian for, and registered in the name of Cede & Co. as nominee for, DTC.

Beneficial interests in the Regulation S Global Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*—Book-Entry Procedures for the Global Certificates*." By acquisition of a beneficial interest in the Regulation S Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person, that it is located outside the United States and that, if it determines to transfer such beneficial interest prior to the expiration of the "distribution compliance period" (as such term is defined in Regulation S), deemed to include the 40-day period after commencement of the Offering or the Issue Date, whichever is later, it will transfer such interest only (a) to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or the account of a QIB that is also a QP, in each case in accordance with any applicable securities laws of any state of the United States. See "*Transfer Restrictions*." Beneficial interests in a Rule 144A Global Certificate may only be held through DTC at any time. See "*—Book-Entry Procedures for the Global Certificates*." By acquisition of a beneficial interest in a Rule 144A Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is also a QP purchasing for its own account or the account of a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Trust Deed. See "*Transfer Restrictions*."

Beneficial interests in each Global Certificates will be subject to certain restrictions on transfer set out therein and in the Trust Deed, and the Global Certificates will bear the applicable legends regarding such restrictions set out under "*Transfer Restrictions*." A beneficial interest in the Regulation S Global Certificate may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Certificate only in denominations greater than or equal to the minimum denominations applicable to interests in the Rule 144A Global Certificate and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP purchasing for its account or the account of a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Certificate may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made in an offshore transaction in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Certificate that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Certificate, will, upon transfer, cease to be an interest in the Regulation S Global Certificate and will become an interest in the Rule 144A Global Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Certificate, for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Certificate that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate, will, upon transfer, cease to be an interest in the Rule 144A Global Certificate and will become an interest in the Regulation S Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Certificate, for so long as it remains such an interest. Transfers of such beneficial interests shall be made in accordance with the rules and operating procedures of DTC, Euroclear and Clearstream, Luxembourg in a principal amount of not less than U.S.$ 200,000, provided that no such transfer may take place during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes and provided always that such transfer shall be in accordance with the provisions of the Trust Deed. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in the Global Certificates will not be entitled to receive physical delivery of the Definitive Notes. The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Certificate contains provisions that apply to the Notes that they represent, some of which modify the effect of the Conditions. The following is a summary of those provisions. Terms used in this summary but not otherwise defined shall have the meanings ascribed to them in the Conditions.

Payments

Payments of principal and interest in respect of a Global Certificate shall be made to the person who appears at the relevant time on the register of Noteholders as holder of such Global Certificate against presentation and (if no further payment falls to be made on it) for surrender of such Global Certificate to or to the order of the Principal Paying Agent (or to or for the order of such other Paying Agent as shall have been notified to the Noteholders for this purpose) which shall endorse such payment or cause such payment to be endorsed in the appropriate schedule to the Trust Deed (such endorsement being *prima facie* evidence that such payment has been made in respect of the relevant Notes. No person, however, shall be entitled to receive any payment on a Global Certificate due after the Exchange Date, unless the exchange of such Global Certificate for Definitive Certificates is improperly withheld or refused by or on behalf of the Issuer.

Notices

So long as a Global Certificate is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system (and such notices shall be deemed to have been given on the date of delivery of such notices to the clearing systems) and shall be deemed to be given to holders of interests in such Global Certificate with the same effect as if they had been given to such Noteholder in accordance with the Conditions, provided that whilst the Notes are listed on the Irish Stock Exchange, notices will also be given in accordance with the guidelines of the Irish Stock Exchange.

Meetings

The holder of each Global Certificate (or any proxy validly appointed by it) will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each U.S.$ 1,000 in principal amount of Notes represented by such Global Certificate.

Noteholders' Option

Any option of the Noteholders provided for in the Conditions, while such Notes are represented by a Global Certificate may be exercised by the holder of the Global Certificate by giving notice to the Principal Paying Agent within the time limits relating to the deposit of Notes as set out in the Conditions substantially in the form of the notice available from any Paying Agent or Transfer Agent, as the case may be, and stating the principal amount of the Notes in respect of which the option is exercised and at the same time presenting the Global Certificate to the Principal Paying Agent for annotation in accordance with the relevant schedule to the Trust Deed.

Without prejudice to the foregoing, for so long as the Notes are represented by a Global Certificate, and such Global Certificate is held by or on behalf of a custodian for DTC (in the case of a Rule 144A Global Certificate) or on or behalf of Euroclear and/or Clearstream, Luxembourg (in the case of a Regulation S Global Certificate), the option of the Noteholders provided for in the Conditions may be exercised by an accountholder giving notice to the Paying Agent in accordance with the standard procedure of Euroclear, Clearstream, Luxembourg or DTC, as relevant (which may include notice being given on his instruction by the relevant clearing agency or any common depository (in the case of Euroclear or Clearstream, Luxembourg) or any custodian (in the case of DTC) for them to the Principal Paying Agent by electronic means) and in a form acceptable to the relevant clearing agency of the principal amount of Notes in respect of which such option is exercised and at the same time presenting or procuring the presentation of the Global Certificate to the Principal Paying Agent for notation accordingly within the time limits set out in the Conditions.

Record Date

So long as a Global Certificate is held by or on behalf of a clearing system, "**Record Date**" shall mean the Clearing System Business Day before the relevant due date for payment, where "**Clearing System Business**

Day" means (i) in respect of a Global Certificate held on behalf of Euroclear or Clearstream, Luxembourg means a day when Euroclear or Clearstream, Luxembourg is open for business and (ii) in respect of a Global Certificate held on behalf of DTC, a day when DTC is open for business.

Exchange for Definitive Notes

Exchange

Each Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Definitive Certificates if:

(a) a Global Certificate is held by or on behalf of (i) DTC, if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to such Global Certificate or ceases to be a "clearing agency" registered under the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**") or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (ii) Euroclear or Clearstream, Luxembourg if Euroclear or Clearstream, Luxembourg as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent; or

(b) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 (*Taxation*) which would not be suffered were the Notes in definitive form and a notice to such effect signed by the requisite number of authorised signatories of the Issuer is delivered to the trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders of its intention to exchange the Global Certificate for Definitive Certificates on or after the Exchange Date (as defined below) specified in the notice; or

(c) the Trustee has instituted or has been directed to institute any judicial proceeding in a court to enforce the rights of Noteholders under the Notes and the Trustee has been advised by counsel that in connection with such proceeding it is necessary or appropriate for the Trustee to obtain possession of the Notes.

On or after the Exchange Date, the holder of a Global Certificate may surrender such Global Certificate to or to the order of the Registrar or the Transfer Agent. In exchange for the Global Certificate, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Notes in the definitive registered form.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Certificate shall be exchanged in full for Definitive Certificates, and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to such Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Certificates issued in exchange for a beneficial interest in a Rule 144A Global Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*."

Legends

The holder of a Definitive Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer

Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Certificate bearing the legend referred to under "*Transfer Restrictions*," or upon specific request for removal of the legend on a Rule 144A Definitive Certificate, the Issuer will deliver only Rule 144A Definitive Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-Entry Procedures for the Global Certificates

For Notes evidenced by both a Regulation S Global Certificate and a Rule 144A Global Certificate, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*—Settlement and Transfer of Notes*."

Euroclear and Clearstream

The Regulation S Global Certificate representing the Regulation S Notes will have an ISIN and a common code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

Investors may hold their interests in the Regulation S Global Certificates directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

DTC

The Rule 144A Global Certificate representing the Rule 144A Notes will have a CUSIP number and an ISIN and will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee for, DTC. The custodian and DTC will electronically record the principal amount of the Notes held within the DTC system.

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants ("**DTC Participants**") and to facilitate the clearance and settlement of securities transactions between DTC Participants through electronic computerised book-entry changes in accounts of its DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Certificates directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more DTC Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Certificates as to which such DTC Participant or DTC Participants has or have given such direction. However, in the circumstances described under "*—Exchange for Definitive Certificates*," DTC will surrender the relevant Rule 144A Global Certificates for exchange for individual Rule 144A Definitive Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Certificate, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants or DTC Participants (as the case may be) in any clearing system to owners of beneficial interests in any Global Certificate held through such Direct Participants or DTC Participants (as the case may be) in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Certificate, and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Certificate in respect of each amount so paid. None of the Issuer, Trustee or any Agent (as defined in the Conditions) will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants or DTC Participants (as the case may be), which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the "**Beneficial Owner**") will in turn be recorded on the Direct Participant's, Indirect Participant's or DTC Participant's records (as the case may be). Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant, Indirect Participant or DTC Participant (as the case may be) through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be effected by entries made on the books of Participants, Indirect Participants or DTC Participants (as the case may be) acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Certificate held within a clearing system are exchanged for Definitive Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system, and their records will reflect only the identity of the Direct Participants or DTC Participants (as the case may be) to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct Participants or DTC Participants (as the case may be) will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants or DTC Participants (as the case may be), by Direct Participants to Indirect Participants and by Direct Participants, Indirect Participants or DTC Participants (as the case may be) to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in the definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited. Because DTC can only act on behalf of DTC Participants, the ability of a person having an interest in a

Rule 144A Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers who will, following the purchase, hold the purchased interests through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's same-day funds settlement system in same-day funds, if payment is effected in dollars, or free of payment, if payment is not effected in dollars. Where payment is not effected in dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in the Rule 144A Global Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder (as the case may be) wishing to purchase a beneficial interest in the Regulation S Global Certificate (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the relevant Rule 144A Global Certificate will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by such Rule 144A Global Certificate and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Regulation S Global Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Certificate (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg, as the case may be, delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the relevant Rule 144A Global Certificate who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Regulation S Global Certificate and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the relevant Rule 144A Global Certificate.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in the Global Certificates among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the trustee or the Agent will be responsible for the performance of the respective obligations of Euroclear, Clearstream, Luxembourg DTC or the Participants or DTC Participants, as the case may be, under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Issue Date, which could be more than three business days following the date of pricing. Under Rule 15c6-l under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days ("**T+3**"), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Issue Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the date of pricing and the Issue Date should consult their own advisers.

TRANSFER RESTRICTIONS

Rule 144A Notes

Each purchaser of the Notes within the United States pursuant to Rule 144A, by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged that:

(i) It is (a) a QIB that is also a QP, (b) not a broker-dealer which owns and invests on a discretionary basis less than U.S.$ 25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acting for its own account, or for the account of another QIB that is also a QP, (e) not formed for the purpose of investing in the Rule 144A Notes or the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the sale of such Rule 144A Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

(ii) It will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than U.S.$ 200,000 and (b) provide notice of the transfer restrictions set out herein to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in the Issuer's securities from one or more book-entry depositaries.

(iii) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs, each of which is also a QP or (b) to a non-U.S. person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, and in each case in accordance with any applicable securities laws of any state of the United States.

(iv) It understands that the Issuer has the power under the Trust Deed to compel any U.S. person or any person within the United States who is required to be a QP but is not a QP at the time it acquires the Rule 144A Notes or a beneficial interest therein to transfer its Rule 144A Notes or such beneficial interest immediately to (1) a non-U.S. person in an offshore transaction pursuant to Regulation S under the U.S. Securities Act, or (2) to a person (A) that is within the United States or that is a U.S. person and (B) who is a QP and makes certain representations. Pending such transfer, the Issuer is authorised to suspend the exercise of any special rights, any rights to receive notice of, or attend, a Noteholders' meeting of the Issuer and any rights to receive distributions with respect to the Rule 144A Notes. If the obligation to transfer is not met, the Issuer is irrevocably authorised to transfer the interest in the Rule 144A Notes to, (1) a non-U.S. person in an offshore transaction pursuant to Regulation S, or (2) a person that is in the United States or a U.S. person and who is a QP.

(v) It understands that the Rule 144A Global Certificate, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS RULE 144A GLOBAL CERTIFICATE AND THE LOAN HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") THAT IS ALSO A QUALIFIED PURCHASER (A "**QP**") WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**"), PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.$ 200,000 PRINCIPAL AMOUNT OF NOTES OR (2) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**"), AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFERS IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE

VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS RULE 144A GLOBAL CERTIFICATE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THIS RULE 144A GLOBAL CERTIFICATE OR ANY INTEREST THEREIN.

IF THE BENEFICIAL OWNER HEREOF IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$ 25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THE NOTES REPRESENTED HEREBY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs, EACH OF WHICH IS A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THE NOTES REPRESENTED HEREBY; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS RULE 144A NOTES, WILL HOLD AND TRANSFER AT LEAST U.S.$ 200,000 IN PRINCIPAL AMOUNT OF RULE 144A NOTES; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK ENTRY DEPOSITARIES; AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN NOTES EVIDENCED BY THIS RULE 144A GLOBAL CERTIFICATE IT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S WHO IS NOT A QIB THAT IS ALSO A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN NOTES EVIDENCED BY THIS RULE 144A GLOBAL CERTIFICATE TO A PERSON (I) WHO IS A QIB WHO IS ALSO A QP AND WHO IS OTHERWISE QUALIFIED TO PURCHASE THE NOTES REPRESENTED BY THIS RULE 144A GLOBAL CERTIFICATE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) WHO IS A NON-U.S. PERSON PURCHASING NOTES EVIDENCED BY THE RULE 144A GLOBAL CERTIFICATE IN AN OFFSHORE TRANSACTION PURSUANT TO REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THE NOTES REPRESENTED BY THIS RULE 144A GLOBAL CERTIFICATE TO THE ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THIS RULE 144A GLOBAL CERTIFICATE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100% OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THE NOTES REPRESENTED BY THIS RULE 144A GLOBAL CERTIFICATE TO A U.S. PERSON WHO IS NOT A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

BY ACCEPTING THIS RULE 144A GLOVAL CERTIFICATE (OR ANY INTEREST IN THE NOTES REPRESENTED HEREBY) EACH BENEFICIAL OWNER HEREOF, AND EACH FIDUCIARY ACTING ON BEHALF OF THE BENEFICIAL OWNER (BOTH IN ITS INDIVIDUAL AND CORPORATE CAPACITY), WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT, DURING THE PERIOD IT HOLDS ANY INTEREST IN NOTES EVIDENCED BY THIS RULE 144A GLOBAL CERTIFICATE (1) EITHER (A) IT IS NOT, AND IT IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS RULE144A GLOBAL CERTIFICATE (OR ANY INTEREST THEREIN) WILL NOT BE, OR BE ACTING ON BEHALF OF) AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**")) SUBJECT TO THE PROVISIONS OF PART 4 OF SUBTITLE B OF TITLE I OF ERISA, A PLAN TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), APPLIES, OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "**PLAN ASSETS**" UNDER SECTION 3(42) OF ERISA, 29 C.F.R. SECTION 2510.3-101 OR OTHERWISE BY REASON OF SUCH AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN SUCH ENTITY (EACH, A "**BENEFIT PLAN INVESTOR**") OR A GOVERNMENTAL, CHURCH OR NON U.S. PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL, NON U.S. OR OTHER LAWS OR REGULATIONS THAT ARE SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY AND/OR THE PROHIBITED TRANSACTION PROVISIONS OF ERISA AND/OR SECTION 4975 OF THE CODE ("**SIMILAR LAWS**") AND/OR LAWS OR REGULATIONS THAT PROVIDE THAT THE ASSETS OF THE ISSUER COULD BE DEEMED TO INCLUDE "**PLAN ASSETS**" OF SUCH PLAN UNDER SECTION 3(42) OF ERISA, 29 C.F.R. SECTION 2510.3-101 OR OTHERWISE, AND NO PART OF THE ASSETS TO BE

USED BY IT TO PURCHASE OR HOLD SUCH NOTES OR ANY INTEREST HEREIN CONSTITUTES THE ASSETS OF ANY BENEFIT PLAN INVESTOR OR SUCH A GOVERNMENTAL, CHURCH OR NON U.S. PLAN OR (B) IT IS, OR IS ACTING ON BEHALF OF A GOVERNMENTAL, CHURCH OR NON U.S. PLAN, AND SUCH ACQUISITION DOES NOT AND WILL NOT RESULT IN A NON EXEMPT VIOLATION OF ANY SIMILAR LAWS AND WILL NOT SUBJECT THE ISSUER TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH PLAN SOLELY AS A RESULT OF THE INVESTMENT IN THE ISSUER BY SUCH PLAN; AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER THIS NOTE OR ANY INTEREST HEREIN OTHERWISE THAN TO A PURCHASER OR TRANSFEREE THAT IS DEEMED TO MAKE THESE SAME REPRESENTATIONS, WARRANTIES AND AGREEMENTS WITH RESPECT TO ITS PURCHASE, HOLDING AND DISPOSITION OF THIS RULE 144 GLOBAL CERTIFICATE. NO PURCHASE BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OF THIS RULE 144A GLOBAL CERTIFICATE, OR ANY INTEREST HEREIN, WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE TRUSTEE WILL RECOGNISE ANY SUCH ACQUISITION OR TRANSFER. IN THE EVENT THAT THE ISSUER DETERMINES THAT THIS RULE 144A GLOBAL CERTIFICATE, OR ANY INTEREST HEREIN, IS HELD BY A BENEFIT PLAN INVESTOR, THE ISSUER MAY CAUSE A SALE OR TRANSFER IN THE MANNER DESCRIBED IN THE TRUST DEED.

THE ISSUER MAY COMPEL EACH BENEFICIAL HOLDER HEREOF TO CERTIFY PERIODICALLY THAT SUCH HOLDER IS A QIB AND A QP.

(vi) It understands and acknowledges that its purchase and holding of such Notes constitutes a representation and agreement by it and by each fiduciary acting on behalf of the beneficial owner (both in its individual and corporate capacity) that at the time of purchase and throughout the period it holds such Notes or any interest therein (1) either (i) it is not, and is not acting on behalf of (and for so long as it holds such Notes (or any interest therein) will not be, or be acting on behalf of), an employee benefit plan (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**")) subject to the provisions of Part 4 of Subtitle B of Title I of ERISA, a plan to which Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), applies, or any entity whose underlying assets include "**plan assets**" under the Plan Assets Regulation (as defined below), or otherwise by reason of such an employee benefit plan's or plan's investment in such entity (each, a Benefit Plan Investor (as defined herein)) or a governmental, church or non U.S. plan which is subject to any Similar Laws (as defined herein) and/or laws or regulations that provide that the assets of the Issuer could be deemed to include plan assets of such plan or otherwise, and no part of the assets used by it to purchase or hold such Notes or any interest therein constitutes the assets of any Benefit Plan Investor or such a governmental, church or non U.S. plan, or (ii) it is, or is acting on behalf of, a governmental, church or non U.S. plan, and such purchase and/or holding of such Notes does not and will not result in a non-exempt violation of any Similar Laws, and will not subject the Issuer to any laws, rules or regulations applicable to such plan solely as a result of the investment in the Issuer by such plan; and (2) it will not sell or otherwise transfer any Note or interest therein to any person without first obtaining these same foregoing representations, warranties and covenants from that person with respect to its acquisition, holding and disposition of such Note. No acquisition by or transfer to a Benefit Plan Investor of such Note, or any interest therein, will be effective, and neither the Issuer nor the Trustee will recognise any such acquisition or transfer. In the event that the Issuer determines that such Note is held by a Benefit Plan Investor, the Issuer may cause a sale or transfer in the manner described in the Trust Deed.

(vii) It acknowledges that the Issuer, Ardshinbank, the Registrar, the Lead Manager and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of the acknowledgments, representations and agreements deemed to have been made by it by its purchase of the Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, Ardshinbank and the Lead Manager. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

(viii) It understands that the Rule 144A Notes will be evidenced by the Rule 144A Global Certificate. Before any interest in the Rule 144A Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective investors are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of the Regulation S Notes outside the United States and each subsequent purchaser of the Regulation S Notes (A) in the case of (i) and (ii) below, prior to the expiration of the distribution compliance period (as such term is defined in Regulation S), and (B) in the case of (iii), (iv), (v), (vi) and (vii) below, throughout the period that it holds such Notes, by accepting delivery of this Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

(i) It is not a U.S. person and it is located outside the United States (within the meaning of Regulation S); and it is not an affiliate of the Issuer, Ardshinbank or a person acting on behalf of the Issuer, Ardshinbank or such an affiliate.

(ii) It understands that prior to the expiration of the distribution compliance period for such Notes, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A in an amount not less than U.S.$ 200,000 to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP, each of which is purchasing not less than U.S.$ 200,000 principal amount of the Notes or (b) to a person that is not a U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state of the United States.

(iii) It understands that the Regulation S Notes will be represented by the Regulation S Global Certificate. Before any interest in the Regulation S Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

(iv) It is, or at the time the Regulation S Notes are purchased it will be, the beneficial owner of such Regulation S Notes.

(v) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act.

(vi) It understands and acknowledges that its purchase and holding of such Notes constitutes a representation and agreement by it and by each fiduciary acting on behalf of the beneficial owner (both in its individual and corporate capacity) that at the time of purchase and throughout the period it holds such Notes or any interest therein (1) either (i) it is not, and is not acting on behalf of (and for so long as it holds such Notes (or any interest therein) will not be, or be acting on behalf of), a Benefit Plan Investor or a governmental, church or non-U.S. plan which is subject to any Similar Laws and/or laws or regulations that provide that the assets of the Issuer could be deemed to include “plan assets” of such plan under the Plan Assets Regulation or otherwise, and no part of the assets used by it to purchase or hold such Note or any interest therein constitutes the assets of any Benefit Plan Investor or such a governmental, church or non U.S. plan, or (ii) it is, or is acting on behalf of, a governmental, church or non-U.S. plan, and such purchase and/or holding of such Note does not and will not result in a non-exempt violation of any Similar Laws, and will not subject the Issuer to any laws, rules or regulations applicable to such plan solely as a result of the investment in the Issuer by such plan; and (2) it will not sell or otherwise transfer any Note or interest therein to any person without first obtaining these same foregoing representations, warranties and covenants from that person with respect to its acquisition, holding and disposition of such Note. No acquisition by or transfer to a Benefit Plan Investor of such Note, or any interest therein, will be effective, and neither the Issuer nor the Trustee will recognise any such acquisition or transfer. In the event that the Issuer determines that such Note is held by a Benefit Plan Investor, the Issuer may cause a sale or transfer in the manner described in the Trust Deed.

(vii) It understands that the Regulation S Global Certificates issued in exchange thereof, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS REGULATION S GLOBAL CERTIFICATE AND THE LOAN HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD OR

DELIVERED (A) AS PART OF THEIR DISTRIBUTION AT ANY TIME OR (B) OTHERWISE UNTIL 40 DAYS AFTER THE COMMENCEEMENT OF THE OFFERING AND THE CLOSING DATE, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS. TERMS USED IN THIS PARAGRAPH HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S.

BY ACCEPTING THIS REGULATION S GLOBAL CERTIFICATE (OR ANY INTEREST IN THE REGULATION S GLOBAL CERTIFICATE) EACH BENEFICIAL OWNER HEREOF, AND EACH FIDUCIARY ACTING ON BEHALF OF THE BENEFICIAL OWNER (BOTH IN ITS INDIVIDUAL AND CORPORATE CAPACITY), WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT, DURING THE PERIOD IT HOLDS ANY INTEREST IN NOTES EVIDENCED BY THIS REGULATION S GLOBAL CERTIFICATE (1) EITHER (A) IT IS NOT, AND IT IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS REGULATION S GLOBAL CERTIFICATE (OR ANY INTEREST THEREIN) WILL NOT BE, OR BE ACTING ON BEHALF OF) AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**")) SUBJECT TO THE PROVISIONS OF PART 4 OF SUBTITLE B OF TITLE I OF ERISA, A PLAN TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED ("**CODE**"), APPLIES, OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" UNDER SECTION 3(42) Of ERISA, 29 C.F.R. SECTION 2510.3-101 OR OTHERWISE BY REASON OF SUCH AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN SUCH ENTITY (EACH, A "**BENEFIT PLAN INVESTOR**") OR A GOVERNMENTAL, CHURCH OR NON U.S. PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL, NON U.S. OR OTHER LAWS OR REGULATIONS THAT ARE SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY AND/ OR THE PROHIBITED TRANSACTION PROVISIONS OF ERISA AND/OR SECTION 4975 OF THE CODE ("**SIMILAR LAWS**") AND/OR LAWS OR REGULATIONS THAT PROVIDE THAT THE ASSETS OF THE ISSUER COULD BE DEEMED TO INCLUDE "PLAN ASSETS" OF SUCH PLAN UNDER SECTION 3(42) OF ERISA, 29 C.F.R. SECTION 2510.3-101 OR OTHERWISE, AND NO PART OF THE ASSETS TO BE USED BY IT TO PURCHASE OR HOLD SUCH REGULATION S GLOBAL CERTIFICATE OR ANY INTEREST HEREIN CONSTITUTES THE ASSETS OF ANY BENEFIT PLAN INVESTOR OR SUCH A GOVERNMENTAL, CHURCH OR NON U.S. PLAN OR (B) IT IS, OR IS ACTING ON BEHALF OF A GOVERNMENTAL, CHURCH OR NON U.S. PLAN, AND SUCH ACQUISITION DOES NOT AND WILL NOT RESULT IN A NON EXEMPT VIOLATION OF ANY SIMILAR LAWS AND WILL NOT SUBJECT THE ISSUER TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH PLAN SOLELY AS A RESULT OF THE INVESTMENT IN THE ISSUER BY SUCH PLAN; AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER THESE NOTES EVIDENCED BY THIS REGULATION S GLOBAL CERTIFICATE OR ANY INTEREST HEREIN OTHERWISE THAN TO A PURCHASER OR TRANSFEREE THAT IS DEEMED TO MAKE THESE SAME REPRESENTATIONS, WARRANTIES AND AGREEMENTS WITH RESPECT TO ITS PURCHASE, HOLDING AND DISPOSITION OF THIS REGULATION S GLOBAL CERTIFICATE. NO PURCHASE BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OF THIS REGULATION S GLOBAL CERTIFICATE, OR ANY INTEREST HEREIN, WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE TRUSTEE WILL RECOGNISE ANY SUCH ACQUISITION OR TRANSFER. IN THE EVENT THAT THE ISSUER DETERMINES THAT THIS REGULATION S GLOBAL CERTIFICATE, OR ANY INTEREST HEREIN, IS HELD BY A BENEFIT PLAN INVESTOR, THE ISSUER MAY CAUSE A SALE OR TRANSFER IN THE MANNER DESCRIBED IN THE PROSPECTUS.

(viii) It acknowledges that the Issuer, Ardshinbank and the Lead Manager and their respective affiliates, and others, will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Regulation S Notes is no longer accurate, it shall promptly notify the Issuer, Ardshinbank and the Lead Manager. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

CERTAIN ERISA CONSIDERATIONS

ERISA imposes fiduciary standards and certain other requirements on employee benefit plans subject to the provisions of Part 4 of Subtitle B of Title I of ERISA (collectively "**ERISA Plans**"), including collective investment funds, separate accounts, and other entities or accounts whose underlying assets are treated as assets of such plans pursuant to the U.S. Department of Labor "plan assets" regulation, 29 CFR Section 2510.3 101, as modified by Section 3(42) of ERISA (the "**Plan Assets Regulation**") or otherwise and on those persons who are fiduciaries with respect to ERISA Plans.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code (together with ERISA Plans, "**Benefit Plan Investors**")) and certain persons (referred to as "**parties in interest**" or "**disqualified persons**") having certain relationships to such Benefit Plan Investors, unless a statutory or administrative exemption applies to the transaction. In particular, an extension of credit between a Benefit Plan Investor and a "party in interest" or "disqualified person" may constitute a prohibited transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes or other liabilities under ERISA and the Code.

The Issuer or the Trustee, directly or through affiliates, may be considered a party in interest or disqualified person with respect to many Benefit Plan Investors. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if the Notes are acquired by a Benefit Plan Investor with respect to which the Issuer or the Trustee or any of their respective affiliates is a party in interest or a disqualified person, unless the Notes are acquired pursuant to and in accordance with an applicable exemption. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may apply depending in part on the type of fiduciary making the decision to acquire a Note and the circumstances under which that decision is made.

Under a "look-through rule" set out in the Plan Assets Regulation, if a Benefit Plan Investor invests in an "equity interest" of an entity and no other exception applies, its assets include both the equity interest and an undivided interest in each of the entity's underlying assets. This rule will only apply where 25% or more of the value of any class of equity interest in the entity is held by Benefit Plan Investors. An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features. Where the value of an interest in an entity relates solely to identified property of the entity, that property is treated as the sole property of a separate entity.

Because the Notes do not represent an interest in any property of the Issuer other than the Loan, they may be regarded for ERISA purposes as equity interests in a separate entity whose sole asset is the Loan. Further, neither the Trustee nor the Issuer will be able to monitor the Noteholders' possible status as Benefit Plan Investors. Accordingly, the Notes may not be purchased or held by any Benefit Plan Investor.

BY ITS PURCHASE AND HOLDING OF A NOTE OR ANY INTEREST THEREIN, THE PURCHASER AND/OR HOLDER THEREOF AND EACH TRANSFEREE WILL REPRESENT OR BE DEEMED TO HAVE REPRESENTED AND WARRANTED AT THE TIME OF ITS PURCHASE AND THROUGHOUT THE PERIOD THAT IT HOLDS SUCH NOTE OR INTEREST THEREIN, THAT (1) EITHER (A) IT IS NOT, AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS SUCH NOTE (OR ANY INTEREST THEREIN) WILL NOT BE, OR BE ACTING ON BEHALF OF), A BENEFIT PLAN INVESTOR OR A GOVERNMENTAL, CHURCH OR NON U.S. PLAN WHICH IS SUBJECT TO ANY SIMILAR LAWS AND/OR LAWS OR REGULATIONS THAT PROVIDE THAT THE ASSETS OF THE ISSUER COULD BE DEEMED TO INCLUDE "PLAN ASSETS" OF SUCH PLAN UNDER THE PLAN ASSETS REGULATION OR OTHERWISE, AND NO PART OF THE ASSETS USED BY IT TO PURCHASE OR HOLD SUCH NOTE OR ANY INTEREST THEREIN CONSTITUTES THE ASSETS OF ANY BENEFIT PLAN INVESTOR OR SUCH A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, OR (B) IT IS, OR IS ACTING ON BEHALF OF A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, AND SUCH PURCHASE AND/OR HOLDING OF SUCH NOTE DOES NOT AND WILL NOT RESULT IN A NON EXEMPT VIOLATION OF ANY SIMILAR LAWS, AND WILL NOT SUBJECT THE ISSUER TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH PLAN SOLELY AS A RESULT OF THE INVESTMENT IN THE ISSUER BY SUCH PLAN; AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THESE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON WITH RESPECT TO ITS ACQUISITION, HOLDING AND DISPOSITION OF SUCH NOTE. NO ACQUISITION BY OR

TRANSFER TO A BENEFIT PLAN INVESTOR OF SUCH NOTE, OR ANY INTEREST THEREIN, WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE TRUSTEE WILL RECOGNISE ANY SUCH ACQUISITION OR TRANSFER. IN THE EVENT THAT THE ISSUER DETERMINES THAT SUCH NOTE IS HELD BY A BENEFIT PLAN INVESTOR, THE ISSUER MAY CAUSE A SALE OR TRANSFER IN THE MANNER DESCRIBED IN THE TRUST DEED.

LEGAL MATTERS AND INDEPENDENT AUDITORS

Legal Matters

Certain legal matters in connection with the issue of the Notes will be passed upon for the Issuer with respect to Dutch law by Houthoff Buruma.

Certain legal matters in connection with the issue of the Notes will be passed upon for the Borrower with respect to English and U.S. law by Cleary Gottlieb Steen and Hamilton LLP and with respect to Armenian law by Concern Dialog CJSC.

Certain legal matters in connection with the issue of the Notes will be passed upon for the Lead Manager with respect to English and U.S. law by Latham & Watkins (London) LLP, with respect to Armenian law by Arlex International CJSC and with respect to Dutch law by De Brauw Blackstone Westbroek N.V.

Independent Auditors

The financial statements of Ardshinbank CJSC (formerly "Ardshininvestbank CJSC") as of and for the years ended 31 December 2014, 2013 and 2012, included in this offering circular, have been audited by KPMG Armenia cjsc, independent auditors, as stated in their reports appearing herein.

With respect to the unaudited interim financial information for the periods ended 31 March 2015 and 2014, included herein, the independent auditor has reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report, included herein, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

The address of KPMG Armenia is 8th floor, Erebuni Plaza Business Center, 26/1 Vazgen Sargsyan Street, Yerevan 0010, Armenia.

TAXATION

The following is a general description of certain tax considerations relating to the Notes (and certain Armenian tax considerations relating to the Loan). It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective investors in the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under such Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Prospectus. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Investors should also note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment

The Netherlands

The following summary of Dutch taxation matters is based on the laws and practice of The Netherlands in force as of the date of this Prospectus and is subject to any changes in law in The Netherlands and the interpretation and application thereof, which changes could be made with retroactive effect and could affect the continued validity of this summary. This summary does not purport to be a comprehensive description of all the Dutch tax considerations that may be relevant to a decision to acquire, hold or dispose of the Notes, and does not purport to deal with the Dutch tax consequences applicable to all categories of investors, some of which may be subject to special rules, such as trusts or similar arrangements. Noteholders are recommended to consult their own professional advisors in relation to their own individual tax position. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than The Netherlands.

For the purpose of this summary, the term "entity" means a corporation as well as any other person that is taxable as a corporation for Dutch corporate tax purposes. Where this summary refers to a Noteholder, an individual holding a Note or an entity holding a Note, such reference is restricted to an individual or entity holding legal title to as well as an economic interest in such Note. Where this summary refers to "The Netherlands" or "Dutch," it refers only to the European part of the Kingdom of The Netherlands and its law, respectively.

This summary does not apply to any Noteholder:

- being an individual for whom the Notes or the income or capital gains derived therefrom are attributable to employment activities;
- being an individual or a non-resident entity who holds or is deemed to hold a substantial interest in the Issuer as defined below; or
- being an entity that is, in whole or in part, not subject to or is exempt from Dutch corporate income tax, including but not limited to, a fiscal investment institution (*fiscale beleggingsinstelling*) or an exempt investment institution (*vrijgestelde beleggingsinstelling*) as defined in the 1969 Corporate Income Tax Act (*Wet op de vennootschapsbelasting 1969*).

Generally speaking, an individual has a substantial interest in the Issuer if (i) such individual, either alone or together with his partner (a term defined by statute), directly or indirectly has, or is deemed to have or (ii) certain relatives of such individual or his partner directly or indirectly have or are deemed to have (a) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5% or more of either the total issued and outstanding capital of the Issuer or the issued and outstanding capital of any class of shares of the Issuer, or (b) the ownership of, or certain rights over, profit participating certificates (*winstbewijzen*) that relate to 5% or more of either the annual profit or the liquidation proceeds of the Issuer.

Generally speaking, a non-resident entity has a substantial interest in the Issuer if such entity, directly or indirectly has (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5% or more of either the total issued and outstanding capital of the Issuer or the issued and outstanding capital of any class of shares of the Issuer, or (ii) the ownership of, or certain rights over, profit participating certificates that relate to 5% or more of either the annual profit or the liquidation proceeds of the Issuer.

An individual or a non-resident entity Noteholder has a deemed substantial interest in the Issuer if such individual or non-resident entity has disposed of or is deemed to have disposed of all or part of a substantial interest on a non-recognition basis.

Withholding tax

All payments made under the Notes will not be subject to withholding or deduction of any taxes of whatsoever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

Taxes on income and capital gains

Resident entities

A Noteholder which is, or is deemed to be, resident in The Netherlands for corporate income tax purposes, will generally be subject to Dutch corporate income tax in respect of income or a capital gain derived from a Note at the applicable statutory rates (for 2015: 20% for taxable amounts up to and including EUR 200,000 and 25% for taxable amounts exceeding EUR 200,000).

Resident individuals

An individual Noteholder who is or is deemed to be resident in The Netherlands for Dutch personal income tax purposes will be subject to Dutch personal income tax in respect of income or a capital gain derived from a Note at the applicable statutory rates (individual progressive income tax rates apply, with a maximum rate of 52% for 2015) if:

- the Noteholder derives profits from an enterprise or deemed enterprise, whether as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net worth of such enterprise (other than as an entrepreneur or a shareholder), to which enterprise the Notes are attributable; or
- the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) as defined in the 2001 Income Tax Act (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed regular, active asset management (*normaal, actief vermogensbeheer*).

If the Noteholder is an individual whose situation has not been discussed above, such individual Noteholder will be subject to Dutch personal income tax on the basis of a deemed return, regardless of any actual income and/or capital gain derived from a Note. This deemed return has been fixed at 4% (for 2015) of the individual's yield basis (*rendementsgrondslag*) on 1 January (*peildatum*), insofar as it exceeds a certain threshold (*heffingsvrije vermogen*). The individual's yield basis is determined as the fair market value of certain qualifying assets held by such individual (including, as the case may be, the Notes) less the fair market value of certain qualifying liabilities. The deemed return of 4% will be taxed at the applicable statutory rate of 30%.

Non-residents

A Noteholder which is not or is not deemed to be resident in The Netherlands for tax purposes will not be subject to Dutch personal income tax or corporate income tax on income or a capital gain derived from a Note unless:

- the Noteholder derives profits from an enterprise or deemed enterprise, whether as entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net worth of such enterprise other than as an entrepreneur or a shareholder, which enterprise is, in whole or in part, carried on through a (deemed) permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) in The Netherlands and to which enterprise or part of an enterprise, as the case may be, the Notes are attributable or deemed attributable;
- the Noteholder is not an individual and is, other than by way of holding of securities, entitled to a share in the profits of an enterprise or a co-entitlement to the net worth of an enterprise which is effectively managed in The Netherlands and to which enterprise the Notes or payments in respect of the Notes are attributable;
- the Noteholder is an individual and is, other than by way of holding of securities, entitled to a share in the profits of an enterprise which is effectively managed in The Netherlands and to which enterprise the Notes or payments in respect of the Notes are attributable; or

- the Noteholder and the income or capital gain derived from the Notes qualifies as income from miscellaneous activities in The Netherlands as defined in the 2001 Income Tax Act, including, without limitation, activities that exceed regular, active asset management.

Gift and inheritance taxes

Dutch gift or inheritance taxes will not be levied on the occasion of the transfer of a Note by way of gift by, or on the death of, a Noteholder, unless:

- the Noteholder is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions;
- the transfer is construed as an inheritance or gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in The Netherlands for the purpose of the relevant provisions;
- such Noteholder dies while being a resident or deemed resident of The Netherlands within 180 days after the date of a gift of the Notes; or
- the gift is made under a condition precedent and such Noteholder is or is deemed to be a resident of The Netherlands at the time the condition is fulfilled.

For purposes of Dutch gift and inheritance tax, an individual (i) who is of Dutch nationality will be deemed to be a resident of The Netherlands if he has been a resident of The Netherlands at any time during the 10 years preceding the date of the gift or his death; and (ii) an individual will, irrespective of his nationality, be deemed to be resident of The Netherlands if he has been a resident of The Netherlands at any time during the 12 months preceding the date of the gift.

Value added tax

There is no Dutch value added tax payable by a Noteholder on payments in consideration for the issue of the Notes, on the payment of interest or the principal under the Notes or on the transfer of the Notes (other than possible value added taxes on the fees attributable to additional services in connection with the transfer of the Notes which are not exempt from Dutch value added tax).

Other taxes and duties

There is no Dutch registration tax, stamp duty or any other similar tax or duty (other than court fees) payable in The Netherlands by a Noteholder in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including the enforcement of any foreign judgment in the courts of The Netherlands) of the Notes or the performance of the Issuer's obligations under the Notes.

Residence

A Noteholder is not, and will not be deemed to be, resident in The Netherlands for tax purposes by reason of only acquiring, holding or disposing of a Note, or solely for the execution, performance, delivery and/or enforcement of a Note.

Armenia

This summary does not cover all of the possible tax consequences relating to the ownership of the Notes and the receipt of interest thereon, and it is not intended as tax advice to any person. It addresses tax consequences on those who hold the Notes as capital assets, and does not address special classes of holders, such as dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, banks, tax-exempt entities, life insurance companies, persons holding Notes as a hedge or hedged against interest rate or currency risks or as part of a straddle or conversion transaction or holders whose functional currency is not the U.S. dollar.

Interest on the Notes and capital gains thereon generally are not considered Armenian-source income. Neither the Issuer nor the Borrower is under any obligation to withhold or pay any Armenian tax in respect of the Notes. Accordingly, payments in respect of principal, premium (if any) and interest due on the Notes will be paid to the Principal Paying Agent and by the Principal Paying Agent to Noteholders without deduction in respect of

Armenian tax. Noteholders who are otherwise Armenian taxpayers will be obligated pursuant to Article 13.3 of the Armenian Income Tax Law or Article 57.3 of the Armenian Profit Tax Law to calculate and pay any income tax or profit tax that may be due in respect of payments made by the Issuer in respect of the Notes. According to Article 33 of the Armenian Profit Tax Law, the profit tax rate for resident legal entities in respect to the taxable profit (after deductions) is 20%. According to Article 10 of the Armenian Income Tax Law, the tax rate on interest income for resident physical persons is 10% of gross interest.

Although the Notes are not subject to Armenian withholding tax, interest payments under the Loan Agreement by the Borrower to the Issuer would be subject to non-resident Armenian profit tax withholding at the source, deducted by the Borrower as Armenian tax agent at the rate of 10% (according to Article 57.1 of the Armenian Profit Tax Law), unless this rate is reduced or eliminated by a double tax treaty applicable the Issuer. Pursuant to Article 11.2 of the Armenia-Netherlands Double Tax Treaty, this rate is reduced to 5%, provided that the receiving Dutch resident is the beneficial owner of the interest received from the Armenian entity. To our knowledge, after due inquiry, there is no applicable Armenian precedent on the interpretation of the "beneficial ownership" concept under the Armenia-Netherlands Double Tax Treaty or other similar treaties. Notwithstanding the foregoing, it is permissible under Armenian law for private parties to reach agreements to gross up interest payments to assure a certain net interest rate after withholding tax, as set forth in the Loan Agreement.

United States—Certain United States Federal Income Tax Considerations

The following discussion is a summary of certain U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes, but does not purport to be a complete analysis of all potential tax effects. The summary is limited to consequences relevant to a U.S. holder (as defined below), except for discussions on FATCA (as defined below), and does not address the effects of any U.S. federal tax laws other than U.S. federal income tax laws (such as estate and gift tax laws) or any state, local or non-U.S. tax laws. This discussion is based upon the Code, Treasury regulations issued thereunder (the "**Treasury Regulations**"), and judicial and administrative interpretations thereof, each as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. No rulings from the U.S. Internal Revenue Service ("**IRS**") have been or are expected to be sought with respect to the matters discussed below. There can be no assurance that the IRS will not take a different position concerning the tax consequences of the purchase, ownership or disposition of the Notes or that any such position would not be sustained. This discussion does not address all of the U.S. federal income tax consequences that may be relevant to a holder in light of such holder's particular circumstances, including the impact of the unearned income Medicare contribution tax, or to holders subject to special rules, such as certain financial institutions, U.S. expatriates, insurance companies, dealers in securities or currencies, traders in securities, U.S. holders whose functional currency is not the U.S. dollar, tax-exempt entities, regulated investment companies, real estate investment trusts, partnerships or other pass through entities and investors in such entities, persons liable for alternative minimum tax, and persons holding the Notes as part of a "straddle," "hedge," "conversion transaction" or other integrated transaction. In addition, this discussion is limited to persons who purchase the Notes for cash at original issue and at their "issue price" (i.e., the first price at which a substantial amount of the Notes is sold to the public for cash, excluding to bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) and who hold the Notes as capital assets within the meaning of section 1221 of the Code.

For purposes of this discussion, a "U.S. holder" is a beneficial owner of a Note that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States; (ii) a corporation or any entity taxable as a corporation for U.S. federal income tax purposes created or organised in the United States or under the laws of the United States or of any political subdivision thereof; (iii) any estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or if a valid election is in place to treat the trust as a U.S. person.

Prospective investors in the Notes should consult their tax advisers concerning the tax consequences of holding Notes in light of their particular circumstances, including the application of the U.S. federal income tax considerations discussed below, as well as the application of other federal, state, local, non-U.S. or other tax laws.

Characterisation of the Notes

The proper characterisation of an instrument such as the Notes for U.S. federal income tax purposes is not entirely clear. It is possible that the Notes may be treated as indebtedness of the Issuer or indebtedness of the

Bank. Alternatively, the Notes may also be treated as equity of the Issuer. Although the issue is not free from doubt, the Issuer intends to take the position (to the extent it is required to do so), and the following discussion assumes, that the Notes are indebtedness for U.S. federal income tax purposes. If the Notes were to be treated as equity of the Issuer, it is possible U.S. holders could suffer adverse U.S. federal income tax consequences if the Issuer were to be treated as a passive foreign investment company. U.S. holders are strongly urged to consult their tax advisors in this regard.

Payments of Stated Interest

Payments of stated interest on the Notes (including any additional amounts paid in respect of withholding taxes and without reduction for any amounts withheld) generally will be taxable to a U.S. holder as ordinary income at the time that such payments are received or accrued, in accordance with such U.S. holder's method of accounting for U.S. federal income tax purposes.

Stated interest income on a Note generally will constitute foreign source income and generally will be considered "passive category income" or, in the case of certain U.S. holders, "general category income" in computing the foreign tax credit allowable to U.S. holders under U.S. federal income tax laws. Any foreign withholding tax paid at the rate applicable to a U.S. holder may be eligible for credit against such holder's U.S. federal income tax liability or, at such holder's election, eligible for deductions in computing U.S. federal taxable income. However, there are significant complex limitations on a U.S. holder's ability to claim foreign tax credits. U.S. holders should consult their tax advisors regarding the creditability or deductibility of any withholding taxes.

Sale, Exchange, Retirement, Redemption or Other Taxable Disposition of Notes

Upon the sale, exchange, retirement, redemption or other taxable disposition of a Note, a U.S. holder generally will recognise U.S. source gain or loss equal to the difference, if any, between the amount realised upon such disposition (less any amount equal to any accrued but unpaid stated interest, which will be taxable as stated interest income as discussed above to the extent not previously included in income by the U.S. holder) and such U.S. holder's adjusted tax basis in the Note. A U.S. holder's adjusted tax basis in a Note will, in general, be the cost of such Note to such U.S. holder.

Any gain or loss recognised upon the sale, exchange, retirement, redemption or other taxable disposition of a Note generally will be U.S. source gain or loss and generally will be capital gain or loss. Capital gains of non-corporate U.S. holders (including individuals) derived in respect of capital assets held for more than one year are generally eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Substitution of Issuer

The terms of the Notes provide that, in certain circumstances, the obligations of the Issuer under the Notes may be assumed by another entity. Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of Notes by a U.S. holder in exchange for new notes issued by the new obligor. As a result of this deemed disposition, a U.S. holder could be required to recognise capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes), and the U.S. holder's tax basis in the Notes. U.S. holders should consult their tax advisors concerning the U.S. federal income tax consequences to them of a change in obligor with respect to the Notes.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to payments of stated interest on the Notes and to the proceeds of the sale or other disposition (including a retirement or redemption) of a Note paid to a U.S. holder unless such U.S. holder is an exempt recipient, and, when required, provides evidence of such exemption. Backup withholding may apply to such payments if the U.S. holder fails to provide a taxpayer identification number or a certification that it is not subject to backup withholding.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a U.S. holder's U.S. federal income tax liability provided the required information is timely furnished to the IRS.

Foreign Account Tax Compliance

Pursuant to Sections 1471 through 1474 of the Code (provisions commonly known as "**FATCA**") and related intergovernmental agreements, holders of Notes may be required to provide information and tax documentation regarding their identities as well as that of their direct and indirect owners.

It is also possible that, from no earlier than 1 January 2017, the Issuer may be required to withhold U.S. tax on payments on the Notes to the extent such payments are considered to be "foreign passthru payments". Obligations issued on or prior to the date that is six months after the date on which applicable final Treasury Regulations defining "foreign passthru payments" are filed generally would be "grandfathered" unless such obligations are materially modified after such date. As of the date of this Prospectus, applicable final Treasury Regulations defining "foreign passthru payments" have not yet been filed. Thus, payments on the Notes would be considered "foreign passthru payments" subject to FACTA withholding only if there is a significant modification of the Notes for U.S. federal income tax purposes after the expiration of this grandfathering period. In the event any withholding under FATCA is imposed with respect to any payments on the Notes, there generally will be no additional amounts payable to compensate for the withheld amount.

Non-U.S. governments (including The Netherlands) have entered into, and others are expected to enter into, intergovernmental agreements with the United States to implement FATCA in a manner that may alter the rules described herein. U.S. holders should consult their own tax advisors on how these rules may apply to their investment in the Notes.

Certain EU and UK Tax Considerations

EU Savings Directive

Under the EU Savings Directive (Council Directive 2003/48/EC on the taxation of savings income), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid or secured by a person within its jurisdiction to, or for the benefit of, or collected by such a person, for an individual resident or certain entities (as described in Article 4.2 of the EU Savings Directive, each a "**Residual Entity**") established in that other Member State. However, for a transitional period, Austria will (unless during such period it elects otherwise) instead operate a withholding system in relation to such payments. The rate of withholding is 35%. However, the beneficial owner of the interest (or similar income) payment may elect that certain provision of information procedures should be applied instead of withholding, provided that certain conditions are met. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange of information procedures relating to interest and other similar income.

A number of non-EU countries, including Switzerland, ("**Third Countries**"), and certain dependent or associated territories of certain Member States ("**Dependent and Associated Territories**") have adopted similar measures (either provision of information or transitional withholding) in relation to payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or Residual Entities established in another Member State, or certain Third Countries or Dependent and Associated Territories.

The Council of the European Union formally adopted a Council Directive amending the EU Savings Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt national legislation to comply with the Amending Directive (and such national legislation must apply from 1 January 2017). The changes made under the Amending Directive include extending the scope of the EU Savings Directive to payments made to, or collected for, certain other entities and legal arrangements and to establish procedures to look through entities to prevent the circumvention of the EU Savings Directive by the use of intermediaries. They also broaden the definition of "interest payment" to cover income that is equivalent to interest.

However, the European Commission has proposed the repeal of the EU Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the EU Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The proposal also provides that, if it proceeds, Member States will not be required to apply the new requirements of the Amending Directive.

The proposed financial transactions tax

The European Commission's proposal for the financial transactions tax (the "**FTT**") has a very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and the legality of the proposal is uncertain. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate and/or certain of the participating Member States may decide to withdraw.

Joint statements issued by several participating Member States indicate an intention to implement the FTT by 1 January 2016. Prospective investors in the Notes are advised to seek their own professional advice in relation to the FTT.

United Kingdom Provision of Information Requirements

The comments below are of a general nature and are based on current United Kingdom ("**UK**") tax law as applied in England and Wales and published practice of HM Revenue & Customs ("**HMRC**"), the UK tax authorities. Such law may be repealed, revoked or modified and such practice may not bind HMRC and/or may change (in each case, possibly with retrospective effect), resulting in UK tax consequences different from those discussed below. The comments below deal only with UK rules relating to information that may need to be provided to HMRC in connection with the Notes. They do not deal with any other UK tax consequences of acquiring, owning or disposing of the Notes. Each prospective investor should seek advice based on its particular circumstances from an independent tax adviser.

HMRC has powers to obtain information relating to securities in certain circumstances. This may include details of the beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons to whom payments derived from the Notes are or may be paid and information and documents in connection with transactions relating to the Notes. Information may be required to be provided by, amongst others, the Noteholders, persons by or through whom payments derived from the Notes are made or credited or who receive such payments (or who would be entitled to receive such payments if they were made), persons who effect or are a party to transactions relating to the Notes on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HMRC may be exchanged with tax authorities in other countries.

GENERAL INFORMATION

(1) The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. For the Regulation S Notes, the Common Code is 111728763, and the ISIN is XS1117287638. For the Rule 144A Notes, the CUSIP number is 254032AA3, the ISIN is US254032AA37 and the Common Code is 098267085.

(2) Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on the Main Securities Market, through the Listing Agent, Walkers Listing & Support Services Limited. Walkers Listing & Support Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission to the Official List of the Irish Stock Exchange or to trading on the Main Securities Market for the purposes of the Prospectus Directive.

(3) It is expected that the admission of the Notes to the Official List and to trading on the Main Securities Market will take place on or about 29 July 2015, subject to the issuance of the Global Certificates.

(4) For so long as any Notes are outstanding, copies in English of the following documents in physical form may be obtained free of charge at the offices of the Trustee, the Principal Paying Agent and the registered office of the Issuer during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

- the constitutional documents of Ardshinbank;
- the constitutional documents of the Issuer;
- the Financial Statements of Ardshinbank;
- the opening balance sheet of the Issuer;
- this Prospectus, together with any supplement hereto; and
- the Trust Deed in respect of the Notes (including the form of the Global Certificates and the Definitive Certificates), the Loan Agreement and the Agency Agreement.

(5) There has been no significant change in the financial or trading position of Ardshinbank since 31 March 2015, and no material adverse change in the financial position or prospects of Ardshinbank since 31 December 2014.

(6) There has been no significant change in the financial or trading position of the Issuer since 10 June 2015, being the date of its incorporation. The Issuer has no subsidiaries.

(7) The Issuer and Ardshinbank have obtained all necessary consents, approvals and authorisations in The Netherlands and the Republic of Armenia, respectively, in connection with the issue and performance of the Notes and the making of the Loan. The issue of the Notes and the making of the Loan was authorised by a resolution of the management board of the Issuer dated 16 July 2015. The drawdown of the Loan was authorised by a resolution of the board of directors of the Borrower dated 5 June 2015.

(8) No consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of The Netherlands for the issue of the Notes and the making of the Loan.

(9) Since 10 June 2015, being the date of its incorporation, the Issuer has not been and is currently not involved in any governmental, legal or arbitration proceedings that may have, or have had in the recent past, a significant effect on the Issuer's financial position or profitability, nor is the Issuer aware that any such proceedings are pending or threatened.

(10) In the previous 12 months, Ardshinbank has not been and is currently not involved in any governmental, legal or arbitration proceedings that may have, or have had in the recent past, a significant effect on Ardshinbank's financial position or profitability, nor is Ardshinbank aware of any such proceedings that are pending or threatened.

(11) The Trust Deed provides, amongst other things, that the Trustee may act or rely upon the opinion or advice of, or upon a certificate or other information from, any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant, auditor or other expert (whether or not addressed to the Trustee), notwithstanding the fact that such opinion, advice, certificate or other information contains a monetary or other limit on the liability of any such persons in respect thereof.

(12) Save for the fees payable to the Lead Manager, the Trustee, the Principal Paying Agent and the Registrar, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.

(13) Ardshinbank was incorporated as a closed joint-stock company under the law on "Banks and Banking" of the Republic of Armenia dated 30 June 1996 in the Republic of Armenia on 25 February 2003 with company number 83.

(14) The Issuer estimates the total expenses related to the admission of the Notes to trading on the Main Securities Market to be approximately EUR 6,641.20.

(15) Interest and principal on the Loan will be paid into an account operated by the Principal Paying Agent for the benefit of the Issuer.

INDEX TO THE FINANCIAL STATEMENTS

Ardshinbank CJSC

Interim Condensed Financial Statements

for the three-month period ended 31 March 2015

Contents

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Independent Auditors' Report on Review of Interim Condensed Financial Statements

To the Board of
Ardshinbank CJSC

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Ardshinbank CJSC (the "Bank") as at 31 March 2015 and the related interim condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month periods ended 31 March 2015 and 2014, and notes to the interim condensed financial statements. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed financial statements based on our reviews.

Scope of Reviews

We conducted our reviews in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the interim condensed financial statements as at 31 March 2015, and for the three-month periods ended 31 March 2015 and 2014 are not prepared, in all material aspects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Tigran Gasparyan
Engagement Partner, Director of KPMG Armenia CJSC

KPMG Armenia cjsc

KPMG Armenia CJSC
10 June 2015

	Notes	31 March 2015 AMD'000	31 March 2014 AMD'000
		Unaudited	**Unaudited**
Interest income	5	8,966,913	6,204,319
Interest expense	5	(6,256,004)	(3,563,142)
Net interest income		**2,710,909**	**2,641,177**
Fee and commission income		675,174	856,002
Fee and commission expense		(146,800)	(139,142)
Net fee and commission income		**528,374**	**716,860**
Net foreign exchange income		514,625	337,970
Net gain on available-for-sale financial assets		57,079	1,005,242
Other operating income		66,983	126,250
Operating income		**3,877,970**	**4,827,499**
Impairment losses	11	(1,005,815)	(985,517)
Personnel expenses		(1,146,414)	(1,060,763)
Other general administrative expenses	6	(1,069,166)	(1,109,652)
Profit before income tax		**656,575**	**1,671,567**
Income tax expense	7	(124,678)	(343,739)
Profit for the period		**531,897**	**1,327,828**
Other comprehensive loss, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		(410,140)	(198,967)
- Net change in fair value transferred to profit or loss		(45,663)	(804,194)
Total items that are or may be reclassified subsequently to profit or loss		*(455,803)*	*(1,003,161)*
Other comprehensive loss for the period, net of income tax		**(455,803)**	**(1,003,161)**
Total comprehensive income for the period		**76,094**	**324,667**

The interim condensed financial statements as set out on pages 4 to 25 were approved by management on 10 June 2015 and were signed on its behalf by:

Mher Grigoryan
Chairman of Management Board

Vahagn Durgaryan
Chief Accountant

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«АРДШИНБАНК»
«ARDSHINBANK»
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The interim condensed statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the interim condensed financial statements.

	Notes	31 March 2015 AMD'000	31 December 2014 AMD'000
		Unaudited	
ASSETS			
Cash and cash equivalents	8	80,823,245	85,009,721
Available-for-sale financial assets			
- Held by the Bank	9	3,474,399	5,483,967
- Pledged under sale and repurchase agreements	9	16,507,529	11,714,195
Loans and advances to banks and financial institutions	10	10,626,536	27,675,617
Loans to customers	11	238,770,993	219,882,757
Repossessed property		5,746,561	5,597,154
Property, equipment and intangible assets		8,990,116	9,038,769
Other assets		2,074,048	2,003,940
Total assets		**367,013,427**	**366,406,120**
LIABILITIES			
Deposits and balances from banks and other borrowings	12	104,350,015	98,691,929
Debt securities issued		34,726,910	34,935,669
Current accounts and deposits from customers	13	178,177,233	182,811,439
Current tax liability		220,541	346,071
Deferred tax liabilities		1,076,870	1,156,704
Other liabilities		1,253,498	1,332,042
Total liabilities		**319,805,067**	**319,273,854**
EQUITY			
Share capital		17,925,200	17,925,200
Share premium		1,711,179	1,711,179
Revaluation surplus for land and buildings		4,392,623	4,392,623
Revaluation reserve for available-for-sale financial assets		(963,052)	(507,249)
Retained earnings		24,142,410	23,610,513
Total equity		**47,208,360**	**47,132,266**
Total liabilities and equity		**367,013,427**	**366,406,120**

The interim condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the interim condensed financial statements.

	Notes	31 March 2015 AMD'000	31 March 2014 AMD'000
		Unaudited	**Unaudited**
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		8,628,175	5,979,256
Interest payments		(5,460,340)	(3,570,737)
Fee and commission receipts		675,174	856,002
Fee and commission payments		(146,800)	(139,142)
Net receipts from foreign exchange		524,210	331,771
Other income receipts		124,062	1,131,492
Other general administrative expenses payments		(2,247,989)	(2,026,121)
(Increase) decrease in operating assets			
Available-for-sale financial assets		(3,406,787)	5,881,162
Loans and advances to banks and financial institutions		17,211,083	(6,257,979)
Loans to customers		(22,283,009)	6,566,694
Other assets		219,450	(176,130)
Increase (decrease) in operating liabilities			
Short term deposits and balances from banks		(1,475,939)	(16,445,128)
Current accounts and deposits from customers		(3,154,522)	21,812,963
Other liabilities		(200)	1,907
Net cash (used in) provided from operating activities before income tax paid		**(10,793,432)**	**13,946,010**
Income tax paid		(210,885)	(231,803)
Cash flows (used in) provided from operations		**(11,004,317)**	**13,714,207**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and intangible assets		(117,656)	(73,426)
Cash flows used in investing activities		**(117,656)**	**(73,426)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of borrowed funds		8,771,877	3,264,742
Repayment of borrowed funds		(1,139,553)	(2,723,998)
Cash flows from financing activities		**7,632,324**	**540,744**
Net increase in cash and cash equivalents		**(3,489,649)**	**14,181,525**
Effect of changes in exchange rates on cash and cash equivalents		(696,827)	184,491
Cash and cash equivalents as at the beginning of the period		85,009,721	50,093,541
Cash and cash equivalents as at the end of the period	8	**80,823,245**	**64,459,557**

The interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the interim condensed financial statements.

AMD'000	**Share capital**	**Share premium**	**Revaluation surplus for land and buildings**	**Revaluation reserve for available-for-sale financial assets**	**Retained earnings**	**Total equity**
Balance as at 1 January 2014	13,802,404	1,711,179	2,670,214	2,110,753	23,822,497	44,117,047
Total comprehensive income						
Profit for the period	-	-	-	-	1,327,828	1,327,828
Other comprehensive loss						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	-	-	(198,967)	-	(198,967)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	-	-	-	(804,194)	-	(804,194)
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	*(1,003,161)*	-	*(1,003,161)*
Total comprehensive income for the period	-	-	**-**	**(1,003,161)**	**1,327,828**	**324,667**
Balance as at 31 March 2014 (unaudited)	**13,802,404**	**1,711,179**	**2,670,214**	**1,107,592**	**25,150,325**	**44,441,714**
Balance as at 1 January 2015	17,925,200	1,711,179	4,392,623	(507,249)	23,610,513	47,132,266
Total comprehensive income						
Profit for the period	-	-	-	-	531,897	531,897
Other comprehensive loss						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	-	-	(410,140)	-	(410,140)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	-	-	-	(45,663)	-	(45,663)
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	*(455,803)*	-	*(455,803)*
Total comprehensive income for the period	**-**	**-**	**-**	**(455,803)**	**531,897**	**76,094**
Balance as at 31 March 2015 (unaudited)	**17,925,200**	**1,711,179**	**4,392,623**	**(963,052)**	**24,142,410**	**47,208,360**

The interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the interim condensed financial statements.

1 Background

(a) Organization and operations

Ardshinbank CJSC (the Bank) was established in the Republic of Armenia as a closed joint stock company in 2003. The principal activities are deposit taking, customer accounts maintenance, credit operations, issuing guarantees, cash and settlement transactions and securities and foreign exchange transactions. The Bank`s activities are regulated by the Central Bank of Armenia (CBA). The Bank has a general banking license, and is a member of the state deposit insurance system in the Republic of Armenia.

The Bank has 55 branches from which it conducts business throughout the Republic of Armenia. The registered address of the head office is 13 and 13/1 Grigor Lusavorich Street, Yerevan, Armenia. The majority of the Banks's assets and liabilities are located in the Republic of Armenia.

The Bank's parent company is Center for Business Investments LLC. The Bank is ultimately controlled by a single individual, Karen Safaryan who has a number of other business interests outside the Bank.

(b) Armenian business environment

The Bank's operations are primarily located in Armenia. Consequently, the Bank is exposed to the economic and financial markets of Armenia which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes that together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia. The financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These interim condensed financial statements are prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. They do not include all of the information required for a complete set of IFRS annual financial statements, however selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Bank's financial position and performance since the last annual financial statements of the Bank as at and for the year ended 31 December 2014.

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that available-for-sale financial assets are stated at fair value and land and buildings are stated at revalued amounts.

(c) Functional and presentation currency

The functional currency of the Bank is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to the Bank.

The AMD is also the presentation currency for the purposes of these financial statements.

Financial information presented in AMD is rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

The key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2014.

3 Significant accounting policies

The accounting policies applied by the Bank in these interim condensed financial statements are the same as those applied by the Bank in its financial statements as at and for the year ended 31 December 2014.

Management considers that the Bank comprises of one operating segment. As a result no segment information is disclosed.

4 Financial risk management

The financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 December 2014.

5 Net interest income

	31 March 2015 AMD'000	31 March 2014 AMD'000
	Unaudited	**Unaudited**
Interest income		
Loans to customers	7,931,377	5,477,989
Available-for-sale financial assets	547,733	494,290
Loans and advances to banks and financial institutions	471,851	207,233
Other	15,952	24,807
	8,966,913	**6,204,319**
Interest expense		
Current accounts and deposits from customers	3,081,431	2,884,460
Deposits and balances from banks and other borrowings	2,072,411	678,682
Debt securities issued	1,102,162	-
	6,256,004	**3,563,142**

6 Other general administrative expenses

	31 March 2015 AMD'000	31 March 2014 AMD'000
	Unaudited	**Unaudited**
Depreciation and amortisation	166,214	250,163
Taxes other than on income	149,705	97,523
Advertising, marketing and agent expenses	140,047	205,906
Security	79,325	69,125
Operating lease expense	70,621	58,096
Deposit insurance fund	47,128	42,171
Communications and information services	40,626	38,874
Insurance	34,568	39,357
Repairs and maintenance	33,897	28,786
Utilities and office maintenance	30,973	39,545
Cash transportation expenses	29,878	26,676
Office supplies	20,623	16,260
Professional services	17,065	17,920
Travel expenses	14,231	8,698
Other	194,265	170,552
	1,069,166	**1,109,652**

7 Income tax expense

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

The Bank's effective tax rate for the three-month period ended 31 March 2015 was 19% (three-month period ended 31 March 2014: 21%).

8 Cash and cash equivalents

	31 March 2015 AMD'000	31 December 2014 AMD'000
	Unaudited	
Cash on hand	8,057,035	7,139,842
Nostro accounts with the CBA	70,869,040	53,404,568
Nostro accounts with other banks		
- rated A- to A+	1,316,501	22,876,628
- rated from BBB- to BBB+	193,164	320,944
- rated from BB- to BB+	383,289	1,156,420
- not rated	4,216	111,319
Total nostro accounts with other banks	**1,897,170**	**24,465,311**
Total cash and cash equivalents	**80,823,245**	**85,009,721**

The Bank uses credit ratings per Standard&Poor's and Fitch in disclosing credit quality.

9 Available-for-sale financial assets

	31 March 2015 AMD'000	31 December 2014 AMD'000
	Unaudited	
Held by the Bank		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	3,364,052	4,552,435
Corporate bonds	-	820,710
Total debt and other fixed-income instruments	**3,364,052**	**5,373,145**
Equity instruments		
Corporate shares	110,347	110,822
	3,474,399	**5,483,967**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	15,130,960	11,019,447
Corporate bonds	1,376,569	694,748
	16,507,529	**11,714,195**

10 Loans and advances to banks and financial institutions

	31 March 2015 AMD'000	31 December 2014 AMD'000
	Unaudited	
Loans and deposits with top 10 Armenian Banks	3,637,382	17,976,167
Loans and deposits with other Armenian Banks	3,507,830	5,889,482
Reverse repurchase agreements with Armenian financial institutions	2,803,142	3,063,011
Credit card settlement deposit with the CBA	310,000	320,000
Other	368,182	426,957
	10,626,536	**27,675,617**

11 Loans to customers

	31 March 2015 AMD'000	31 December 2014 AMD'000
	Unaudited	
Loans to corporate customers	**163,826,760**	**159,074,383**
Loans to retail customers		
Gold loans	37,570,185	28,663,190
Credit cards	19,578,381	18,140,922
Mortgage loans	11,792,702	9,918,160
Agricultural loans	4,644,807	3,901,468
Other	6,187,133	4,670,311
Total loans to retail customers	**79,773,208**	**65,294,051**
Gross loans to customers	**243,599,968**	**224,368,434**
Impairment allowance	(4,828,975)	(4,485,677)
Net loans to customers	**238,770,993**	**219,882,757**

Movements in the loan impairment allowance by classes of loans to customers for the three-month period ended 31 March 2015 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the period	3,279,741	1,205,936	4,485,677
Net charge (unaudited)	(89,447)	1,095,262	1,005,815
Write-offs (unaudited)	(75,173)	(587,344)	(662,517)
Balance at the end of the period (unaudited)	**3,115,121**	**1,713,854**	**4,828,975**

Movements in the loan impairment allowance by classes of loans to customers for the three-month period ended 31 March 2014 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the period	3,492,896	1,302,673	4,795,569
Net charge (unaudited)	354,864	630,653	985,517
Write-offs (unaudited)	(3,140)	(720,611)	(723,751)
Balance at the end of the period (unaudited)	3,844,620	1,212,715	5,057,335

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 March 2015 (unaudited):

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans without individual signs of impairment:				
- Loans secured by cash, deposits or state and municipal guarantees	42,709,765	-	42,709,765	0.0%
- Other loans to corporate customers	115,500,511	1,277,002	114,223,509	1.1%
Overdue or impaired loans:				
- overdue less than 90 days	597,595	71,711	525,884	12.0%
- overdue more than 90 days and less than 270 days	476,965	93,663	383,302	19.6%
- overdue more than 270 days	4,541,924	1,672,745	2,869,179	36.8%
Total overdue or impaired loans	5,616,484	1,838,119	3,778,365	32.7%
Total loans to corporate customers	**163,826,760**	**3,115,121**	**160,711,639**	**1.9%**
Loans to retail customers				
Gold loans				
- not overdue	36,071,173	12,116	36,059,057	0.0%
- overdue less than 30 days	818,330	21,725	796,605	2.7%
- overdue 30-89 days	354,094	31,250	322,844	8.8%
- overdue 90-179 days	290,501	44,407	246,094	15.3%
- overdue 180-270 days	36,087	24,901	11,186	69.0%
Total gold loans	**37,570,185**	**134,399**	**37,435,786**	**0.4%**
Credit cards				
- not overdue	16,055,780	105,203	15,950,577	0.7%
- overdue less than 30 days	1,546,818	262,682	1,284,136	17.0%
- overdue 30-89 days	603,262	180,659	422,603	29.9%
- overdue 90-179 days	709,193	336,366	372,827	47.4%
- overdue 180-270 days	663,328	420,632	242,696	63.4%
Total credit cards	**19,578,381**	**1,305,542**	**18,272,839**	**6.7%**
Mortgage loans				
- not overdue	11,431,122	5,222	11,425,900	0.0%
- overdue less than 30 days	158,479	4,270	154,209	2.7%
- overdue 30-89 days	146,850	12,964	133,886	8.8%
- overdue 90-179 days	49,935	12,209	37,726	24.4%
- overdue 180-270 days	6,316	2,940	3,376	46.5%
Total mortgage loans	**11,792,702**	**37,605**	**11,755,097**	**0.3%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Agricultural loans				
- not overdue	4,300,625	12,266	4,288,359	0.3%
- overdue less than 30 days	144,956	19,785	125,171	13.6%
- overdue 30-89 days	94,549	38,648	55,901	40.9%
- overdue 90-179 days	71,150	38,722	32,428	54.4%
- overdue 180-270 days	33,527	28,789	4,738	85.9%
Total agricultural loans	**4,644,807**	**138,210**	**4,506,597**	**3.0%**
Other loans to retail customers				
- not overdue	5,611,298	8,630	5,602,668	0.2%
- overdue less than 30 days	192,378	7,704	184,674	4.0%
- overdue 30-89 days	161,888	19,265	142,623	11.9%
- overdue 90-179 days	125,270	30,007	95,263	24.0%
- overdue 180-270 days	96,299	32,492	63,807	33.7%
Total other loans to retail customers	**6,187,133**	**98,098**	**6,089,035**	**1.6%**
Total loans to retail customers	**79,773,208**	**1,713,854**	**78,059,354**	**2.1%**
Total loans to customers	**243,599,968**	**4,828,975**	**238,770,993**	**2.0%**

The following table provides information on the credit quality of the loans to customers as at 31 December 2014:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans without individual signs of impairment:				
- Loans secured by cash, deposits or state and municipal guarantees	44,102,368	-	44,102,368	0.0%
- Other loans to corporate customers	109,834,606	1,235,915	108,598,691	1.1%
Overdue or impaired loans:				
- overdue less than 90 days	139,621	16,755	122,866	12.0%
- overdue more than 90 days and less than 270 days	425,342	61,138	364,204	14.4%
- overdue more than 270 days	4,572,446	1,965,933	2,606,513	43.0%
Total overdue or impaired loans	5,137,409	2,043,826	3,093,583	39.8%
Total loans to corporate customers	**159,074,383**	**3,279,741**	**155,794,642**	**2.1%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Loans to retail customers				
Gold loans				
- not overdue	27,557,126	5,512	27,551,614	0.0%
- overdue less than 30 days	649,606	17,864	631,742	2.7%
- overdue 30-89 days	255,525	23,636	231,889	9.2%
- overdue 90-179 days	162,137	28,455	133,682	17.5%
- overdue 180-270 days	38,796	25,430	13,366	65.5%
Total gold loans	**28,663,190**	**100,897**	**28,562,293**	**0.4%**
Credit cards				
- not overdue	16,142,793	72,644	16,070,149	0.5%
- overdue less than 30 days	371,890	57,085	314,805	15.3%
- overdue 30-89 days	495,513	138,000	357,513	27.8%
- overdue 90-179 days	254,941	114,723	140,218	45.0%
- overdue 180-270 days	875,785	528,422	347,363	60.3%
Total credit cards	**18,140,922**	**910,874**	**17,230,048**	**5.0%**
Mortgage loans				
- not overdue	9,653,772	1,931	9,651,841	0.0%
- overdue less than 30 days	160,973	3,541	157,432	2.2%
- overdue 30-89 days	45,503	3,868	41,635	8.5%
- overdue 90-179 days	44,119	13,346	30,773	30.3%
- overdue 180-270 days	13,793	3,388	10,405	24.6%
Total mortgage loans	**9,918,160**	**26,074**	**9,892,086**	**0.3%**
Agricultural loans				
- not overdue	3,694,757	9,237	3,685,520	0.3%
- overdue less than 30 days	90,742	11,660	79,082	12.8%
- overdue 30-89 days	59,853	22,744	37,109	38.0%
- overdue 90-179 days	41,555	23,749	17,806	57.2%
- overdue 180-270 days	14,561	12,413	2,148	85.2%
Total agricultural loans	**3,901,468**	**79,803**	**3,821,665**	**2.0%**
Other loans to retail customers				
- not overdue	4,157,514	6,236	4,151,278	0.1%
- overdue less than 30 days	144,971	5,799	139,172	4.0%
- overdue 30-89 days	160,593	18,789	141,804	11.7%
- overdue 90-179 days	131,367	30,740	100,627	23.4%
- overdue 180-270 days	75,866	26,724	49,142	35.2%
Total other loans to retail customers	**4,670,311**	**88,288**	**4,582,023**	**1.9%**
Total loans to retail customers	**65,294,051**	**1,205,936**	**64,088,115**	**1.8%**
Total loans to customers	**224,368,434**	**4,485,677**	**219,882,757**	**2.0%**

(b) Key assumptions and judgments for estimating loan impairment

(i) Loans to corporate customers

The Bank estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment has been identified. In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- historic annual loss rate of 1.1%;
- loss rate of 0% for loans secured by cash and deposits or state and municipal guarantees;
- a discount of between 20% and 40% to the originally appraised value if the property pledged is sold;
- a delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 March 2015 would be AMD 1,607,116 thousand lower/higher (31 December 2014: AMD 1,557,946 thousand lower/higher).

(ii) Loans to retail customers

The Bank estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers is that loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 36 months.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to retail customers as at 31 March 2015 would be AMD 2,341,781 thousand lower/higher (31 December 2014: AMD 1,922,643 thousand).

(c) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 March 2015 (unaudited) **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral - for collateral assessed as of reporting date**	**Fair value of collateral – for collateral assessed as of loan inception date**
Loans without individual signs of impairment			
Cash and deposits	22,890,256	-	22,890,256
Real estate	30,896,431	-	30,896,431
Plant and equipment	20,416,552	-	20,416,552
Inventory	3,522,665	-	3,522,665
Other collateral	571,711	-	571,711
Motor vehicles	323,897	-	323,897
Gold	14,312	-	14,312
Current accounts	44,283,820	-	-
State and municipal guarantees	19,819,509	-	-
Corporate shares	8,186,846	-	-
Corporate guarantees (unrated)	2,377,619	-	-
Bank guarantees	1,346,805	-	-
No collateral or other credit enhancement	2,282,851	-	-
Total loans without individual signs of impairment	156,933,274	-	78,635,824
Overdue or impaired loans			
Plant and equipment	2,435,305	-	2,435,305
Real estate	830,205	-	830,205
Motor vehicles	49,675	-	49,675
Gold	504	-	504
Current accounts	152,712	-	-
Corporate guarantees (unrated)	49,301	-	-
No collateral or other credit enhancement	260,663	-	-
Total overdue or impaired loans	3,778,365	-	3,315,689
Total loans to corporate customers	**160,711,639**	-	**81,951,513**

31 December 2014 AMD'000	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date
Loans without individual signs of impairment			
Cash and deposits	25,681,764	-	25,681,764
Real estate	22,939,403	-	22,939,403
Plant and equipment	16,726,353	-	16,726,353
Inventory	2,052,028	-	2,052,028
Other collateral	1,990,634	-	1,990,634
Motor vehicles	421,985	-	421,985
Gold	7,397	-	7,397
Current accounts	47,602,773	-	-
State and municipal guarantees	18,420,604	-	-
Corporate shares	7,691,253	-	-
Corporate guarantees (unrated)	5,386,931	-	-
Bank guarantees	1,345,099	-	-
No collateral or other credit enhancement	2,434,835	-	-
Total loans without individual signs of impairment	152,701,059	-	69,819,564
Overdue or impaired loans			
Plant and equipment	2,346,260	-	2,346,260
Real estate	645,319	-	645,319
Inventory	71,231	-	71,231
Gold	1,393	-	1,393
Other collateral	17,627	-	17,627
No collateral or other credit enhancement	11,753	-	-
Total overdue or impaired loans	3,093,583	-	3,081,830
Total loans to corporate customers	**155,794,642**	-	**72,901,394**

The tables above exclude overcollateralisation.

The Bank has loans, for which the fair value of collateral was assessed at the loan inception date and it was not updated for further changes. For certain loans the fair value of collateral is updated as at the reporting date. Information on the valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

The recoverability of loans which are neither past due nor impaired primarily depends on the creditworthiness of borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral as at each reporting date.

Included in loans to corporate customers without individual signs of impairment is a loan to an entity with a carrying amount of AMD 6,425,818 thousand which is secured by the plant and facilities of the borrower. Currently most of the plant and facilities are not being used for production. In assessing future cash flows from the loan the Bank has estimated the selling price of the individual items of the plant and facilities pledged deducting the cost of dismantling and transportation to the selling destination. The selling prices have been estimated based on scrap metal prices for non-usable items and market prices of items capable of being used. The timing of estimated cash flows is projected from one to two years. Had the cash flows been projected with one year delay, an impairment of AMD 551,404 thousand would arise. Also, had the selling prices been assessed at 15% lower an impairment of AMD 961,690 thousand would arise.

(ii) Loans to retail customers

Gold loans

The fair value of gold securing gold loans is at least equal to carrying amounts of individual loans based on the values determined at the loan inception date.

Credit cards

Approximately 50% of the credit card loan portfolio is insured against a delinquency of more than 30% of this portfolio by an insurance company. Remaining credit card loans are not secured.

Mortgage

Mortgage loans are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans with a loan-to-value ratio at the date of loan issuance of a maximum of 80%. The fair value of real estate securing mortgage loans is at least equal to the carrying amounts of individual loans based on the values determined at the loan inception date.

Agricultural loans

Agricultural loans are mainly unsecured.

Other loans

Approximately 50% of other loans are secured by real estate and 17% are secured by cash and deposits. The Bank's policy is to issue other loans with a loan-to-value ratio of maximum of 60% for the collateral which is not cash or deposit.

(d) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Armenia who operate in the following economic sectors:

	31 March 2015 AMD'000	31 December 2014 AMD'000
	Unaudited	
Energy generation and distribution	65,331,470	58,564,702
Trade	19,565,037	15,216,592
Manufacturing	14,029,391	9,906,732
Mining/metallurgy	13,187,168	18,908,069
Construction	12,235,642	11,796,037
Government and Municipal authorities	11,896,186	12,025,921
Hotel and hospitality	7,652,871	10,308,536
Agriculture, forestry and timber	4,127,245	4,216,222
Food and beverage	2,199,963	5,482,715
Foundations	2,008,281	1,176,599
Transportation	1,932,854	1,450,216
Financial institutions	1,793,764	573,946
Education	388,088	620,397
Other	7,478,800	8,827,699
Loans to retail customers	79,773,208	65,294,051
	243,599,968	**224,368,434**
Impairment allowance	(4,828,975)	(4,485,677)
	238,770,993	**219,882,757**

(e) Significant credit exposures

As at 31 March 2015 the Bank has seven borrowers or groups of connected borrowers (31 December 2014: seven), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 March 2015 is AMD 70,680,581 thousand (31 December 2014: AMD 70,675,213 thousand).

12 Deposits and balances from banks and other borrowings

	31 March 2015 AMD'000	31 December 2014 AMD'000
	Unaudited	
Loans from banks and other financial institutions	83,156,516	84,714,890
Amounts payable under repurchase agreements	16,937,038	13,967,714
Vostro accounts	4,256,461	9,325
	104,350,015	**98,691,929**

13 Current accounts and deposits from customers

	31 March 2015 AMD'000	31 December 2014 AMD'000
	Unaudited	
Current accounts and demand deposits		
- Retail	9,996,673	8,847,239
- Corporate	37,823,004	32,266,904
Term deposits		
- Retail	83,422,337	85,243,647
- Corporate	46,935,219	56,453,649
	178,177,233	**182,811,439**

14 Related party transactions

(a) Control relationships

The Bank's parent company is Center for Business Investments LLC. The Bank is ultimately controlled by a single individual, Karen Safaryan, who is also the chairman of the Bank. He has a number of other business interests outside the Bank.

No publicly available financial statements are produced by the Bank's parent company.

(b) Transactions with members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the three-month periods ended 31 March 2015 and 2014 is as follows:

	31 March 2015 AMD'000	31 March 2014 AMD'000
	Unaudited	**Unaudited**
Salary and bonuses	**97,023**	**87,950**

The outstanding balances and average effective interest rates as at 31 March 2015 and 31 December 2014 for transactions with members of the Board and the Management Board are as follows:

	31 March 2015 AMD'000	**Average effective interest rate, %**	**31 December 2014 AMD'000**	**Average effective interest rate, %**
	Unaudited	**Unaudited**		
Statement of financial position				
Loans to customers	131,565	10.0%	167,106	11.0%
Current accounts and deposits from customers	126,110	7.3%	104,589	10.0%
Items not recognised in the statement of financial position				
Lending commitments	180,790	-	215,470	-

Amounts included in profit or loss in relation to transactions with the members of the Board and the Management Board for the three-month periods ended 31 March 2015 and 2014 are as follows:

	31 March 2015 AMD'000	**31 March 2014 AMD'000**
	Unaudited	**Unaudited**
Profit or loss		
Interest income	3,954	1,996
Interest expense	(411)	(3,843)
Fee and commission income	1,060	123

(c) Transactions with other related parties

Other related parties include entities under common control with the Bank, close members of the families of and entities controlled by the Board and the Management Board members. The outstanding balances and the related average effective interest rates as at 31 March 2015 and related profit or loss amounts of transactions for the three-month period ended 31 March 2015 with other related parties are as follows (unaudited):

	Entities under common control		Other		
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	Total AMD'000
Statement of financial position					
ASSETS					
Loans to customers	3,843,411	11.9%	262,536	11.2%	4,105,947
LIABILITIES					
Current accounts and deposits from customers	346,906	12.5%	332,075	8.0%	678,981
Deposits and balances from banks and other borrowings	1,158,831	18.0%	-	-	1,158,831
Items not recognised in the statement of financial position					
Lending commitments	164,125		33,172		197,297
Guarantees given	-		41,203		41,203
Profit (loss)					
Interest income	102,811		7,014		109,825
Interest expense	(11,273)		(6,748)		(18,021)
Fee and commission income	2,424		1,230		3,654
Fee and commission expense	(33,665)		-		(33,665)
General administrative expenses	(9,848)		(212)		(10,060)

The outstanding balances and the related average effective interest rates as at 31 December 2014 and the profit or loss amounts of transactions for the three-month period ended 31 March 2014 with other related parties are as follows (unaudited):

	Entities under common control		Other		
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	Total AMD'000
Statement of financial position					
ASSETS					
Loans to customers	2,413,963	12.0%	1,314,717	14.9%	3,728,680
LIABILITIES					
Current accounts and deposits from customers	387,577	14.0%	396,085	8.0%	783,662
Items not recognised in the statement of financial position					
Lending commitments	141,789		50,346		192,135
Guarantees given	-		39,924		39,924
Profit (loss)					
Interest income	72,213		41,471		113,684
Interest expense	(11,298)		(1,093)		(12,391)
Fee and commission income	1,657		1,256		2,913
Fee and commission expense	(35,894)		-		(35,894)
General administrative expenses	(4,236)		(212)		(4,448)

15 Fair values of financial instruments

The Bank measures fair values using the following fair value hierarchy which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimated fair values of all financial instruments except for unquoted equity securities available-for-sale and AMD denominated loans to customers and term deposits from customers approximate their carrying amounts. The fair value of unquoted equity securities available-for-sale with a carrying value of AMD 110,347 thousand (31 December 2014: AMD 110,822 thousand) could not be determined.

The fair values of AMD denominated loans to customers and term deposits from customers are lower than their carrying values by AMD 867,949 thousand and AMD 180,283 thousand respectively (31 December 2014: AMD 1,398,333 thousand and AMD 939,782 thousand respectively). The fair value measurements of AMD denominated loans to customers and term deposits from customers are categorized into Level 3 and Level 2 respectively in the fair value hierarchy.

The table below analyses financial instruments measured at fair value at 31 March 2015, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position:

AMD '000	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets				
- Debt and other fixed income instruments	-	19,871,581	-	19,871,581

The table below analyses financial instruments measured at fair value at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position:

AMD '000	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets				
- Debt and other fixed income instruments	-	17,087,340	-	17,087,340

The estimates of fair value are intended to approximate 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. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

16 Subsequent events

After 31 March 2015 the Bank started a process to issue and offer for sale bonds to be listed in the international capital markets.

Ardshinbank CJSC

Financial Statements

for the year ended 31 December 2014

Contents

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Independent Auditors' Report

To the Board of
Ardshinbank CJSC

We have audited the accompanying financial statements of Ardshinbank CJSC (the Bank), which comprise the statement of financial position as at 31 December 2014, and the 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Tigran Gasparyan
Director

KPMG Armenia cjsc

Tigran Gasparyan
Engagement Partner

KPMG Armenia CJSC
11 April 2015

	Notes	2014 AMD'000	2013 AMD'000
Interest income	4	27,499,158	26,973,386
Interest expense	4	(16,113,474)	(12,694,694)
Net interest income		**11,385,684**	**14,278,692**
Fee and commission income	5	3,584,553	3,012,201
Fee and commission expense		(608,280)	(465,344)
Net fee and commission income		**2,976,273**	**2,546,857**
Net foreign exchange income	6	2,543,357	1,727,993
Net gain on available-for-sale financial assets		1,668,990	867,844
Other operating income		579,532	650,499
Operating income		**19,153,836**	**20,071,885**
Impairment losses	13	(4,857,894)	(3,654,918)
Personnel expenses	7	(4,580,069)	(3,942,017)
Other general administrative expenses	8	(4,856,752)	(4,420,856)
Profit before income tax		**4,859,121**	**8,054,094**
Income tax expense	9	(950,143)	(1,633,714)
Profit for the year		**3,908,978**	**6,420,380**
Other comprehensive (loss) income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		(1,282,810)	2,557,411
- Net change in fair value transferred to profit or loss		(1,335,192)	(694,275)
Total items that are or may be reclassified subsequently to profit or loss		*(2,618,002)*	*1,863,136*
Items that will not be reclassified to profit or loss:			
Revaluation of land and buildings		1,724,243	-
Total items that will not be reclassified to profit or loss		*1,724,243*	-
Other comprehensive (loss) income for the year, net of income tax		**(893,759)**	**1,863,136**
Total comprehensive income for the year		**3,015,219**	**8,283,516**

The financial statements as set out on pages 4 to 56 were approved by management on 11 April 2015 and were signed on its behalf by:

Mher Grigoryan
Chairman of Management Board

Vahagn Durgaryan
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2014 AMD'000	2013 AMD'000
ASSETS			
Cash and cash equivalents	10	85,009,721	50,093,541
Available-for-sale financial assets			
- Held by the Bank	11	5,483,967	1,708,293
- Pledged under sale and repurchase agreements	11	11,714,195	20,813,133
Loans and advances to banks and financial institutions	12	27,675,617	10,490,422
Loans to customers	13	219,882,757	172,287,269
Repossessed property	13	5,597,154	5,660,545
Property, equipment and intangible assets	14	9,038,769	6,965,216
Other assets	15	2,003,940	1,309,677
Total assets		**366,406,120**	**269,328,096**
LIABILITIES			
Deposits and balances from banks and other borrowings	16	98,691,929	63,534,083
Debt securities issued	17	34,935,669	-
Current accounts and deposits from customers	18	182,811,439	159,155,858
Current tax liability		346,071	122,331
Deferred tax liabilities	9	1,156,704	1,563,950
Other liabilities	19	1,332,042	834,827
Total liabilities		**319,273,854**	**225,211,049**
EQUITY			
Share capital	20	17,925,200	13,802,404
Share premium		1,711,179	1,711,179
Revaluation surplus for land and buildings		4,392,623	2,670,214
Revaluation reserve for available-for-sale financial assets		(507,249)	2,110,753
Retained earnings		23,610,513	23,822,497
Total equity		**47,132,266**	**44,117,047**
Total liabilities and equity		**366,406,120**	**269,328,096**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2014 AMD'000	2013 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		26,950,267	26,188,105
Interest payments		(15,649,869)	(11,606,927)
Fee and commission receipts		3,584,553	2,949,798
Fee and commission payments		(608,280)	(465,344)
Net receipts from foreign exchange		2,194,955	1,730,355
Other income receipts		2,248,522	1,518,343
Other general administrative expenses payments		(7,648,662)	(7,239,620)
(Increase) decrease in operating assets			
Available-for-sale financial assets		2,050,761	(6,792,495)
Financial instruments at fair value through profit or loss		-	291,931
Loans and advances to banks and financial institutions		(16,245,573)	(5,061,469)
Loans to customers		(35,977,476)	(43,537,191)
Other assets		(382,806)	(170,632)
Increase (decrease) in operating liabilities			
Financial instruments at fair value through profit or loss		-	(5,850)
Short term deposits and balances from banks		17,067,831	5,458,379
Current accounts and deposits from customers		11,276,497	43,307,657
Other liabilities		5,576	(74,532)
Net cash (used in) provided from operating activities before income tax paid		**(11,133,704)**	**6,490,508**
Income tax paid		(909,870)	(1,723,720)
Cash flows (used in) provided from operations		**(12,043,574)**	**4,766,788**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and intangible assets		(950,815)	(356,784)
Cash flows used in investing activities		**(950,815)**	**(356,784)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of borrowed funds		19,744,875	19,164,887
Repayment of borrowed funds		(11,172,369)	-
Proceeds from issuance of debt securities		34,131,000	(7,294,581)
Cash flows from financing activities		**42,703,506**	**11,870,306**
Net increase in cash and cash equivalents		**29,709,117**	**16,280,310**
Effect of changes in exchange rates on cash and cash equivalents		5,207,063	(113,223)
Cash and cash equivalents as at the beginning of the year		50,093,541	33,926,454
Cash and cash equivalents as at the end of the year	10	**85,009,721**	**50,093,541**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

AMD'000	Share capital	Share premium	Revaluation surplus for land and buildings	Revaluation reserve for available-for-sale financial assets	Retained earnings	Total equity
Balance as at 1 January 2013	13,802,404	1,711,179	2,670,214	247,617	17,402,117	35,833,531
Total comprehensive income						
Profit for the year	-	-	-	-	6,420,380	6,420,380
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	-	-	2,557,411	-	2,557,411
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	-	-	-	(694,275)	-	(694,275)
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	*1,863,136*	-	*1,863,136*
Total other comprehensive income	-	-	-	1,863,136	-	1,863,136
Total comprehensive income for the year	-	-	**-**	**1,863,136**	**6,420,380**	**8,283,516**
Balance as at 31 December 2013	**13,802,404**	**1,711,179**	**2,670,214**	**2,110,753**	**23,822,497**	**44,117,047**
Balance as at 1 January 2014	13,802,404	1,711,179	2,670,214	2,110,753	23,822,497	44,117,047
Total comprehensive income						
Profit for the year	-	-	-	-	3,908,978	3,908,978
Other comprehensive (loss) income						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	-	-	(1,282,810)	-	(1,282,810)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	-	-	-	(1,335,192)	-	(1,335,192)
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	*(2,618,002)*	-	*(2,618,002)*
Items that will not be reclassified to profit or loss:						
Revaluation of land and buildings, net of deferred tax	-	-	1,724,243	-	-	1,724,243
Transfer from revaluation reserve to retained earnings	-	-	(1,834)	-	1,834	-
Total items that will not be reclassified to profit or loss	-	-	1,722,409	-	1,834	1,724,243
Total other comprehensive (loss) income	-	-	1,722,409	(2,618,002)	1,834	(893,759)
Total comprehensive income for the year	-	-	**1,722,409**	**(2,618,002)**	**3,910,812**	**3,015,219**
Transactions with owners of the Bank						
Increase in par value of shares	4,122,796	**-**	**-**	**-**	(4,122,796)	-
Total transactions with owners of the Bank	**4,122,796**	**-**	**-**	**-**	**(4,122,796)**	**-**
Balance as at 31 December 2014	**17,925,200**	**1,711,179**	**4,392,623**	**(507,249)**	**23,610,513**	**47,132,266**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organization and operations

Ardshinbank CJSC (the Bank) was established in the Republic of Armenia as a closed joint stock company in 2003. The principal activities are deposit taking, customer accounts maintenance, credit operations, issuing guarantees, cash and settlement transactions and securities and foreign exchange transactions. The Bank`s activities are regulated by the Central Bank of Armenia (CBA). The Bank has a general banking license, and is a member of the state deposit insurance system in the Republic of Armenia.

The Bank has 55 branches from which it conducts business throughout the Republic of Armenia. The registered address of the head office is 13 and 13/1 Grigor Lusavorich Street, Yerevan, Armenia. The majority of the Banks's assets and liabilities are located in the Republic of Armenia.

The Bank's parent company is Center for Business Investments LLC. The Bank is ultimately controlled by a single individual, Karen Safaryan who has a number of other business interests outside the Bank.

(b) Armenian business environment

The Bank's operations are primarily located in Armenia. Consequently, the Bank is exposed to the economic and financial markets of Armenia which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes that together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia. The financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that available-for-sale financial assets are stated at fair value and land and buildings are stated at revalued amounts.

(c) Functional and presentation currency

The functional currency of the Bank is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to the Bank.

The AMD is also the presentation currency for the purposes of these financial statements.

Financial information presented in AMD is rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates – note 13;
- assessment of net realizable value of repossessed assets – note 13;
- land and building revaluation estimates – note 14; and
- fair value of financial instruments – note 27.

(e) Changes in accounting policies and presentation

Offsetting financial assets and financial liabilities

The Bank has adopted Amendments to IAS 32 *Financial Instruments: Disclosure and Presentation - Offsetting Financial Assets and Financial Liabilities* with a date of initial application of 1 January 2014. Amendments to IAS 32 *Financial Instruments: Disclosure and Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The Bank does not expect that these amendments will have an impact on its financial statements as the Bank does present financial assets and financial liabilities on net basis in the statement of financial position.

Accounting for land

In 2014 the Bank changed its accounting policy for land from cost model to revaluation model. The change has been applied prospectively. Management believes that the new policy provides more relevant information.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, except as explained in note 2(e).

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBA and other banks. The mandatory reserve deposit with the CBA is considered to be a cash equivalent due to the absence of restrictions on its withdrawability. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

– acquired or incurred principally for the purpose of selling or repurchasing in the near term
– part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
– derivative financial instruments (except for a derivative that is a financial guarantee contract or a designated and effective hedging instruments) or,
– upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

– the assets or liabilities are managed, evaluated and reported internally on a fair value basis
– the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
– the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss
- the Bank designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method

– investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(v) Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vi) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vii) Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognizes the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(ix) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for land and buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Revaluation

Land and buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the land and buildings being revalued. A revaluation increase on a land and a building is recognized as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss. A revaluation decrease on a land and a building is recognized in profit or loss except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income directly in equity, in which case it is recognized in other comprehensive income.

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

–	buildings	20 years
–	equipment	1 to 5 years
–	fixtures and fittings	5 years
–	motor vehicles	5 years
–	leasehold improvement	lease term

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortization and impairment losses. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 5 to 10 years.

(f) Repossessed property

Repossessed property is stated at the lower of cost and net realisable value.

(g) Impairment

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Bank determines the amount of any impairment loss.

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Financial assets carried at amortised cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Bank reviews its loans and receivables to assess impairment on a regular basis.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data related to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and cannot be reversed.

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that is recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

(iv) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. 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. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) Provisions

A provision is recognized in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except in the following cases:

– loan commitments that the Bank designates as financial liabilities at fair value through profit or loss;
– if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments;
– loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;
– commitments to provide a loan at a below-market interest rate.

(j) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

(ii) Share premium

Any amount paid in excess of par value of shares issued is recognised as share premium.

(iii) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Armenian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(k) Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognized for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

(l) Income and expense recognition

Interest income and expense are recognized in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

(m) Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Management considers that the Bank comprises of one operating segment.

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2014, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Bank recognizes that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the financial statements. The Bank has not yet analyzed the impact of these changes. The Bank does not intend to adopt this standard early. The standard is effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.

- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. The Bank has not yet analyzed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2014 AMD'000	2013 AMD'000
Interest income		
Loans to customers	24,217,976	23,859,507
Available-for-sale financial assets	1,764,546	2,532,962
Loans and advances to banks and financial institutions	1,436,064	453,753
Other	80,572	127,164
	27,499,158	**26,973,386**
Interest expense		
Current accounts and deposits from customers	12,295,265	9,510,807
Deposits and balances from banks and other borrowings	3,540,469	3,183,887
Debt securities issued	277,740	-
	16,113,474	**12,694,694**

Included within various line items under interest income for the year ended 31 December 2014 is a total of AMD 309,358 thousand (2013: AMD 403,615 thousand) accrued on impaired financial assets.

5 Fee and commission income

	2014 AMD'000	2013 AMD'000
Plastic card servicing	1,458,923	918,465
Cash withdrawal	1,137,646	1,094,423
Remittances	796,954	798,862
Guarantee and letter of credit issuance	113,584	121,957
Other	77,446	78,494
	3,584,553	**3,012,201**

6 Net foreign exchange income

	2014 AMD'000	2013 AMD'000
Gain on spot transactions	2,194,955	1,730,355
Gain/(loss) from revaluation of financial assets and liabilities	348,402	(2,362)
	2,543,357	**1,727,993**

7 Personnel expenses

	2014 AMD'000	2013 AMD'000
Employee compensation, including payroll related taxes	**4,580,069**	**3,942,017**

8 Other general administrative expenses

	2014 AMD'000	2013 AMD'000
Depreciation and amortisation	1,032,182	1,112,566
Advertising, marketing and agent expenses	865,543	671,731
Taxes other than on income	525,609	296,998
Security	283,300	275,127
Operating lease expense	269,164	215,725
Deposit insurance fund	187,848	144,768
Communications and information services	187,715	175,655
Insurance	142,861	118,243
Repairs and maintenance	122,775	125,201
Utilities and office maintenance	106,005	83,297
Cash transportation expenses	105,893	101,325
Travel expenses	77,996	66,478
Office supplies	74,607	67,473
Professional services	62,085	46,298
Charity and sponsorship	50,649	126,918
Other	762,520	793,053
	4,856,752	**4,420,856**

9 Income tax expense

	2014 AMD'000	2013 AMD'000
Current year tax expense	(1,133,610)	(1,049,540)
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	183,467	(584,174)
Total income tax expense	**(950,143)**	**(1,633,714)**

In 2014, the applicable tax rate for current and deferred tax is 20% (2013: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2014 AMD'000	%	2013 AMD'000	%
Profit before tax	4,859,121		8,054,094	
Income tax at the applicable tax rate	(971,824)	(20.0)	(1,610,819)	(20.0)
Non-taxable income (non-deductible costs)	21,681	0.4	(22,895)	(0.3)
	(950,143)	**(19.6)**	**(1,633,714)**	**(20.3)**

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2014 and 2013.

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2014 and 2013 are presented as follows:

AMD'000	Balance 1 January 2014	Recognized in profit or loss	Recognized in other comprehensive income	Balance 31 December 2014
Available-for-sale financial assets	(527,690)	-	654,502	126,812
Loans to customers	(585,551)	235,590	-	(349,961)
Property and equipment	(420,104)	41,335	(430,723)	(809,492)
Placements with banks	(28,849)	(67,825)	-	(96,674)
Other assets	(16,720)	(10,244)	-	(26,964)
Other liabilities	14,964	(15,389)	-	(425)
	(1,563,950)	**183,467**	**223,779**	**(1,156,704)**

AMD'000	Balance 1 January 2013	Recognized in profit or loss	Recognized in other comprehensive income	Balance 31 December 2013
Available-for-sale financial assets	(61,906)	-	(465,784)	(527,690)
Loans to customers	(7,434)	(578,117)	-	(585,551)
Property and equipment	(463,110)	43,006	-	(420,104)
Placements with banks	(10,819)	(18,030)	-	(28,849)
Other assets	5,476	(22,196)	-	(16,720)
Other liabilities	23,801	(8,837)	-	14,964
	(513,992)	**(584,174)**	**(465,784)**	**(1,563,950)**

(b) Income tax recognized in other comprehensive income

The tax effects related to components of other comprehensive income for the years ended 31 December 2014 and 2013 comprise the following:

	2014			**2013**		
AMD'000	**Amount before tax**	**Tax expense**	**Amount net-of-tax**	**Amount before tax**	**Tax expense**	**Amount net-of-tax**
Net change in fair value of available-for-sale financial assets	(1,603,514)	320,704	(1,282,810)	3,196,764	(639,353)	2,557,411
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(1,668,990)	333,798	(1,335,192)	(867,844)	173,569	(694,275)
Revaluation of land and buildings	2,154,966	(430,723)	1,724,243	-	-	-
Other comprehensive income	**(1,117,538)**	**223,779**	**(893,759)**	**2,328,920**	**(465,784)**	**1,863,136**

10 Cash and cash equivalents

	2014 AMD'000	2013 AMD'000
Cash on hand	7,139,842	7,524,236
Nostro accounts with the CBA	53,404,568	36,317,128
Nostro accounts with other banks		
- rated A- to A+	22,876,628	4,713,689
- rated BBB	320,944	1,415,682
- rated from BB- to BB+	1,156,420	119,151
- not rated	111,319	3,655
Total nostro accounts with other banks	**24,465,311**	**6,252,177**
Total cash and cash equivalents	**85,009,721**	**50,093,541**

The nostro accounts include non-interest bearing mandatory minimum reserve deposits calculated in accordance with regulations promulgated by the CBA at 2% to 20% from the attracted funds. Withdrawal of such reserves is not restricted; however, the Bank is subject to penalties if the required minimum average balance is not periodically maintained.

The Bank uses credit ratings per Standard&Poor's and Fitch in disclosing credit quality.

No cash and cash equivalents are impaired or past due.

As at 31 December 2014 the Bank has four banks (2013: one bank) whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2014 is AMD 70,485,559 thousand (2013: AMD 36,317,128 thousand).

11 Available-for-sale financial assets

	2014 AMD'000	2013 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	4,552,435	1,646,786
Corporate bonds	820,710	-
Total debt and other fixed-income instruments	**5,373,145**	**1,646,786**
Equity instruments		
Corporate shares	110,822	61,507
	5,483,967	**1,708,293**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	11,019,447	20,428,166
Corporate bonds	694,748	384,967
	11,714,195	**20,813,133**

The Bank has transactions to lend securities and to sell securities under agreements to repurchase and to purchase securities under agreements to resell.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. The cash received is recognised as a financial asset and a financial liability is recognised for the obligation to repay the purchase price for this collateral, and is included in deposits and balances from banks and other borrowings (note 16).

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

12 Loans and advances to banks and financial institutions

	2014 AMD'000	**2013 AMD'000**
Loans and deposits with top 10 Armenian Banks	17,976,167	2,283,307
Loans and deposits with other Armenian Banks	5,889,482	-
Reverse repurchase agreements with medium-size Armenian financial institutions	3,063,011	1,640,415
Credit card settlement deposit with the CBA	320,000	1,020,000
Overnight to Armenian financial institutions (through NASDAQ OMX Armenia)	-	5,004,654
Other	426,957	542,046
	27,675,617	**10,490,422**

None of loans and advances to banks are impaired or past due.

(a) Collateral accepted as security for assets

At 31 December 2014 the fair value of financial assets collateralising reverse repurchase agreements that the Bank is permitted to sell or repledge in the absence of default is AMD 3,193,659 thousand (2013: AMD 1,710,286 thousand).

At 31 December 2014 the fair value of financial assets collateralising reverse repurchase agreements that have been repledged is AMD 2,562,365 thousand (2013: AMD 653,935 thousand). The Bank is obliged to return equivalent securities.

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

(b) Concentration of loans and advances to banks and financial institutions

As at 31 December 2014 the Bank has three financial institutions (2013: one financial institution), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2014 is AMD 16,551,335 thousand (2013: AMD 5,004,654 thousand).

13 Loans to customers

	2014 AMD'000	2013 AMD'000
Loans to corporate customers	**159,074,383**	**124,972,451**
Loans to retail customers		
Gold loans	28,663,190	24,148,863
Credit cards	18,140,922	14,503,076
Mortgage loans	9,918,160	6,450,836
Agricultural loans	3,901,468	1,368,110
Other	4,670,311	5,639,502
Total loans to retail customers	**65,294,051**	**52,110,387**
Gross loans to customers	**224,368,434**	**177,082,838**
Impairment allowance	(4,485,677)	(4,795,569)
Net loans to customers	**219,882,757**	**172,287,269**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2014 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	3,492,896	1,302,673	4,795,569
Net charge	1,909,749	2,948,145	4,857,894
Write-offs	(2,122,904)	(3,044,882)	(5,167,786)
Balance at the end of the year	**3,279,741**	**1,205,936**	**4,485,677**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2013 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	2,579,674	749,114	3,328,788
Net charge	1,428,696	2,226,222	3,654,918
Write-offs	(515,474)	(1,672,663)	(2,188,137)
Balance at the end of the year	**3,492,896**	**1,302,673**	**4,795,569**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2014:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans without individual signs of impairment:				
- Loans secured by cash, deposits or state and municipal guarantees	44,102,368	-	44,102,368	0.0%
- Other loans to corporate customers	109,834,606	1,235,915	108,598,691	1.1%
Overdue or impaired loans:				
- overdue less than 90 days	139,621	16,755	122,866	12.0%
- overdue more than 90 days and less than 270 days	425,342	61,138	364,204	14.4%
- overdue more than 270 days	4,572,446	1,965,933	2,606,513	43.0%
Total overdue or impaired loans	5,137,409	2,043,826	3,093,583	39.8%
Total loans to corporate customers	**159,074,383**	**3,279,741**	**155,794,642**	**2.1%**
Loans to retail customers				
Gold loans				
- not overdue	27,557,126	5,512	27,551,614	0.0%
- overdue less than 30 days	649,606	17,864	631,742	2.7%
- overdue 30-89 days	255,525	23,636	231,889	9.2%
- overdue 90-179 days	162,137	28,455	133,682	17.5%
- overdue 180-270 days	38,796	25,430	13,366	65.5%
Total gold loans	**28,663,190**	**100,897**	**28,562,293**	**0.4%**
Credit cards				
- not overdue	16,142,793	72,644	16,070,149	0.5%
- overdue less than 30 days	371,890	57,085	314,805	15.3%
- overdue 30-89 days	495,513	138,000	357,513	27.8%
- overdue 90-179 days	254,941	114,723	140,218	45.0%
- overdue 180-270 days	875,785	528,422	347,363	60.3%
Total credit cards	**18,140,922**	**910,874**	**17,230,048**	**5.0%**
Mortgage loans				
- not overdue	9,653,772	1,931	9,651,841	0.0%
- overdue less than 30 days	160,973	3,541	157,432	2.2%
- overdue 30-89 days	45,503	3,868	41,635	8.5%
- overdue 90-179 days	44,119	13,346	30,773	30.3%
- overdue 180-270 days	13,793	3,388	10,405	24.6%
Total mortgage loans	**9,918,160**	**26,074**	**9,892,086**	**0.3%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Agricultural loans				
- not overdue	3,694,757	9,237	3,685,520	0.3%
- overdue less than 30 days	90,742	11,660	79,082	12.8%
- overdue 30-89 days	59,853	22,744	37,109	38.0%
- overdue 90-179 days	41,555	23,749	17,806	57.2%
- overdue 180-270 days	14,561	12,413	2,148	85.2%
Total agricultural loans	**3,901,468**	**79,803**	**3,821,665**	**2.0%**
Other loans to retail customers				
- not overdue	4,157,514	6,236	4,151,278	0.1%
- overdue less than 30 days	144,971	5,799	139,172	4.0%
- overdue 30-89 days	160,593	18,789	141,804	11.7%
- overdue 90-179 days	131,367	30,740	100,627	23.4%
- overdue 180-270 days	75,866	26,724	49,142	35.2%
Total other loans to retail customers	**4,670,311**	**88,288**	**4,582,023**	**1.9%**
Total loans to retail customers	**65,294,051**	**1,205,936**	**64,088,115**	**1.8%**
Total loans to customers	**224,368,434**	**4,485,677**	**219,882,757**	**2.0%**

The following table provides information on the credit quality of the loans to customers as at 31 December 2013:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans without individual signs of impairment:				
- Loans secured by cash, deposits or state and municipal guarantees	13,656,472	-	13,656,472	0.0%
- Other loans to corporate customers	105,153,756	1,366,827	103,786,929	1.3%
Overdue or impaired loans:				
- not overdue	1,420,570	425,404	995,166	29.9%
- overdue less than 90 days	16,610	1,992	14,618	12.0%
- overdue more than 90 days and less than 270 days	4,082,440	1,641,417	2,441,023	40.2%
- overdue more than 270 days	642,603	57,256	585,347	8.9%
Total overdue or impaired loans	6,162,223	2,126,069	4,036,154	34.5%
Total loans to corporate customers	**124,972,451**	**3,492,896**	**121,479,555**	**2.8%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Loans to retail customers				
Gold loans				
- not overdue	23,509,951	3,775	23,506,176	0.0%
- overdue less than 30 days	238,657	5,604	233,053	2.3%
- overdue 30-89 days	144,442	11,936	132,506	8.3%
- overdue 90-179 days	183,155	34,454	148,701	18.8%
- overdue 180-270 days	72,658	31,244	41,414	43.0%
Total gold loans	**24,148,863**	**87,013**	**24,061,850**	**0.4%**
Credit cards				
- not overdue	12,736,566	75,783	12,660,783	0.6%
- overdue less than 30 days	406,050	60,164	345,886	14.8%
- overdue 30-89 days	253,283	69,819	183,464	27.6%
- overdue 90-179 days	456,669	237,010	219,659	51.9%
- overdue 180-270 days	650,508	517,561	132,947	79.6%
Total credit cards	**14,503,076**	**960,337**	**13,542,739**	**6.6%**
Mortgage loans				
- not overdue	6,313,155	5,434	6,307,721	0.1%
- overdue less than 30 days	44,653	1,620	43,033	3.6%
- overdue 30-89 days	69,387	13,421	55,966	19.3%
- overdue 90-179 days	9,085	4,016	5,069	44.2%
- overdue 180-270 days	14,556	12,892	1,664	88.6%
Total mortgage loans	**6,450,836**	**37,383**	**6,413,453**	**0.6%**
Agricultural loans				
- not overdue	1,321,661	2,908	1,318,753	0.2%
- overdue less than 30 days	25,899	1,523	24,376	5.9%
- overdue 30-89 days	3,191	578	2,613	18.1%
- overdue 90-179 days	13,561	4,583	8,978	33.8%
- overdue 180-270 days	3,798	2,279	1,519	60.0%
Total agricultural loans	**1,368,110**	**11,871**	**1,356,239**	**0.9%**
Other loans to retail customers				
- not overdue	4,996,077	10,993	4,985,084	0.2%
- overdue less than 30 days	173,861	10,223	163,638	5.9%
- overdue 30-89 days	118,880	21,518	97,362	18.1%
- overdue 90-179 days	181,885	61,472	120,413	33.8%
- overdue 180-270 days	168,799	101,863	66,936	60.3%
Total other loans to retail customers	**5,639,502**	**206,069**	**5,433,433**	**3.7%**
Total loans to retail customers	**52,110,387**	**1,302,673**	**50,807,714**	**2.5%**
Total loans to customers	**177,082,838**	**4,795,569**	**172,287,269**	**2.7%**

(b) Key assumptions and judgments for estimating loan impairment

(i) Loans to corporate customers

The Bank estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment has been identified. In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- historic annual loss rate of 1.1%;
- loss rate of 0% for loans secured by cash and deposits or state and municipal guarantees;
- a discount of between 20% and 40% to the originally appraised value if the property pledged is sold;
- a delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2014 would be AMD 1,557,946 thousand lower/higher (2013: AMD 1,214,796 thousand lower/higher).

(ii) Loans to retail customers

The Bank estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers is that loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 24 months.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to retail customers as at 31 December 2014 would be AMD 1,922,643 thousand lower/higher (2013: AMD 1,524,231 thousand).

(c) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2014 **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral - for collateral assessed as of reporting date**	**Fair value of collateral – for collateral assessed as of loan inception date**
Loans without individual signs of impairment			
Cash and deposits	25,681,764	-	25,681,764
Real estate	22,939,403	-	22,939,403
Plant and equipment	16,726,353	-	16,726,353
Inventory	2,052,028	-	2,052,028
Other collateral	1,990,634	-	1,990,634
Motor vehicles	421,985	-	421,985
Gold	7,397	-	7,398
Current accounts	47,602,773	-	-
State and municipal guarantees	18,420,604	-	-
Corporate shares	7,691,253	-	-
Corporate guarantees (unrated)	5,386,931	-	-
Bank guarantees	1,345,099	-	-
No collateral or other credit enhancement	2,434,835	-	-
Total loans without individual signs of impairment	**152,701,059**	-	**69,819,565**
Overdue or impaired loans			
Plant and equipment	2,346,260	-	2,346,260
Real estate	645,319	-	645,319
Inventory	71,231	-	71,231
Gold	1,393	-	1,393
Other collateral	17,627	-	17,627
No collateral or other credit enhancement	11,753	-	-
Total overdue or impaired loans	**3,093,583**	-	**3,081,830**
Total loans to corporate customers	**155,794,642**	-	**72,901,395**

31 December 2013 **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral - for collateral assessed as of reporting date**	**Fair value of collateral – for collateral assessed as of loan inception date**
Loans without individual signs of impairment			
Cash and deposits	5,069,098	-	5,069,098
Real estate	24,428,814	-	24,428,814
Plant and equipment	25,897,673	5,837,974	20,059,699
Inventory	107,552	-	107,552
Other collateral	3,632,521	-	3,632,521
Motor vehicles	702,855	-	702,855
Gold	8,102	-	8,102
Current accounts	45,333,502	-	-
State and municipal guarantees	8,587,374	-	-
Corporate shares	373,797	-	-
Corporate guarantees (unrated)	1,346,572	-	-
Bank guarantees	953,237	-	-
No collateral or other credit enhancement	1,002,304	-	-
Total loans without individual signs of impairment	**117,443,401**	**5,837,974**	**54,008,641**
Overdue or impaired loans			
Plant and equipment	3,337,712	3,337,712	-
Real estate	656,778	-	656,778
Inventory	1,570	-	1,570
Motor vehicles	1,049	-	1,049
Current accounts	8,468	-	-
No collateral or other credit enhancement	30,577	-	-
Total overdue or impaired loans	**4,036,154**	**3,337,712**	**659,397**
Total loans to corporate customers	**121,479,555**	**9,175,686**	**54,668,038**

The tables above exclude overcollateralisation.

The Bank has loans, for which the fair value of collateral was assessed at the loan inception date and it was not updated for further changes. For certain loans the fair value of collateral is updated as at the reporting date. Information on the valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

The recoverability of loans which are neither past due nor impaired primarily depends on the creditworthiness of borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral as at each reporting date.

Included in loans to corporate customers without individual signs of impairment is a loan to an entity with a carrying amount of AMD 6,411,268 thousand which is secured by the plant and facilities of the borrower. Currently most of the plant and facilities are not being used for production. In assessing future cash flows from the loan the Bank has estimated the selling price of the individual items of the plant and facilities pledged deducting the cost of dismantling and transportation to the selling destination. The selling prices have been estimated based on scrap metal prices for non-usable items and market prices of items capable of being used. The timing of estimated cash flows is projected from one to two years. Had the cash flows been projected with one year delay, an impairment of AMD 551,404 thousand would arise. Also, had the selling prices been assessed at 15% lower an impairment of AMD 961,690 thousand would arise.

(ii) Loans to retail customers

Gold loans

The fair value of gold securing gold loans is at least equal to carrying amounts of individual loans based on the values determined at the loan inception date.

Credit cards

Approximately 60% of the credit card loan portfolio is insured against a delinquency of more than 30% of this portfolio by an insurance company. Remaining credit card loans are not secured.

Mortgage

Mortgage loans are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans with a loan-to-value ratio at the date of loan issuance of a maximum of 95%. The fair value of real estate securing mortgage loans is at least equal to the carrying amounts of individual loans based on the values determined at the loan inception date.

Agricultural loans

Agricultural loans are mainly unsecured.

Other loans

Other loans are mainly secured by real estate, but also by motor vehicles. The Bank's policy is to issue other loans with a loan-to-value ratio of maximum of 60%.

(iii) Repossessed collateral

During the year ended 31 December 2014, the Bank obtained certain assets by taking possession of collateral for loans to customers. As at 31 December 2014 and 2013, the repossessed collateral comprises:

	2014 AMD'000	**2013 AMD'000**
Real estate	5,597,154	5,660,545
Other assets	567,263	172,228
Total repossessed collateral	**6,164,417**	**5,832,773**

Included in other repossessed collateral are gold items amounting to AMD 522,461 thousand as at 31 December 2014.

On the date of foreclosure the collateral is measured at the lower of carrying amount of the defaulted loan and the net realisable value of collateral. Net realisable values are estimated based on the market approach. The market approach is based upon an analysis of the results of comparable sales of similar assets.

The Bank's policy is to sell these assets as soon as it is practicable.

(d) Assets under lien

As at 31 December 2014, loans to customers with a gross value of AMD 44,966,851 thousand (2013: AMD 23,313,930 thousand) serve as collateral for loans from banks and other financial institutions (see note 16).

(e) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Armenia who operate in the following economic sectors:

	2014 AMD'000	2013 AMD'000
Energy	58,564,702	59,205,552
Mining/metallurgy	18,908,069	4,256,458
Trade	15,216,592	14,206,348
Government and Municipal authorities	12,025,921	2,314,372
Construction	11,796,037	9,334,632
Hotel and hospitality	10,308,536	2,040,027
Manufacturing	9,906,732	9,471,748
Food and beverage	5,482,715	4,284,242
Agriculture, forestry and timber	4,216,222	4,408,331
Transportation	1,450,216	5,828,483
Foundations	1,176,599	2,994,045
Education	620,397	1,419,493
Loans to financial institutions	573,946	959,108
Other	8,827,699	4,249,612
Loans to retail customers	65,294,051	52,110,387
	224,368,434	**177,082,838**
Impairment allowance	(4,485,677)	(4,795,569)
	219,882,757	**172,287,269**

(f) Significant credit exposures

As at 31 December 2014 the Bank has seven borrowers or groups of connected borrowers (2013: six), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2014 is AMD 70,675,213 thousand (2013: AMD 56,519,525 thousand).

(g) Loan maturities

The maturity of the loan portfolio is presented in note 21(d), which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Bank, it is likely that many of the loans will be renewed at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the contractually agreed term.

14 Property, equipment and intangible assets

AMD'000	Land and buildings	Equipment	Fixtures and fittings	Motor vehicles	Construction in progress	Leasehold improvement	Intangible assets	Total
Cost/revalued amount								
Balance at 1 January 2014	6,653,728	2,114,440	1,565,212	272,595	13,238	468,317	622,558	11,710,088
Additions	256,707	253,671	250,655	10,559	116,099	20,119	88,850	996,660
Elimination of accumulated depreciation	(1,519,221)	-	-	-	-	-	-	(1,519,221)
Revaluation	2,154,966	-	-	-	-	-	-	2,154,966
Disposals	(3,172)	(67,264)	(56,083)	(62,126)	(3,054)	(22,667)	(270,918)	(485,284)
Transfers	8,891	-	-	-	(8,891)	-	-	-
Balance at 31 December 2014	**7,551,899**	**2,300,847**	**1,759,784**	**221,028**	**117,392**	**465,769**	**440,490**	**12,857,209**
Depreciation and amortization								
Balance at 1 January 2014	1,009,603	1,650,705	1,256,750	244,632	-	228,108	355,074	4,744,872
Depreciation and amortization for the year	510,056	244,971	121,851	12,127	-	40,198	102,979	1,032,182
Elimination of accumulated depreciation	(1,519,221)	-	-	-	-	-	-	(1,519,221)
Disposals	(438)	(45,365)	(55,077)	(60,759)	-	(8,524)	(269,230)	(439,393)
Balance at 31 December 2014	**-**	**1,850,311**	**1,323,524**	**196,000**	**-**	**259,782**	**188,823**	**3,818,440**
Carrying amount								
At 31 December 2014	**7,551,899**	**450,536**	**436,260**	**25,028**	**117,392**	**205,987**	**251,667**	**9,038,769**

AMD'000	**Land and buildings**	**Equipment**	**Fixtures and fittings**	**Motor vehicles**	**Construction in progress**	**Leasehold improvement**	**Intangible assets**	**Total**
Cost/revalued amount								
Balance at 1 January 2013	6,652,342	2,085,080	1,433,311	284,711	25,455	448,287	485,892	11,415,078
Additions	243	56,157	128,122	7,325	29,721	19,815	136,666	378,049
Disposals	-	(38,538)	(20,320)	(19,917)	-	(4,264)	-	(83,039)
Transfers	1,143	11,741	24,099	476	(41,938)	4,479	-	-
Balance at 31 December 2013	**6,653,728**	**2,114,440**	**1,565,212**	**272,595**	**13,238**	**468,317**	**622,558**	**11,710,088**
Depreciation and amortization								
Balance at 1 January 2013	501,423	1,403,630	1,099,959	244,595	-	188,586	255,504	3,693,697
Depreciation and amortization for the year	508,180	271,084	174,998	18,048	-	40,686	99,570	1,112,566
Disposals	-	(24,009)	(18,207)	(18,011)	-	(1,164)	-	(61,391)
Balance at 31 December 2013	**1,009,603**	**1,650,705**	**1,256,750**	**244,632**	**-**	**228,108**	**355,074**	**4,744,872**
Carrying amount								
At 31 December 2013	**5,644,125**	**463,735**	**308,462**	**27,963**	**13,238**	**240,209**	**267,484**	**6,965,216**

The carrying value of land and buildings as at 31 December 2014, if the land and buildings would not have been revalued, would be AMD 3,504,438 thousand (2013: AMD 3,533,049 thousand).

The fair value of land and buildings as at 31 December 2014 is determined based on valuation performed by an independent licensed valuer Parterre LLC. The fair value was determined based on announced asking prices of similar properties in terms of use, age, location and condition applying coefficients for adjusting the input prices for differences in use, age, location and condition, if any, ranging from 0.6 to 1.2. The fair value of land and buildings is categorized into Level 3 of the fair value hierarchy, because of significant unobservable adjustments (coefficients) to observable inputs to the valuation technique used.

15 Other assets

	2014 AMD'000	2013 AMD'000
Other receivables	303,433	316,886
Total other financial assets	**303,433**	**316,886**
Prepayments	601,768	679,042
Materials and supplies	128,795	114,439
Other repossessed assets	567,263	172,228
Other	402,681	27,082
Total other non-financial assets	**1,700,507**	**992,791**
Total other assets	**2,003,940**	**1,309,677**

16 Deposits and balances from banks and other borrowings

	2014 AMD'000	2013 AMD'000
Loans from banks and other financial institutions	84,714,890	42,508,799
Amounts payable under repurchase agreements	13,967,714	21,018,207
Vostro accounts	9,325	7,077
	98,691,929	**63,534,083**

As at 31 December 2014 the Bank has seven financial institutions (2013: three financial institutions), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2014 is AMD 63,390,826 thousand (2013: AMD 19,224,520 thousand).

As at 31 December 2014 included in loans from banks and other financial institutions are loans of AMD 41,869,823 thousand (2013: AMD 40,335,787 thousand) with arrangements to sub-lend these funds to borrowers for qualifying loans.

17 Debt securities issued

In December 2014 the Bank issued bonds with nominal amount of USD 75,000,000 and maturing in November 2017 through Ark Finance B.V., a special purpose entity, based in Netherlands. The bonds are listed on the Vienna Stock Exchange third market.

18 Current accounts and deposits from customers

	2014 AMD'000	2013 AMD'000
Current accounts and demand deposits		
- Retail	8,847,239	9,474,216
- Corporate	32,266,904	35,647,595
Term deposits		
- Retail	85,243,647	72,748,231
- Corporate	56,453,649	41,285,816
	182,811,439	**159,155,858**

As at 31 December 2014, the Bank maintained customer deposit balances of AMD 34,381,600 thousand (2013: AMD 8,957,797 thousand) that serve as collateral for loans and unrecognized credit instruments granted by the Bank.

As at 31 December 2014, the Bank has two customers (2013: two customers), whose balances exceed 10% of equity. These balances as at 31 December 2014 are AMD 24,640,813 thousand (2013: AMD 23,678,305 thousand).

19 Other liabilities

	2014 AMD'000	2013 AMD'000
Salary and similar payables	284,601	198,058
Payables to suppliers	129,333	65,458
Total other financial liabilities	**413,934**	**263,516**
Deferred income	349,786	331,853
Other taxes payable	355,444	192,620
Other non-financial liabilities	212,878	46,838
Total other non-financial liabilities	**918,108**	**571,311**
Total other liabilities	**1,332,042**	**834,827**

20 Share capital and reserves

(a) Issued capital and share premium

The authorized share capital comprises 2,762,911 ordinary shares. The issued and outstanding share capital comprises 179,252 ordinary shares (2013: 179,252). All shares have a nominal value of AMD 100,000 (2013: AMD 77,000).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

During 2014 the Bank has increased its share capital for AMD 4,122,796 thousand by increasing of the par value of shares. The increase in the par value of shares was made by transferring from retained earnings.

(b) Nature and purpose of reserves

Revaluation surplus for land and buildings

The revaluation surplus for land and buildings comprises the cumulative positive revalued value of land and buildings, until the assets are derecognized or impaired.

Revaluation reserve for available-for-sale financial assets

The revaluation reserve for available-for-sale financial assets comprises the cumulative net change in the fair value, until the assets are derecognized or impaired.

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to Armenian legislation.

During the reporting period no dividends were declared (2013: nil).

21 Risk management

(a) Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk, liquidity risk and operational risks.

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and ensuring that the Bank operates within the established risk parameters. The Head of the Risk Management Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of Management Board and indirectly to the Board of the Bank.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organization. Particular attention is given to identifying the full range of risk factors and determining of the level of assurance over current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Overall authority for market risk is vested in the ALCO. Market risk limits are approved by the ALCO based on recommendations of the Risk Department.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate, maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also decrease or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2014							
ASSETS							
Cash and cash equivalents	10,401,721	-	-	-	-	74,608,000	85,009,721
Available-for-sale financial assets	431,646	511,793	876,123	10,188,025	5,079,753	110,822	17,198,162
Loans and advances to banks and financial institutions	23,326,646	2,155,003	1,447,012	-	-	746,956	27,675,617
Loans to customers	76,010,042	53,510,751	31,123,265	43,386,097	15,852,602		219,882,757
	110,170,055	**56,177,547**	**33,446,400**	**53,574,122**	**20,932,355**	**75,465,778**	**349,766,257**
LIABILITIES							
Deposits and balances from banks and other borrowings	37,073,801	21,618,399	20,012,557	13,196,915	6,780,932	9,325	98,691,929
Debt securities issued	277,740	-	3,958,083	30,699,846	-	-	34,935,669
Current accounts and deposits from customers	90,401,096	34,720,412	49,312,695	8,360,347	16,889	-	182,811,439
	127,752,637	**56,338,811**	**73,283,335**	**52,257,108**	**6,797,821**	**9,325**	**316,439,037**
	(17,582,582)	**(161,264)**	**(39,836,935)**	**1,317,014**	**14,134,534**	**75,456,453**	**33,327,220**

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2013							
ASSETS							
Cash and cash equivalents	4,125,105	-	-	-	-	45,968,436	50,093,541
Available-for-sale financial assets	842,636	1,122,433	4,118,777	12,243,487	4,132,586	61,507	22,521,426
Loans and advances to banks and financial institutions	6,645,069	2,029,615	-	253,692	-	1,562,046	10,490,422
Loans to customers	84,531,090	18,819,632	19,268,165	39,235,266	10,433,116	-	172,287,269
	96,143,900	**21,971,680**	**23,386,942**	**51,732,445**	**14,565,702**	**47,591,989**	**255,392,658**
LIABILITIES							
Deposits and balances from banks and other borrowings	38,648,573	7,330,539	3,471,894	9,667,572	4,408,428	7,077	63,534,083
Current accounts and deposits from customers	88,965,709	24,065,971	35,161,338	10,944,026	18,814	-	159,155,858
	127,614,282	**31,396,510**	**38,633,232**	**20,611,598**	**4,427,242**	**7,077**	**222,689,941**
	(31,470,382)	**(9,424,830)**	**(15,246,290)**	**31,120,847**	**10,138,460**	**47,584,912**	**32,702,717**

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2014 and 2013. These interest rates are an approximation of the yields to maturity for fixed rate instruments and interest rates as at the reporting date for floating rate instruments.

	2014 Average effective interest rate, %			**2013 Average effective interest rate, %**		
	AMD	**USD**	**Other currencies**	**AMD**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	-	0.01 - 0.05%	0.2-2.0%	-	0.1%	0.2-2.0%
Available-for-sale financial assets	12.1%	-	-	14.4%	-	-
Loans and advances to banks and financial institutions						
- Loans	22.1%	5.5%	-	8.5%	8.4%	-
- Reverse repurchase agreements	23.8%	-	-	9.2%	-	-
Loans to customers	17.7%	10.8%	9.6%	16.7%	11.4%	9.9%
Interest bearing liabilities						
Deposits and balances from banks and other borrowings						
- Loans from banks and other financial institutions	7.2%	6.5%	3.7%	7.1%	5.1%	3.9%
- Amounts payable under repurchase agreements	19.7%			7.9%	-	-
Debt securities issued	-	15.3%	-	-	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	0.01- 1.0%	0.01- 1.0%	0.01- 1%	0.1-1.0%	0.1-1.0%	0.1-1.0%
- Term deposits	12.0%	7.8%	5.3%	12.2%	8.1%	5.6 %

Interest rate sensitivity analysis

The management of interest rate risk based on an interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2014 and 2013 is as follows:

	2014 AMD'000	**2013 AMD'000**
100 bp parallel fall	203,541	291,626
100 bp parallel rise	(203,451)	(291,626)

An analysis of the sensitivity of equity as a result of changes in the fair value of financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2014 and 2013 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	2014	2013
	Equity AMD'000	**Equity AMD'000**
100 bp parallel fall	438,197	480,534
100 bp parallel rise	(438,197)	(480,534)

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2014:

	USD AMD'000	**EUR AMD'000**	**Other currencies AMD'000**	**Total AMD'000**
ASSETS				
Cash and cash equivalents	40,561,819	5,859,557	1,727,268	48,148,644
Loans and advances to banks and financial institutions	23,518,111	16,010	39,455	23,573,576
Loans to customers	128,489,494	7,122,609	-	135,612,103
Total assets	**192,569,424**	**12,998,176**	**1,766,723**	**207,334,323**
LIABILITIES				
Deposits and balances from banks and other borrowings	61,555,127	3,293,778	-	64,848,905
Debt securities issued	34,935,669	-	-	34,935,669
Current accounts and deposits from customers	93,992,847	9,696,197	1,803,739	105,492,783
Total liabilities	**190,483,643**	**12,989,975**	**1,803,739**	**205,277,357**
Net position	**2,085,781**	**8,201**	**(37,016)**	**2,056,966**

The following table shows the currency structure of financial assets and liabilities as at 31 December 2013:

	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS				
Cash and cash equivalents	12,432,029	2,471,040	2,120,440	17,023,509
Loans and advances to banks and financial institutions	2,532,896	1,288	238,978	2,773,162
Loans to customers	82,371,348	5,292,761	-	87,664,109
Total assets	**97,336,273**	**7,765,089**	**2,359,418**	**107,460,780**
LIABILITIES				
Deposits and balances from banks and other borrowings	26,906,883	2,509,542	2	29,416,427
Current accounts and deposits from customers	68,617,461	5,493,329	2,010,354	76,121,144
Total liabilities	**95,524,344**	**8,002,871**	**2,010,356**	**105,537,571**
Net position	**1,811,929**	**(237,782)**	**349,062**	**1,923,209**

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2014 and 2013 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2014 AMD'000	2013 AMD'000
10% appreciation of USD against AMD	208,578	181,193
10% appreciation of EUR against AMD	820	(23,778)

A strengthening of the AMD against the above currencies at 31 December 2014 and 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures in place to manage credit exposures (both for recognized financial assets and unrecognized contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, to actively monitor credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for reviewing and approving of loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Management Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Management Department. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists, if the need for that is obvious as a result of loan monitoring and in the event of negative movements in market prices the borrower is usually requested to put up additional security. Retail loan credit applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Management Department.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Management Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognized contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2014 AMD'000	2013 AMD'000
ASSETS		
Cash and cash equivalents	77,869,879	42,569,305
Available-for-sale debt assets	17,087,340	22,459,919
Loans and advances to banks and financial institutions	27,675,617	10,490,422
Loans to customers	219,882,757	172,287,269
Other financial assets	303,433	316,886
Total maximum exposure	**342,819,026**	**248,123,801**

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 13.

The maximum exposure to credit risk from unrecognized contractual commitments at the reporting date is presented in note 23.

As at 31 December 2014 and 2013 the Bank has no debtors or groups of connected debtors, credit risk exposure to whom exceeds 10% of maximum credit risk exposure, except for the CBA.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Bank's statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

The Bank receives and gives collateral in the form of marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

The above arrangements do not meet the offsetting criteria in the statement of financial position. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2014:

AMD'000

				Related amounts not offset in the statement of financial position		
Types of financial assets/liabilities	**Gross amounts of recognized financial asset/liability**	**Gross amount of recognized financial liability/asset offset in the statement of financial position**	**Net amount of financial assets/liabilities presented in the statement of financial position**	**Financial instruments (non-cash collateral)**	**Cash collateral received**	**Net amount**
Amounts receivable under reverse repurchase agreements	3,063,011	-	3,063,011	(3,063,011)	-	-
Total financial assets	**3,063,011**	**-**	**3,063,011**	**(3,063,011)**	**-**	**-**
Amounts payable under repurchase agreements	(13,967,714)	-	(13,967,714)	11,714,195	-	(2,253,519)
Total financial liabilities	**(13,967,714)**	**-**	**(13,967,714)**	**11,714,195**	**-**	**(2,253,519)**

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2013:

AMD'000

				Related amounts not offset in the statement of financial position		
Types of financial assets/liabilities	**Gross amounts of recognized financial asset/liability**	**Gross amount of recognized financial liability/asset offset in the statement of financial position**	**Net amount of financial assets/liabilities presented in the statement of financial position**	**Financial instruments (non-cash collateral)**	**Cash collateral received**	**Net amount**
Amounts receivable under reverse repurchase agreements	1,640,415	-	1,640,415	(1,640,415)	-	-
Total financial assets	**1,640,415**	**-**	**1,640,415**	**(1,640,415)**	**-**	**-**
Amounts payable under repurchase agreements	(21,018,207)	-	(21,018,207)	20,813,133	-	(205,074)
Total financial liabilities	**(21,018,207)**	**-**	**(21,018,207)**	**20,813,133**	**-**	**(205,074)**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position on the amortized cost basis.

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board.

The Bank seeks to actively support a diversified and stable funding base comprising long and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and efficiently to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a monthly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The maturity analysis for financial liabilities as at 31 December 2014 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other borrowings	14,295,906	10,285,325	13,924,022	24,885,638	47,483,870	110,874,761	98,691,929
Debt securities issued	-	1,068,683	1,068,683	6,382,938	36,236,608	44,756,912	34,935,669
Current accounts and deposits from customers	62,397,511	29,455,312	36,444,333	51,936,693	9,436,666	189,670,515	182,811,439
Other financial liabilities	413,934	-	-	-	-	413,934	413,934
Total financial liabilities	**77,107,351**	**40,809,320**	**51,437,038**	**83,205,269**	**93,157,144**	**345,716,122**	**316,852,971**
Credit related commitments	**30,780,017**	**-**	**-**	**-**	**-**	**30,780,017**	**-**

The maturity analysis for financial assets and liabilities as at 31 December 2013 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other borrowings	23,516,707	3,720,405	5,207,810	6,273,570	31,340,016	70,058,508	63,534,083
Current accounts and deposits from customers	67,614,532	23,474,664	25,578,265	36,800,513	11,459,616	164,927,590	159,155,858
Other financial liabilities	263,516	-	-	-	-	263,516	263,516
Total financial liabilities	**91,394,755**	**27,195,069**	**30,786,075**	**43,074,083**	**42,799,632**	**235,249,614**	**222,953,457**
Credit related commitments	24,041,114	**-**	**-**	**-**	**-**	**24,041,114**	**-**

In accordance with term deposit agreements with some corporate customers, the customers can withdraw their term deposits at any time, forfeiting the accrued interest. The balance of these deposits as at 31 December 2014 is AMD 48,248,302 thousand (2013: AMD 41,285,816 thousand). These deposits are classified in accordance with their stated maturity dates.

Also, under Armenian law, individuals can withdraw their term deposits at any time, forfeiting the accrued interest. These deposits are classified in accordance with their stated maturity dates. The classification of these deposits in accordance with their stated maturity dates is presented below:

	2014 AMD'000	**2013 AMD'000**
Demand and less than 1 month	10,838,173	9,737,569
From 1 to 3 months	13,964,804	10,524,024
From 3 to 6 months	17,693,323	18,698,985
From 6 to 12 months	37,370,228	26,276,349
More than 1 year	5,377,119	7,511,304
	85,243,647	**72,748,231**

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at 31 December 2014:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	85,009,721	-	-	-	-	-	-	85,009,721
Available-for-sale financial assets	-	431,646	1,387,916	10,188,025	5,079,753	110,822	-	17,198,162
Loans and advances to banks and financial institutions	15,081,945	8,376,191	3,602,015	-	-	615,466	-	27,675,617
Loans to customers	34,038,487	33,172,113	82,447,499	46,758,261	17,395,103	-	6,071,294	219,882,757
Repossessed property	-	-	-	-	-	5,597,154	-	5,597,154
Property, equipment and intangible assets	-	-	-	-	-	9,038,769	-	9,038,769
Other assets	138,263	381,554	245,131	208,404	7,974	1,022,614	-	2,003,940
Total assets	**134,268,416**	**42,361,504**	**87,682,561**	**57,154,690**	**22,482,830**	**16,384,825**	**6,071,294**	**366,406,120**
LIABILITIES								
Deposits and balances from banks and other borrowings	14,205,765	9,713,110	34,926,816	32,215,569	7,630,669	-	-	98,691,929
Debt securities issued	-	277,740	3,958,083	30,699,846	-	-	-	34,935,669
Current accounts and deposits from customers	62,157,158	28,243,938	84,033,107	8,360,347	16,889	-	-	182,811,439
Current tax liability	-	-	346,071	-	-	-	-	346,071
Deferred tax liabilities	-	-	-	-	-	1,156,704	-	1,156,704
Other liabilities	1,328,384	-	-	-	-	3,658	-	1,332,042
Total liabilities	**77,691,307**	**38,234,788**	**123,264,077**	**71,275,762**	**7,647,558**	**1,160,362**	**-**	**319,273,854**
Net position	**56,577,109**	**4,126,716**	**(35,581,516)**	**(14,121,072)**	**14,835,272**	**15,224,463**	**6,071,294**	**47,132,266**

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at 31 December 2013:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	50,093,541	-	-	-	-	-	-	50,093,541
Available-for-sale financial assets	395,884	446,752	5,241,210	12,243,487	4,132,586	61,507	-	22,521,426
Loans and advances to banks and financial institutions	6,710,307	172,081	2,029,615	253,692	-	1,324,727	-	10,490,422
Loans to customers	50,171,069	30,974,826	38,087,797	39,235,266	10,433,116	-	3,385,195	172,287,269
Repossessed property	-	-	-	-	-	5,660,545	-	5,660,545
Property, equipment and intangible assets	-	-	-	-	-	6,965,216	-	6,965,216
Other assets	403,333	52,002	143,832	345,741	59,056	305,713	-	1,309,677
Total assets	**107,774,134**	**31,645,661**	**45,502,454**	**52,078,186**	**14,624,758**	**14,317,708**	**3,385,195**	**269,328,096**
LIABILITIES								
Deposits and balances from banks and other borrowings	23,335,764	3,557,946	10,012,515	20,305,713	6,322,145	-	-	63,534,083
Current accounts and deposits from customers	66,783,339	22,182,370	59,227,309	10,944,026	18,814	-	-	159,155,858
Current tax liability	-	-	122,331	-	-	-	-	122,331
Deferred tax liabilities	-	-	-	-	-	1,563,950	-	1,563,950
Other liabilities	791,340	39,445	-	-	-	4,042	-	834,827
Total liabilities	**90,910,443**	**25,779,761**	**69,362,155**	**31,249,739**	**6,340,959**	**1,567,992**	**-**	**225,211,049**
Net position	**16,863,691**	**5,865,900**	**(23,859,701)**	**20,828,447**	**8,283,799**	**12,749,716**	**3,385,195**	**44,117,047**

22 Capital management

The CBA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for commercial banks.

As at 31 December 2014 the minimum level of ratio of capital to risk weighted assets (statutory capital ratio) was 12% (2013:12%). The Bank is in compliance with the statutory capital ratios as at 31 December 2014 and 2013.

The calculation of capital adequacy based on requirements set by the CBA as at 31 December is as follows:

	2014 AMD'000 Unaudited	**2013 AMD'000 Unaudited**
Core capital		
Core capital	40,970,838	35,321,847
Deductions	(6,461,337)	(5,127,906)
Total core capital	**34,509,501**	**30,193,941**
Additional capital		
Additional capital	2,393,918	5,361,907
Deductions	(281,580)	(281,808)
Total additional capital	**2,112,338**	**5,080,099**
Total capital	**36,621,839**	**35,274,040**
Total risk weighted assets, combining credit, market and operational risks	**270,379,082**	**227,517,645**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**13.5%**	**15.5%**

Risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognized contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

23 Credit related commitments

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if the counterparties failed completely to perform as contracted.

	2014 AMD'000	2013 AMD'000
Contracted amount		
Credit card commitments	5,657,730	6,829,931
Loan and credit line commitments	13,101,896	5,039,900
Undrawn overdraft facilities	4,269,907	2,547,309
Guarantees and letters of credit	7,750,484	9,623,974
	30,780,017	**24,041,114**

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional credit related commitment by the Bank.

24 Operating leases

Leases as lessee

Non-cancellable operating lease rentals as at 31 December are payable as follows:

	2014 AMD'000	2013 AMD'000
Less than 1 year	197,087	208,712
Between 1 and 5 years	484,481	378,590
More than 5 years	214,092	156,405
	895,660	**743,707**

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to then renew the lease. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

25 Contingencies

(a) Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(b) Taxation contingencies

The taxation system in the Republic of Armenia continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

These circumstances may create tax risks in the Republic of Armenia that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

26 Related party transactions

(a) Control relationships

The Bank's parent company is Center for Business Investments LLC. The Bank is ultimately controlled by a single individual, Karen Safaryan, who is also the chairman of the Bank. He has a number of other business interests outside the Bank.

No publicly available financial statements are produced by the Bank's parent company.

(i) Transactions with members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2014 and 2013 is as follows:

	2014 AMD'000	**2013 AMD'000**
Salary	362,397	351,348
Bonuses	125,000	102,150
	487,397	**453,498**

The outstanding balances and average effective interest rates as at 31 December 2014 and 2013 for transactions with members of the Board and the Management Board are as follows:

	2014 AMD'000	Average effective interest rate, %	2013 AMD'000	Average effective interest rate, %
Statement of financial position				
Loans to customers	167,106	11.0%	73,752	11.6%
Current accounts and deposits from customers	104,589	10.0%	186,818	8.9%
Lending commitments	215,470	-	206,952	-

Amounts included in profit or loss in relation to transactions with the members of the Board of and the Management Board for the year ended 31 December are as follows:

	2014 AMD'000	2013 AMD'000
Profit or loss		
Interest income	12,784	6,684
Interest expense	(9,756)	(13,005)
Fee and commission income	1,284	649

(b) Transactions with other related parties

Other related parties include entities under common control with the Bank, close members of the families of and entities controlled by the Board and the Management Board members. The outstanding balances and the related average effective interest rates as at 31 December 2014 and related profit or loss amounts of transactions for the year ended 31 December 2014 with other related parties are as follows:

	Entities under common control		Other		
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	Total AMD'000
Statement of financial position					
ASSETS					
Loans to customers	2,413,963	12.0%	1,314,717	14.9%	3,728,680
LIABILITIES					
Current accounts and deposits from customers	387,577	14.0%	396,085	8.0%	783,662
Items not recognised in the statement of financial position					
Lending commitments	141,789		50,346		192,135
Guarantees given	-		39,924		39,924
Profit (loss)					
Interest income	378,407		163,886		542,293
Interest expense	(46,124)		(25,141)		(71,265)
Fee and commission income	3,111		5,947		9,058
Fee and commission expense	(131,748)		-		(131,748)
General administrative expenses	(46,138)		(850)		(46,988)

The outstanding balances and the related average effective interest rates as at 31 December 2013 and related profit or loss amounts of transactions for the year ended 31 December 2013 with other related parties are as follows.

	Entities under common control		Other		
	AMD'000	**Average effective interest rate, %**	**AMD'000**	**Average effective interest rate, %**	**Total AMD'000**
Statement of financial position					
ASSETS					
Loans to customers	3,710,102	11.4%	-	-	3,710,102
LIABILITIES					
Current accounts and deposits from customers	397,161	14.0%	210,144	7.0%	607,305
Items not recognised in the statement of financial position					
Lending commitments	18,903		228,770		247,673
Guarantees given	-		47,221		47,221
Profit (loss)					
Interest income	294,255		174,227		468,482
Interest expense	(41,938)		(12,148)		(54,086)
Fee and commission income	4,289		4,362		8,651
Fee and commission expense	(33,000)		(8,718)		(41,718)
General administrative expenses	(72,363)		-		(72,363)

27 Fair values of financial instruments

The Bank measures fair values using the following fair value hierarchy which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimated fair values of all financial instruments except for unquoted equity securities available-for-sale and AMD denominated loans to customers and term deposits from customers as at 31 December 2014 approximate their carrying amounts. The fair value of unquoted equity securities available-for-sale with a carrying value of AMD 110,822 thousand (2013: AMD 50,287 thousand) could not be determined.

The fair values of AMD denominated loans to customers and term deposits from customers are lower than their carrying values by AMD 1,398,333 thousand and AMD 939,782 thousand respectively as at 31 December 2014. The fair value measurements of AMD denominated loans to customers and term deposits from customers are categorized into Level 3 and Level 2 respectively in the fair value hierarchy.

The table below analyses financial instruments measured at fair value at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position:

AMD '000	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets				
- Debt and other fixed income instruments	-	17,087,340	-	17,087,340

The table below analyses financial instruments measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position:

AMD '000	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets				
- Debt and other fixed income instruments	-	22,459,919	-	22,459,919
- Equity instruments	-	11,220	-	11,220

The estimates of fair value are intended to approximate 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. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Ardshininvestbank cjsc

Financial Statements

for the year ended 31 December 2013

Contents

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Independent Auditors' Report

To the Board of
Ardshininvestbank cjsc

We have audited the accompanying financial statements of Ardshininvestbank cjsc (the Bank), which comprise the statement of financial position as at 31 December 2013, and the 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Andrew Coxshall
Director

Andrew Coxshall
Engagement Partner

KPMG Armenia cjsc

KPMG Armenia cjsc
31 March 2014

REPUBLIC OF ARMENIA YEREVAN CLOSED JOINT-STOCK COMPANY
«ՔԵՅ-ՓԻ-ԷՄ-ՋԻ» ԱՐՄԵՆԻԱ
«KPMG» ARMENIA
02529689

	Notes	2013 AMD'000	2012 AMD'000
Interest income	4	26,973,386	19,889,377
Interest expense	4	(12,694,694)	(8,421,325)
Net interest income		**14,278,692**	**11,468,052**
Fee and commission income	5	3,012,201	1,951,823
Fee and commission expense		(465,344)	(379,227)
Net fee and commission income		**2,546,857**	**1,572,596**
Net foreign exchange income	6	1,727,993	1,363,755
Net gain on available-for-sale financial assets		867,844	28,257
Other operating income		650,499	701,654
Operating income		**20,071,885**	**15,134,314**
Impairment losses		(3,654,918)	(2,527,913)
Personnel expenses	7	(3,942,017)	(3,607,523)
Other general administrative expenses	8	(4,420,856)	(3,578,960)
Profit before income tax		**8,054,094**	**5,419,918**
Income tax expense	9	(1,633,714)	(1,186,539)
Profit for the year		**6,420,380**	**4,233,379**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		2,557,411	112,383
- Net change in fair value transferred to profit or loss		(694,275)	(22,606)
Other comprehensive income for the year, net of income tax		**1,863,136**	**89,777**
Total comprehensive income for the year		**8,283,516**	**4,323,156**

The financial statements as set out on pages 4 to 57 were approved by management on 31 March 2014 ~~and were~~ signed on its behalf by:

Mher Grigoryan
Chairman of Management Board

Vahagn Durgaryan
Chief Accountant

ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО CLOSED JOINT-STOCK COMPANY ARMENIA YEREVAN
«АРДШИНИНВЕСТ БАНК»
«ARDSHININVEST BANK»
02566492

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2013 AMD'000	2012 AMD'000
ASSETS			
Cash and cash equivalents	10	50,093,541	33,926,454
Financial instruments at fair value through profit or loss			
- Held by the Bank		-	291,873
Available-for-sale financial assets			
- Held by the Bank	11	1,708,293	620,498
- Pledged under sale and repurchase agreements	11	20,813,133	12,779,513
Loans and advances to banks	12	10,490,422	5,525,172
Loans to customers	13	172,287,269	132,736,047
Repossessed property	13	5,660,545	3,983,853
Property, equipment and intangible assets	14	6,965,216	7,721,381
Other assets	15	1,309,677	941,495
Total assets		**269,328,096**	**198,526,286**
LIABILITIES			
Financial instruments at fair value through profit or loss		-	5,850
Deposits and balances from banks and other borrowings	16	63,534,083	46,019,475
Current accounts and deposits from customers	17	159,155,858	114,428,790
Current tax liability		122,331	796,511
Deferred tax liabilities	9	1,563,950	513,992
Other liabilities	18	834,827	928,137
Total liabilities		**225,211,049**	**162,692,755**
EQUITY			
Share capital	19	13,802,404	13,802,404
Share premium		1,711,179	1,711,179
Revaluation surplus for buildings		2,670,214	2,670,214
Revaluation reserve for available-for-sale financial assets		2,110,753	247,617
Retained earnings		23,822,497	17,402,117
Total equity		**44,117,047**	**35,833,531**
Total liabilities and equity		**269,328,096**	**198,526,286**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2013 AMD'000	2012 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		26,188,105	18,889,815
Interest payments		(11,606,927)	(8,129,742)
Fee and commission receipts		2,949,798	2,189,052
Fee and commission payments		(465,344)	(379,227)
Net receipts from foreign exchange		1,730,355	1,411,983
Other income receipts		1,518,343	819,688
Other general administrative expenses payments		(7,239,620)	(6,000,197)
(Increase) decrease in operating assets			
Available-for-sale financial assets		(6,792,495)	(510,576)
Financial instruments at fair value through profit or loss		291,931	(266,347)
Loans and advances to banks		(5,061,469)	(691,753)
Loans to customers		(43,537,191)	(43,714,436)
Other assets		(170,632)	(63,427)
Increase (decrease) in operating liabilities			
Financial instruments at fair value through profit or loss		(5,850)	-
Short term deposits and balances from banks		5,458,379	7,686,014
Current accounts and deposits from customers		43,307,657	16,296,940
Other liabilities		(74,532)	88,370
Net cash provided from (used in) operating activities before income tax paid		**6,490,508**	**(12,373,843)**
Income tax paid		(1,723,720)	(640,341)
Cash flows from (used in) operations		**4,766,788**	**(13,014,184)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and intangible assets		(356,784)	(587,371)
Cash flows used in investing activities		**(356,784)**	**(587,371)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of borrowed funds		19,164,887	29,140,780
Repayment of borrowed funds		(7,294,581)	(23,821,011)
Cash flows from financing activities		**11,870,306**	**5,319,769**
Net increase (decrease) in cash and cash equivalents		**16,280,310**	**(8,281,786)**
Effect of changes in exchange rates on cash and cash equivalents		(113,223)	687,420
Cash and cash equivalents as at the beginning of the year		33,926,454	41,520,820
Cash and cash equivalents as at the end of the year	10	**50,093,541**	**33,926,454**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

AMD'000	**Share capital**	**Share premium**	**Revaluation surplus for buildings**	**Revaluation reserve for available-for-sale financial assets**	**Retained earnings**	**Total equity**
Balance as at 1 January 2012	13,802,404	1,711,179	2,670,214	157,840	13,168,738	31,510,375
Total comprehensive income						
Profit for the year	-	-	-	-	4,233,379	4,233,379
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	-	-	112,383	-	112,383
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	-	-	-	(22,606)	-	(22,606)
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	*89,777*	-	*89,777*
Total other comprehensive income	-	-	-	89,777	-	89,777
Total comprehensive income for the year	**-**	**-**	**-**	**89,777**	**4,233,379**	**4,323,156**
Balance as at 31 December 2012	**13,802,404**	**1,711,179**	**2,670,214**	**247,617**	**17,402,117**	**35,833,531**
Balance as at 1 January 2013	13,802,404	1,711,179	2,670,214	247,617	17,402,117	35,833,531
Total comprehensive income						
Profit for the year	-	-	-	-	6,420,380	6,420,380
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	-	-	2,557,411	-	2,557,411
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax	-	-	-	(694,275)	-	(694,275)
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	*1,863,136*	-	*1,863,136*
Total other comprehensive income	-	-	-	1,863,136	-	1,863,136
Total comprehensive income for the year	-	-	**-**	**1,863,136**	**6,420,380**	**8,283,516**
Balance as at 31 December 2013	**13,802,404**	**1,711,179**	**2,670,214**	**2,110,753**	**23,822,497**	**44,117,047**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organization and operations

Ardshininvestbank cjsc (the Bank) was established in the Republic of Armenia as a closed joint stock company in 2003. The principal activities are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement transactions and transactions with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of Armenia (CBA). The Bank has a general banking license, and is a member of the state deposit insurance system in the Republic of Armenia.

The Bank has 55 branches from which it conducts business throughout the Republic of Armenia. The registered address of the head office is 13 and 13/1 Grigor Lusavorich Street, Yerevan, Armenia. The majority of the assets and liabilities are located in the Republic of Armenia.

The Bank's parent company is Center for Business Investments LLC, majority of ultimate shareholding of which belongs to Mrs. Anya Babaeva who together with her son – Karen Safaryan, Chairman of the Board of the Bank exercises control over the Bank. They also have a number of other business interests outside the Bank.

(b) Armenian business environment

The Bank's operations are primarily located in Armenia. Consequently, the Bank is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia. The financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value and buildings are stated at revalued amounts.

(c) Functional and presentation currency

The functional currency of the Bank is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to the Bank.

The AMD is also the presentation currency for the purposes of these financial statements.

Financial information presented in AMD is rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates - note 13;
- assessment of net realizable value of repossessed assets – note 13; and
- building revaluation estimates - note 14.

(e) Changes in accounting policies and presentation

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 13 *Fair Value Measurements* (see (i))
- *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1 *Presentation of Financial Statements*) (see (ii))
- *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) (see (iii))

The nature and the effect of the changes are explained below.

(i) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as 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. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 *Financial Instruments: Disclosures* (see note 26).

As a result, the Bank adopted a new definition of fair value, as set out in note 3(c)(v). The change had no significant impact on the measurements of assets and liabilities. However, the Bank included new disclosures in the financial statements that are required under IFRS 13, comparatives not restated.

(ii) Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Bank modified the presentation of items of other comprehensive income in its statement of profit or loss and other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information is also re-presented accordingly.

(iii) Financial instruments: Disclosures – Offsetting financial assets and financial liabilities

Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* introduced new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.

The Bank included new disclosures in the financial statements that are required under amendments to IFRS 7 and provided comparative information for new disclosures.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, except as explained in note 2(e), which addresses changes in accounting policies. In preparing these financial statements management included loan origination fees and loan servicing fees in interest income based on the accounting policies of the Bank. These fees, in the amount of AMD 1,109,717 thousand presented in fee and commission income in 2012 financial statements were reclassified to interest income to be consistent with current year presentation.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBA and other banks. The mandatory reserve deposit with the CBA is considered to be a cash equivalent due to the absence of restrictions on its withdrawability. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

– acquired or incurred principally for the purpose of selling or repurchasing in the near term
– part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
– derivative financial instruments (except for derivative that is a financial guarantee contract or a designated and effective hedging instruments) or,
– upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

– the assets or liabilities are managed, evaluated and reported internally on a fair value basis
– the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
– the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

– intends to sell immediately or in the near term
– upon initial recognition designates as at fair value through profit or loss
– upon initial recognition designates as available-for-sale or,
– may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss
- the Bank designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(v) Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vi) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss
- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

(vii) Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognizes the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(ix) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognized as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss. A revaluation decrease on a building is recognized in profit or loss except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income directly in equity, in which case it is recognized in other comprehensive income.

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

– buildings	20 years
– equipment	1 to 5 years
– fixtures and fittings	5 years
– motor vehicles	5 years
– leasehold improvement	lease term

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortization and impairment losses. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 5 to 10 years.

(f) Repossessed property

Repossessed property is stated at the lower of cost and net realisable value.

(g) Impairment

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Bank determines the amount of any impairment loss.

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Bank reviews its loans and receivables to assess impairment on a regular basis.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and cannot be reversed.

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that is recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

(iv) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. 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. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) Provisions

A provision is recognized in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the followings:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss;
- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments;
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;
- commitments to provide a loan at a below-market interest rate.

(j) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

(ii) Share premium

Any amount paid in excess of par value of shares issued is recognised as share premium.

(iii) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Armenian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(k) Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognized for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

(l) Income and expense recognition

Interest income and expense are recognized in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

(m) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2013, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The Bank recognizes that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the financial statements. The impact of these changes will be analyzed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The Bank has not yet analyzed the likely impact of the new standard on its financial position or performance.
- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2014. The Bank has not yet analyzed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2013 AMD'000	2012 AMD'000
Interest income		
Loans to customers	23,859,507	18,085,324
Available-for-sale financial assets	2,532,962	1,538,355
Loans and advances to banks	453,753	233,760
Other	127,164	31,938
	26,973,386	**19,889,377**
Interest expense		
Current accounts and deposits from customers	9,510,807	6,730,593
Deposits and balances from banks and other borrowings	3,183,887	1,690,732
	12,694,694	**8,421,325**

Included within various line items under interest income for the year ended 31 December 2013 is a total of AMD 1,416,214 thousand (2012: AMD 1,415,743 thousand) accrued on impaired financial assets.

5 Fee and commission income

	2013 AMD'000	2012 AMD'000
Cash withdrawal	1,094,423	818,572
Plastic card servicing	918,465	399,114
Remittances	798,862	563,884
Guarantee and letter of credit issuance	121,957	74,511
Other	78,494	95,742
	3,012,201	**1,951,823**

6 Net foreign exchange income

	2013 AMD'000	2012 AMD'000
Gain on spot transactions	1,730,355	1,411,983
Loss from revaluation of financial assets and liabilities	(2,362)	(48,228)
	1,727,993	**1,363,755**

7 Personnel expenses

	2013 AMD'000	2012 AMD'000
Employee compensation, including payroll related taxes	**3,942,017**	**3,607,523**

8 Other general administrative expenses

	2013 AMD'000	2012 AMD'000
Depreciation and amortization	1,112,566	1,115,749
Advertising, marketing and agent expenses	671,731	133,510
Taxes other than on income	296,998	204,450
Security	275,127	270,043
Operating lease expense	215,725	196,325
Communications and information services	175,655	160,574
Deposit insurance fund	144,768	109,795
Charity and sponsorship	126,918	143,613
Repairs and maintenance	125,201	116,550
Insurance	118,243	137,172
Cash transportation expenses	101,325	99,000
Utilities and office maintenance	83,297	83,106
Office supplies	67,473	53,303
Travel expenses	66,478	61,116
Professional services	46,298	40,173
Other	793,053	654,481
	4,420,856	**3,578,960**

9 Income tax expense

	2013 AMD'000	2012 AMD'000
Current year tax expense	(1,049,540)	(1,300,008)
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(584,174)	113,469
Total income tax expense	**(1,633,714)**	**(1,186,539)**

In 2013, the applicable tax rate for current and deferred tax is 20% (2012: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2013 AMD'000	%	2012 AMD'000	%
Profit before tax	8,054,094		5,419,918	
Income tax at the applicable tax rate	(1,610,819)	(20.0)	(1,083,984)	(20.0)
Non-taxable income (non-deductible costs)	(22,895)	(0.3)	(102,555)	(1.9)
	(1,633,714)	**(20.3)**	**(1,186,539)**	**(21.9)**

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2013 and 2012.

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2013 and 2012 are presented as follows:

AMD'000	Balance 1 January 2013	Recognized in profit or loss	Recognized in other comprehensive income	Balance 31 December 2013
Available-for-sale financial assets	(61,906)	-	(465,784)	(527,690)
Loans to customers	(7,434)	(578,117)	-	(585,551)
Property and equipment	(463,110)	43,006	-	(420,104)
Placements with banks	(10,819)	(18,030)	-	(28,849)
Other assets	5,476	(22,196)	-	(16,720)
Other liabilities	23,801	(8,837)	-	14,964
	(513,992)	**(584,174)**	**(465,784)**	**(1,563,950)**

AMD'000	Balance 1 January 2012	Recognized in profit or loss	Recognized in other comprehensive income	Balance 31 December 2012
Available-for-sale financial assets	(39,461)	-	(22,445)	(61,906)
Loans to customers	(60,283)	52,849	-	(7,434)
Property and equipment	(502,508)	39,398	-	(463,110)
Placements with banks	-	(10,819)	-	(10,819)
Other assets	(9,112)	14,588	-	5,476
Other liabilities	6,348	17,453	-	23,801
	(605,016)	**113,469**	**(22,445)**	**(513,992)**

(b) Income tax recognized in other comprehensive income

The tax effects relating to components of other comprehensive income for the years ended 31 December 2013 and 2012 comprise the following:

	2013			2012		
AMD'000	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Net change in fair value of available-for-sale financial assets	3,196,764	(639,353)	2,557,411	140,479	(28,096)	112,383
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(867,844)	173,569	(694,275)	(28,257)	5,651	(22,606)
Other comprehensive income	**2,328,920**	**(465,784)**	**1,863,136**	**112,222**	**(22,445)**	**89,777**

10 Cash and cash equivalents

	2013 AMD'000	2012 AMD'000
Cash on hand	7,524,236	5,180,840
Nostro accounts with the CBA	36,317,128	26,602,961
Nostro accounts with other banks		
- rated A- to A+	4,713,689	1,744,565
- rated BBB	1,415,682	6,653
- rated from BB- to BB+	119,151	391,433
- not rated	3,655	2
Total nostro accounts with other banks	6,252,177	2,142,653
Total cash and cash equivalents	**50,093,541**	**33,926,454**

The nostro accounts include non-interest bearing mandatory minimum reserve deposits calculated in accordance with regulations promulgated by the CBA at 4% to 12% from the attracted funds. Withdrawal of such reserves is not restricted; however, the Bank is subject to penalties if the required minimum average balance is not periodically maintained.

The Bank uses credit ratings per Standard&Poor's and Fitch in disclosing credit quality.

No cash and cash equivalents are impaired or past due.

As at 31 December 2013 and 31 December 2012 the Bank has no banks whose balances exceed 10% of equity, except for the CBA.

11 Available-for-sale financial assets

	2013 AMD'000	2012 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	1,646,786	266,247
Corporate bonds	-	291,964
Total debt and other fixed-income instruments	**1,646,786**	**558,211**
Equity instruments		
Corporate shares	61,507	62,287
	1,708,293	**620,498**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	20,428,166	12,779,513
Corporate bonds	384,967	-
	20,813,133	**12,779,513**

The Bank has transactions to lend securities and to sell securities under agreements to repurchase and to purchase securities under agreements to resell.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. The cash received is recognised as a financial asset and a financial liability is recognised for the obligation to repay the purchase price for this collateral, and is included in deposits and balances from banks and other borrowings (note 16).

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

12 Loans and advances to banks

	2013 AMD'000	2012 AMD'000
Overnight to Armenian financial institutions (through NASDAQ OMX Armenia)	5,004,654	-
Loans and deposits with top 10 Armenian Banks	2,283,307	861,532
Reverse repurchase agreements with medium-size Armenian financial institutions	1,640,415	1,487,713
Credit card settlement deposit with the CBA	1,020,000	1,020,000
Reverse repurchase agreements with Armenian banks	-	1,714,865
Other	542,046	441,062
	10,490,422	**5,525,172**

None of loans and advances to banks are impaired or past due.

(a) Collateral accepted as security for assets

At 31 December 2013 the fair value of financial assets collateralizing reverse repurchase agreements that the Bank is permitted to sell or repledge in the absence of default is AMD 1,710,286 thousand (2012: AMD 2,937,390 thousand).

At 31 December 2013 the fair value of financial assets collateralizing reverse repurchase agreements that have been sold or repledged is AMD 653,935 thousand (2012: AMD 1,477,865 thousand). The Bank is obliged to return equivalent securities.

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

(b) Concentration of loans and advances to banks

As at 31 December 2013 the Bank has one financial institution (2012: no financial institutions), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2013 are AMD 5,004,654 thousand (2012: nil).

13 Loans to customers

	2013 AMD'000	2012 AMD'000
Loans to corporate customers	**124,972,451**	**89,908,633**
Loans to retail customers		
Gold loans	24,148,863	23,530,420
Credit cards	14,503,076	9,397,543
Mortgage loans	6,450,836	4,139,917
Agricultural loans	1,368,110	584,470
Other	5,639,502	8,503,852
Total loans to retail customers	**52,110,387**	**46,156,202**
Gross loans to customers	**177,082,838**	**136,064,835**
Impairment allowance	(4,795,569)	(3,328,788)
Net loans to customers	**172,287,269**	**132,736,047**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2013 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	2,579,674	749,114	3,328,788
Net charge	1,428,696	2,226,222	3,654,918
Write-offs	(515,474)	(1,672,663)	(2,188,137)
Balance at the end of the year	**3,492,896**	**1,302,673**	**4,795,569**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2012 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	3,365,435	374,177	3,739,612
Net charge	2,058,934	468,979	2,527,913
Write-offs	(2,844,695)	(94,042)	(2,938,737)
Balance at the end of the year	**2,579,674**	**749,114**	**3,328,788**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2013:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans without individual signs of impairment	118,810,228	1,366,827	117,443,401	1.2%
Overdue or impaired loans:				
- not overdue	1,420,570	425,404	995,166	29.9%
-overdue less than 90 days	16,610	1,992	14,618	12.0%
- overdue more than 90 days and less than 270 days	4,082,440	1,641,417	2,441,023	40.2%
- overdue more than 270 days	642,603	57,256	585,347	8.9%
Total overdue or impaired loans	6,162,223	2,126,069	4,036,154	34.5%
Total loans to corporate customers	**124,972,451**	**3,492,896**	**121,479,555**	**2.8%**
Loans to retail customers				
Gold loans				
- not overdue	23,509,951	3,775	23,506,176	0.0%
- overdue less than 30 days	238,657	5,604	233,053	2.3%
- overdue 30-89 days	144,442	11,936	132,506	8.3%
- overdue 90-179 days	183,155	34,454	148,701	18.8%
- overdue 180-270 days	72,658	31,244	41,414	43.0%
Total gold loans	**24,148,863**	**87,013**	**24,061,850**	**0.4%**
Credit cards				
- not overdue	12,736,566	75,783	12,660,783	0.6%
- overdue less than 30 days	406,050	60,164	345,886	14.8%
- overdue 30-89 days	253,283	69,819	183,464	27.6%
- overdue 90-179 days	456,669	237,010	219,659	51.9%
- overdue 180-270 days	650,508	517,561	132,947	79.6%
Total credit cards	**14,503,076**	**960,337**	**13,542,739**	**6.6%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Mortgage loans				
- not overdue	6,313,155	5,434	6,307,721	0.1%
- overdue less than 30 days	44,653	1,620	43,033	3.6%
- overdue 30-89 days	69,387	13,421	55,966	19.3%
- overdue 90-179 days	9,085	4,016	5,069	44.2%
- overdue 180-270 days	14,556	12,892	1,664	88.6%
Total mortgage loans	**6,450,836**	**37,383**	**6,413,453**	**0.6%**
Agricultural loans				
- not overdue	1,321,661	2,908	1,318,753	0.2%
- overdue less than 30 days	25,899	1,523	24,376	5.9%
- overdue 30-89 days	3,191	578	2,613	18.1%
- overdue 90-179 days	13,561	4,583	8,978	33.8%
- overdue 180-270 days	3,798	2,279	1,519	60.0%
Total agricultural loans	**1,368,110**	**11,871**	**1,356,239**	**0.9%**
Other loans to retail customers				
- not overdue	4,996,077	10,993	4,985,084	0.2%
- overdue less than 30 days	173,861	10,223	163,638	5.9%
- overdue 30-89 days	118,880	21,518	97,362	18.1%
- overdue 90-179 days	181,885	61,472	120,413	33.8%
- overdue 180-270 days	168,799	101,863	66,936	60.3%
Total other loans to retail customers	**5,639,502**	**206,069**	**5,433,433**	**3.7%**
Total loans to retail customers	**52,110,387**	**1,302,673**	**50,807,714**	**2.5%**
Total loans to customers	**177,082,838**	**4,795,569**	**172,287,269**	**2.7%**

The following table provides information on the credit quality of the loans to customers as at 31 December 2012:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans without individual signs of impairment	87,531,132	1,485,082	86,046,050	1.7%
Overdue or impaired loans:				
- not overdue	1,386,998	443,839	943,159	32.0%
- overdue less than 90 days	656,303	413,471	242,832	63.0%
- overdue more than 90 days and less than 270 days	334,200	237,282	96,918	71.0%
Total overdue or impaired loans	2,377,501	1,094,592	1,282,909	46.0%
Total loans to corporate customers	**89,908,633**	**2,579,674**	**87,328,959**	**2.9%**
Loans to retail customers				
Gold loans				
- not overdue	23,317,456	949	23,316,507	0.0%
- overdue less than 30 days	108,693	1,425	107,268	1.3%
- overdue 30-89 days	59,682	5,097	54,585	8.5%
- overdue 90-179 days	22,208	4,193	18,015	18.9%
- overdue 180-270 days	22,381	13,200	9,181	59.0%
Total gold loans	**23,530,420**	**24,864**	**23,505,556**	**0.1%**
Credit cards				
- not overdue	8,474,441	31,685	8,442,756	0.4%
- overdue less than 30 days	346,333	47,110	299,223	13.6%
- overdue 30-89 days	229,909	62,953	166,956	27.4%
- overdue 90-179 days	164,004	95,597	68,407	58.3%
- overdue 180-270 days	182,856	123,246	59,610	67.4%
Total credit cards	**9,397,543**	**360,591**	**9,036,952**	**3.8%**
Mortgage loans				
- not overdue	3,973,749	1,397	3,972,352	0.0%
- overdue less than 30 days	40,056	712	39,344	1.8%
- overdue 30-89 days	45,835	2,022	43,813	4.4%
- overdue 180-270 days	80,277	25,854	54,423	32.2%
Total mortgage loans	**4,139,917**	**29,985**	**4,109,932**	**0.7%**
Agricultural loans				
- not overdue	553,448	2,539	550,909	0.5%
- overdue less than 30 days	4,154	613	3,541	14.8%
- overdue 30-89 days	21,732	6,852	14,880	31.5%
- overdue 90-179 days	4,759	2,276	2,483	47.8%
- overdue 180-270 days	377	252	125	66.8%
Total agricultural loans	**584,470**	**12,532**	**571,938**	**2.1%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Other loans to retail customers				
- not overdue	7,705,119	35,309	7,669,810	0.5%
- overdue less than 30 days	207,310	29,176	178,134	14.1%
- overdue 30-89 days	268,632	81,572	187,060	30.4%
- overdue 90-179 days	231,604	109,491	122,113	47.3%
- overdue 180-270 days	91,187	65,594	25,593	71.9%
Total other loans to retail customers	**8,503,852**	**321,142**	**8,182,710**	**3.8%**
Total loans to retail customers	**46,156,202**	**749,114**	**45,407,088**	**1.6%**
Total loans to customers	**136,064,835**	**3,328,788**	**132,736,047**	**2.4%**

(b) Key assumptions and judgments for estimating the loan impairment

(i) Loans to corporate customers

The Bank estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment has been identified. In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- historic annual loss rate of 1.2%;
- a discount of between 20% and 40% to the originally appraised value if the property pledged is sold;
- a delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2013 would be AMD 1,214,796 thousand lower/higher (2012: AMD 873,230 thousand lower/higher).

(ii) Loans to retail customers

The Bank estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers is that loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 24 months.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to retail customers as at 31 December 2013 would be AMD 1,524,231 thousand lower/higher (2012: AMD 1,362,213 thousand).

(c) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2013 **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral - for collateral assessed as of reporting date**	**Fair value of collateral – for collateral assessed as of loan inception date**
Loans without individual signs of impairment			
Plant and equipment	25,897,673	5,837,974	20,059,699
Real estate	24,428,814	-	24,428,814
Cash and deposits	5,069,098	-	5,069,098
Motor vehicles	702,855	-	702,855
Inventory	107,552	-	107,552
Gold	8,102	-	8,102
Other collateral	3,632,521	-	3,632,521
Current accounts	45,333,502	-	-
State and municipal guarantees	8,587,374	-	-
Corporate guarantees (unrated)	1,346,572	-	-
Bank guarantees	953,237	-	-
Corporate shares	373,797	-	-
No collateral or other credit enhancement	1,002,304	-	-
Total loans without individual signs of impairment	117,443,401	5,837,974	54,008,641
Overdue or impaired loans			
Plant and equipment	3,337,712	3,337,712	-
Real estate	656,778	-	656,778
Inventory	1,570	-	1,570
Motor vehicles	1,049	-	1,049
Current accounts	8,468	-	-
No collateral or other credit enhancement	30,577	-	-
Total overdue or impaired loans	4,036,154	3,337,712	659,397
Total loans to corporate customers	**121,479,555**	**9,175,686**	**54,668,038**

31 December 2012 **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral - for collateral assessed as of reporting date**	**Fair value of collateral – for collateral assessed as of loan inception date**
Loans without individual signs of impairment			
Real estate	36,829,384	-	36,829,384
Plant and equipment	13,463,352	6,687,355	6,775,997
Cash and deposits	2,908,332	-	2,908,332
Inventory	298,520	-	298,520
Motor vehicles	130,027	-	130,027
Gold	13,309	-	13,309
Other collateral	1,842,215	-	1,842,215
Current accounts	21,299,997	-	-
State and municipal guarantees	4,808,644	-	-
Corporate guarantees (unrated)	1,637,504	-	-
Bank guarantees	998,492	-	-
No collateral or other credit enhancement	1,816,274	-	-
Total loans without individual signs of impairment	86,046,050	6,687,355	48,797,784
Overdue or impaired loans			
Real estate	1,238,560	-	1,238,560
Other collateral	23,435	-	23,435
Current accounts	7,742	-	-
No collateral or other credit enhancement	13,172	-	-
Total overdue or impaired loans	1,282,909	-	1,261,995
Total loans to corporate customers	**87,328,959**	**6,687,355**	**50,059,779**

The tables above exclude overcollateralization.

The Bank has loans, for which fair value of collateral was assessed at the loan inception date and it was not updated for further changes. For certain loans the fair value of collateral is updated as at the reporting date. Information on valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral as at each reporting date.

Included in loans to corporate customers without individual signs of impairment is a loan to an entity with a carrying amount of AMD 5,837,974 thousand which is secured by the plant and facilities of the borrower. Currently most of the plant and facilities are not being used for production. In assessing future cash flows from the loan the Bank has estimated the selling price of the individual items of the plant and facilities pledged deducting the cost of dismantling and transportation to the selling destination. The selling prices have been estimated based on scrap metal prices for non-usable items and market prices of items capable of being used. The timing of estimated cash flows is projected from one to two years. Had the cash flows been projected with one year delay, an impairment of AMD 551,404 thousand would arise.

(ii) Loans to retail customers

Gold loans

The fair value of gold securing gold loans is at least equal to carrying amounts of individual loans based on the values determined at the loan inception date.

Credit cards

Approximately 70% of the credit card loan portfolio is insured against a delinquency of more than 30% of this portfolio by an insurance company. Remaining credit card loans are not secured.

Mortgage

Mortgage loans are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans with a loan-to-value ratio at the date of loan issuance of a maximum of 95%. The fair value of real estate securing mortgage loans is at least equal to the carrying amounts of individual loans based on the values determined at the loan inception date.

Agricultural loans

Agricultural loans are mainly unsecured.

Other loans

Other loans are mainly secured by real estate, but also by motor vehicles. The Bank's policy is to issue other loans with a loan-to-value ratio of maximum of 60%.

(iii) Repossessed collateral

During the year ended 31 December 2013, the Bank obtained certain assets by taking possession of collateral for loans to customers. As at 31 December 2013 and 2012, the repossessed collateral comprises:

	2013 AMD'000	**2012 AMD'000**
Real estate	5,660,545	3,983,853
Other assets	172,228	17,638
Total repossessed collateral	**5,832,773**	**4,001,491**

On the date of foreclosure the collateral is measured at the lower of carrying amount of the defaulted loan and the net realisable value of collateral. Net realisable values are estimated based on the market approach. The market approach is based upon an analysis of the results of comparable sales of similar assets.

The Bank's policy is to sell these assets as soon as it is practicable.

(d) Assets under lien

As at 31 December 2013, loans to customers with a gross value of AMD 23,313,930 thousand (2012: AMD 21,548,250 thousand) serve as collateral for loans from banks and other financial institutions (see note 16).

(e) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Armenia who operate in the following economic sectors:

	2013 AMD'000	2012 AMD'000
Energy	59,205,552	39,093,568
Trade	14,206,348	7,938,425
Manufacturing	9,471,748	8,536,049
Construction	9,334,632	8,721,728
Transportation	5,828,483	2,638,690
Agriculture, forestry and timber	4,408,331	6,863,976
Food and beverage	4,284,242	3,172,802
Mining/metallurgy	4,256,458	639,475
Foundations	2,994,045	2,440,155
Municipal and Government authorities	2,314,372	1,116,101
Education	1,419,493	1,897,504
Loans to financial institutions	959,108	1,635,336
Other	6,289,639	5,214,824
Loans to retail customers	52,110,387	46,156,202
	177,082,838	**136,064,835**
Impairment allowance	(4,795,569)	(3,328,788)
	172,287,269	**132,736,047**

(f) Significant credit exposures

As at 31 December 2013 the Bank has six borrowers or groups of connected borrowers (2012: six), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2013 is AMD 56,519,525 thousand (2012: AMD 35,330,126 thousand).

(g) Loan maturities

The maturity of the loan portfolio is presented in note 20(d), which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Bank, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the term based on contractual terms.

14 Property, equipment and intangible assets

AMD'000	Land and buildings	Equipment	Fixtures and fittings	Motor vehicles	Construction in progress	Leasehold improvement	Intangible assets	Total
Cost/revalued amount								
Balance at 1 January 2013	6,652,342	2,085,080	1,433,311	284,711	25,455	448,287	485,892	11,415,078
Additions	243	56,157	128,122	7,325	29,721	19,815	136,666	378,049
Disposals	-	(38,538)	(20,320)	(19,917)	-	(4,264)	-	(83,039)
Transfers	1,143	11,741	24,099	476	(41,938)	4,479	-	-
Balance at 31 December 2013	**6,653,728**	**2,114,440**	**1,565,212**	**272,595**	**13,238**	**468,317**	**622,558**	**11,710,088**
Depreciation and amortization								
Balance at 1 January 2013	501,423	1,403,630	1,099,959	244,595	-	188,586	255,504	3,693,697
Depreciation and amortization for the year	508,180	271,084	174,998	18,048	-	40,686	99,570	1,112,566
Disposals	-	(24,009)	(18,207)	(18,011)	-	(1,164)	-	(61,391)
Balance at 31 December 2013	**1,009,603**	**1,650,705**	**1,256,750**	**244,632**	**-**	**228,108**	**355,074**	**4,744,872**
Carrying amount								
At 31 December 2013	**5,644,125**	**463,735**	**308,462**	**27,963**	**13,238**	**240,209**	**267,484**	**6,965,216**

AMD'000	Land and buildings	Equipment	Fixtures and fittings	Motor vehicles	Construction in progress	Leasehold improvement	Intangible assets	Total
Cost/revalued amount								
Balance at 1 January 2012	6,644,278	1,795,399	1,300,844	259,273	9,906	419,588	409,261	10,838,549
Additions	8,064	312,054	140,480	36,033	15,549	28,699	76,631	617,510
Disposals	-	(22,373)	(8,013)	(10,595)	-	-	-	(40,981)
At 31 December 2012	**6,652,342**	**2,085,080**	**1,433,311**	**284,711**	**25,455**	**448,287**	**485,892**	**11,415,078**
Depreciation and amortization								
Balance at 1 January 2012	-	1,135,887	911,146	227,817	-	148,650	164,931	2,588,431
Depreciation and amortization for the year	501,423	275,045	188,813	19,959	-	39,936	90,573	1,115,749
Disposals	-	(7,302)	-	(3,181)	-	-	-	(10,483)
Balance at 31 December 2012	**501,423**	**1,403,630**	**1,099,959**	**244,595**	**-**	**188,586**	**255,504**	**3,693,697**
Carrying amounts								
At 31 December 2012	6,150,919	681,450	333,352	40,116	25,455	259,701	230,388	7,721,381
At 1 January 2012	**6,644,278**	**659,512**	**389,698**	**31,456**	**9,906**	**270,938**	**244,330**	**8,250,118**

There are no capitalized borrowing costs related to the acquisition or construction of property and equipment during 2013 (2012: nil).

The carrying value of buildings as at 31 December 2013, if the buildings would not have been revalued, would be AMD 3,376,180 thousand (2012: AMD 3,692,653 thousand).

The carrying value of buildings as at 31 December 2013 is AMD 5,487,256 thousand (2012: AMD 5,994,050 thousand).

The fair value of the buildings was last determined and recorded as at 31 December 2011. The basis used for the appraisal was the market approach. The market approach is based upon an analysis of the results of comparable sales of similar buildings. Management believes that there is no significant change in the fair value of buildings during the years ended 31 December 2013 and 31 December 2012.

15 Other assets

	2013 AMD'000	2012 AMD'000
Other receivables	316,886	138,464
Total other financial assets	**316,886**	**138,464**
Prepayments	679,042	645,621
Materials and supplies	114,439	105,494
Other	199,310	51,916
Total other non-financial assets	**992,791**	**803,031**
Total other assets	**1,309,677**	**941,495**

16 Deposits and balances from banks and other borrowings

	2013 AMD'000	2012 AMD'000
Loans from banks and other financial institutions	42,508,799	31,950,974
Amounts payable under repurchase agreements	21,018,207	14,056,704
Vostro accounts	7,077	11,797
	63,534,083	**46,019,475**

As at 31 December 2013 the Bank has three financial institutions (2012: three financial institutions), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2013 is AMD 19,224,520 thousand (2012: AMD 12,000,418 thousand).

Included in loans from banks and other borrowings are loans from international and governmental financial institutions and the CBA with arrangements to sub-lend these funds to borrowers for qualifying loans. The qualifying loans under these agreements are loans to small and medium businesses, agricultural loans, loans for construction of hydro power plants and mortgage loans. The amount of these borrowings as at 31 December 2013 is AMD 40,335,787 thousand (2012: AMD 23,116,144 thousand).

17 Current accounts and deposits from customers

	2013 AMD'000	2012 AMD'000
Current accounts and demand deposits		
- Retail	9,474,216	6,988,967
- Corporate	35,647,595	20,404,492
Term deposits		
- Retail	72,748,231	56,202,269
- Corporate	41,285,816	30,833,062
	159,155,858	**114,428,790**

As at 31 December 2013, the Bank maintained customer deposit balances of AMD 8,957,797 thousand (2012: AMD 5,314,335 thousand) that serve as collateral for loans and unrecognized credit instruments granted by the Bank.

As at 31 December 2013, the Bank has two customers (2012: one customer), whose balances exceed 10% of equity. These balances as at 31 December 2013 are AMD 23,678,305 thousand (2012: AMD 13,307,400 thousand).

18 Other liabilities

	2013 AMD'000	2012 AMD'000
Salary and similar payables	198,058	174,141
Payables to suppliers	65,458	78,173
Total other financial liabilities	**263,516**	**252,314**
Deferred income	331,853	394,304
Other taxes payable	192,620	160,193
Other non-financial liabilities	46,838	121,326
Total other non-financial liabilities	**571,311**	**675,823**
Total other liabilities	**834,827**	**928,137**

19 Share capital and reserves

(a) Issued capital and share premium

The authorized, issued and outstanding share capital comprises 179,252 ordinary shares (2012: 179,252). All shares have a nominal value of AMD 77,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Nature and purpose of reserves

Revaluation surplus for buildings

The revaluation surplus for buildings comprises the cumulative positive revalued value of buildings, until the assets are derecognized or impaired.

Revaluation reserve for available-for-sale financial assets

The revaluation reserve for available-for-sale financial assets comprises the cumulative net change in the fair value, until the assets are derecognized or impaired.

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Republic of Armenia.

At the reporting date no dividends were declared (2012: nil).

20 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank’s operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Management Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of Management Board and indirectly to the Board of the Bank.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organization. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

The Bank calculates mandatory ratios on a daily basis in accordance with the requirement of the CBA. As at 31 December 2013 and 2012 the mandatory ratios were in compliance with limits set by the CBA.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO. Market risk limits are approved by ALCO based on recommendations of the Risk Department.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate, maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also decrease or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

AMD '000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2013							
ASSETS							
Cash and cash equivalents	4,125,105	-	-	-	-	45,968,436	50,093,541
Available-for-sale financial assets	842,636	1,122,433	4,118,777	12,243,487	4,132,586	61,507	22,521,426
Loans and advances to banks	6,645,069	2,029,615	-	253,692	-	1,562,046	10,490,422
Loans to customers	84,531,090	18,819,632	19,268,165	39,235,266	10,433,116	-	172,287,269
	96,143,900	**21,971,680**	**23,386,942**	**51,732,445**	**14,565,702**	**47,591,989**	**255,392,658**
LIABILITIES							
Deposits and balances from banks and other borrowings	38,648,573	7,330,539	3,471,894	9,667,572	4,408,428	7,077	63,534,083
Current accounts and deposits from customers	88,965,709	24,065,971	35,161,338	10,944,026	18,814	-	159,155,858
	127,614,282	**31,396,510**	**38,633,232**	**20,611,598**	**4,427,242**	**7,077**	**222,689,941**
	(31,470,382)	**(9,424,830)**	**(15,246,290)**	**31,120,847**	**10,138,460**	**47,584,912**	**32,702,717**
31 December 2012							
ASSETS							
Cash and cash equivalents	-	-	-	-	-	33,926,454	33,926,454
Financial instruments at fair value through profit or loss	-	-	-	-	-	291,873	291,873
Available-for-sale financial assets	621,515	418,304	1,001,890	9,567,310	1,728,705	62,287	13,400,011
Loans and advances to banks	3,202,578	861,532	-	-	-	1,461,062	5,525,172
Loans to customers	45,750,967	20,079,613	15,541,171	39,508,457	11,855,839	-	132,736,047
	49,575,060	**21,359,449**	**16,543,061**	**49,075,767**	**13,584,544**	**35,741,676**	**185,879,557**
LIABILITIES							
Financial instruments at fair value through profit or loss	-	-	-	-	-	5,850	5,850
Deposits and balances from banks and other borrowings	29,464,143	4,208,107	3,553,360	6,024,296	2,757,772	11,797	46,019,475
Current accounts and deposits from customers	58,602,908	14,363,481	31,142,329	10,317,784	2,288	-	114,428,790
	88,067,051	**18,571,588**	**34,695,689**	**16,342,080**	**2,760,060**	**17,647**	**160,454,115**
	(38,491,991)	**2,787,861**	**(18,152,628)**	**32,733,687**	**10,824,484**	**35,724,029**	**25,425,442**

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2013 and 2012. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2013 Average effective interest rate, %			**2012 Average effective interest rate, %**		
	AMD	**USD**	**Other currencies**	**AMD**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	-	0.1%	0.2-2.0%	-	-	-
Available-for-sale financial assets	14.4%	-	-	13.4%	-	-
Loans and advances to banks						
- Loans	8.5%	8.4%	-	-	11.0%	-
- Reverse repurchase agreements	9.2%	-	-	9.4%	-	-
Loans to customers	16.7%	11.4%	9.9%	18.9%	11.4%	9.9%
Interest bearing liabilities						
Deposits and balances from banks						
- Loans from banks and other financial institutions	7.1%	5.1%	3.9%	6.1%	5.4%	6.0%
- Amounts payable under repurchase agreements	7.9%	-	-	8.1%	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	0.1-1.0%	0.1-1.0%	0.1-1.0%	0.1-1.0%	0.1-1.0%	0.1-1.0%
- Term deposits	12.2%	8.1%	5.6 %	11.9%	8.1%	5.6%

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2013 and 2012 is as follows:

	2013 AMD'000	**2012 AMD'000**
100 bp parallel fall	291,626	173,614
100 bp parallel rise	(291,626)	(173,614)

An analysis of sensitivity of equity as a result of changes in the fair value of financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	2013	**2012**
	Equity AMD'000	**Equity AMD'000**
100 bp parallel fall	480,534	259,061
100 bp parallel rise	(480,534)	(259,061)

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2013:

	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS				
Cash and cash equivalents	12,432,029	2,471,040	2,120,440	17,023,509
Loans and advances to banks	2,532,896	1,288	238,978	2,773,162
Loans to customers	82,371,348	5,292,761	-	87,664,109
Total assets	**97,336,273**	**7,765,089**	**2,359,418**	**107,460,780**
LIABILITIES				
Deposits and balances from banks and other borrowings	26,906,883	2,509,542	2	29,416,427
Current accounts and deposits from customers	68,617,461	5,493,329	2,010,354	76,121,144
Total liabilities	**95,524,344**	**8,002,871**	**2,010,356**	**105,537,571**
Net position	**1,811,929**	**(237,782)**	**349,062**	**1,923,209**

The following table shows the currency structure of financial assets and liabilities as at 31 December 2012:

	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS				
Cash and cash equivalents	9,452,545	494,704	445,346	10,392,595
Loans and advances to banks	1,150,316	2,528	88,748	1,241,592
Loans to customers	75,324,673	3,065,308	-	78,389,981
Total assets	**85,927,534**	**3,562,540**	**534,094**	**90,024,168**
LIABILITIES				
Deposits and balances from banks and other borrowings	24,240,160	762,896	266,243	25,269,299
Current accounts and deposits from customers	60,021,926	5,028,070	666,053	65,716,049
Total liabilities	**84,262,086**	**5,790,966**	**932,296**	**90,985,348**
Net position	**1,665,448**	**(2,228,426)**	**(398,202)**	**(961,180)**
The effect of derivatives	**(1,973,746)**	**1,596,720**	**-**	**(377,026)**
Net position after derivatives	**(308,298)**	**(631,706)**	**(398,202)**	**(1,338,206)**

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2013 and 2012 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2013 AMD'000	**2012 AMD'000**
10% appreciation of USD against AMD	181,193	(30,830)
10% appreciation of EUR against AMD	(23,778)	(63,171)

A strengthening of the AMD against the above currencies at 31 December 2013 and 2012 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognized financial assets and unrecognized contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Management Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Management Department. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists, if the need for that is obvious as a result of loan monitoring and in the event of negative movements in market prices the borrower is usually requested to put up additional security. Retail loan credit applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Management Department.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Management Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognized contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2013 AMD'000	2012 AMD'000
ASSETS		
Cash and cash equivalents	42,569,305	28,745,614
Financial instruments at fair value through profit or loss	-	291,873
Available-for-sale debt assets	22,459,919	13,337,724
Loans and advances to banks	10,490,422	5,525,172
Loans to customers	172,287,269	132,736,047
Other financial assets	316,886	138,464
Total maximum exposure	**248,123,801**	**180,774,894**

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 13.

The maximum exposure to credit risk from unrecognized contractual commitments at the reporting date is presented in note 22.

As at 31 December 2013 the Bank has no debtors or groups of connected debtors (2012: none), credit risk exposure to whom exceeds 10% of maximum credit risk exposure, except for the CBA.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Bank's statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosured in the table below unless they are offset in the statement of financial position.

The Bank receives and gives collateral in the form of marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transitions upon the counterparty's failure to post collateral.

The above arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties. In addition the Bank and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2013:

AMD'000

				Related amounts not offset in the statement of financial position		
Types of financial assets/liabilities	**Gross amounts of recognized financial asset/liability**	**Gross amount of recognized financial liability/asset offset in the statement of financial position**	**Net amount of financial assets/liabilities presented in the statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Amounts receivable under reverse repurchase agreements	1,640,415	-	1,640,415	(1,640,415)	-	-
Total financial assets	**1,640,415**	**-**	**1,640,415**	**(1,640,415)**	**-**	**-**
Amounts payable under repurchase agreements	(21,018,207)	-	(21,018,207)	20,813,133	-	(205,074)
Total financial liabilities	**(21,018,207)**	**-**	**(21,018,207)**	**20,813,133**	**-**	**(205,074)**

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2012:

AMD'000

				Related amounts not offset in the statement of financial position		
Types of financial ssets/liabilities	**Gross amounts of recognized financial asset/liability**	**Gross amount of recognized financial liability/asset offset in the statement of financial position**	**Net amount of financial assets/liabilities presented in the statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Amounts receivable nder reverse repurchase greements	3,202,578	-	3,202,578	(2,937,390)		265,188
Total financial assets	**3,202,578**	**-**	**3,202,578**	**(2,937,390)**	**-**	**265,188**
Amounts payable nder repurchase greements	(14,056,704)	-	(14,056,704)	12,779,513	-	(1,277,191)
Total financial abilities	**(14,056,704)**	**-**	**(14,056,704)**	**12,779,513**	**-**	**(1,277,191)**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position on the amortized cost basis.

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board.

The Bank seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a monthly basis. Decisions on liquidity management are made by ALCO and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The maturity analysis for financial liabilities as at 31 December 2013 is as follows:

AMD'000	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total gross amount outflow (inflow)**	**Carrying amount**
Non-derivative liabilities							
Deposits and balances from banks and other borrowings	23,516,707	3,720,405	5,207,810	6,273,570	31,340,016	70,058,508	63,534,083
Current accounts and deposits from customers	67,614,532	23,474,664	25,578,265	36,800,513	11,459,616	164,927,590	159,155,858
Other financial liabilities	263,516	-	-	-	-	263,516	263,516
Total financial liabilities	**91,394,755**	**27,195,069**	**30,786,075**	**43,074,083**	**42,799,632**	**235,249,614**	**222,953,457**
Credit related commitments	**25,399,337**	**-**	**-**	**-**	**-**	**25,399,337**	**-**

The maturity analysis for financial assets and liabilities as at 31 December 2012 is as follows:

AMD'000	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total gross amount outflow (inflow)**	**Carrying amount**
Non-derivative liabilities							
Deposits and balances from banks and other borrowings	16,678,082	1,613,241	5,116,906	4,970,619	24,159,562	52,538,410	46,019,475
Current accounts and deposits from customers	45,571,594	13,473,165	15,053,703	33,038,405	11,207,358	118,344,225	114,428,790
Other financial liabilities	252,314	-	-	-	-	252,314	252,314
Derivative liabilities							
Gross settled derivatives							
- Inflow	(801,475)	-	-	-	-	(801,475)	-
- Outflow	807,325	-	-	-	-	807,325	5,850
Total financial liabilities	**62,507,840**	**15,086,406**	**20,170,609**	**38,009,024**	**35,366,920**	**171,140,799**	**160,706,429**
Credit related commitments	**19,903,706**	**-**	**-**	**-**	**-**	**19,903,706**	**-**

In accordance with Armenian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The classification of these deposits in accordance with their stated maturity dates is presented below:

	2013 AMD'000	**2012 AMD'000**
Demand and less than 1 month	9,737,569	4,481,092
From 1 to 3 months	10,524,024	8,204,954
From 3 to 6 months	18,698,985	11,829,734
From 6 to 12 months	26,276,349	23,474,594
More than 1 year	7,511,304	8,211,895
	72,748,231	**56,202,269**

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at 31 December 2013:

AMD'000	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**No maturity**	**Overdue**	**Total**
ASSETS								
Cash and cash equivalents	50,093,541	-	-	-	-	-	-	50,093,541
Available-for-sale financial assets	395,884	446,752	5,241,210	12,243,487	4,132,586	61,507	-	22,521,426
Loans and advances to banks	6,710,307	172,081	2,029,615	253,692	-	1,324,727	-	10,490,422
Loans to customers	50,171,069	30,974,826	38,087,797	39,235,266	10,433,116	-	3,385,195	172,287,269
Repossessed property	-	-	-	-	-	5,660,545	-	5,660,545
Property, equipment and intangible assets	-	-	-	-	-	6,965,216	-	6,965,216
Other assets	403,333	52,002	143,832	345,741	59,056	305,713	-	1,309,677
Total assets	**107,774,134**	**31,645,661**	**45,502,454**	**52,078,186**	**14,624,758**	**14,317,708**	**3,385,195**	**269,328,096**
LIABILITIES								
Deposits and balances from banks and other borrowings	23,335,764	3,557,946	10,012,515	20,305,713	6,322,145	-	-	63,534,083
Current accounts and deposits from customers	66,783,339	22,182,370	59,227,309	10,944,026	18,814	-	-	159,155,858
Current tax liability	-	-	122,331	-	-	-	-	122,331
Deferred tax liabilities	-	-	-	-	-	1,563,950	-	1,563,950
Other liabilities	791,340	39,445	-	-	-	4,042	-	834,827
Total liabilities	**90,910,443**	**25,779,761**	**69,362,155**	**31,249,739**	**6,340,959**	**1,567,992**	**-**	**225,211,049**
Net position	**16,863,691**	**5,865,900**	**(23,859,701)**	**20,828,447**	**8,283,799**	**12,749,716**	**3,385,195**	**44,117,047**

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at 31 December 2012:

AMD'000	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**No maturity**	**Overdue**	**Total**
ASSETS								
Cash and cash equivalents	33,926,454	-	-	-	-	-	-	33,926,454
Available-for-sale financial assets	223,838	397,677	1,420,194	9,567,310	1,728,705	62,287	-	13,400,011
Loans and advances to banks	3,329,595	-	861,532	-	-	1,334,045	-	5,525,172
Loans to customers	27,050,010	17,679,062	35,620,784	39,508,457	11,855,839	-	1,021,895	132,736,047
Repossessed property	-	-	-	-	-	3,983,853	-	3,983,853
Property, equipment and intangible assets	-	-	-	-	-	7,721,381	-	7,721,381
Other assets	143,781	429,901	32,681	-	20,000	315,132	-	941,495
Total assets	**64,673,678**	**18,506,640**	**37,935,191**	**49,075,767**	**13,604,544**	**13,416,698**	**1,021,895**	**198,234,413**
LIABILITIES								
Deposits and balances from banks and other borrowings	14,711,749	1,544,929	9,080,118	16,373,732	4,308,947	-	-	46,019,475
Current accounts and deposits from customers	45,124,240	13,478,669	45,505,809	10,317,784	2,288	-	-	114,428,790
Current tax liability	-	-	796,511	-	-	-	-	796,511
Deferred tax liabilities	-	-	-	-	-	513,992	-	513,992
Other liabilities	923,593	4,544	-	-	-	-	-	928,137
Total liabilities	**60,759,582**	**15,028,142**	**55,382,438**	**26,691,516**	**4,311,235**	**513,992**	**-**	**162,686,905**
Net position	**3,914,096**	**3,478,498**	**(17,447,247)**	**22,384,251**	**9,293,309**	**12,902,706**	**1,021,895**	**35,547,508**

21 Capital management

The CBA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for commersial banks. Under the current capital requirements set by the CBA, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2013, this minimum level is 12%. The Bank is in compliance with the statutory capital ratio as at 31 December 2013 and 2012.

The calculation of capital adequacy based on requirements set by the CBA as at 31 December is as follows:

	2013 AMD'000 Unaudited	2012 AMD'000 Unaudited
Tier 1 capital		
Share capital	13,802,404	13,802,404
Share premium	1,711,179	1,711,179
Retained earnings	23,822,497	17,402,117
Adjustment to CBA accounting principles	(2,815,503)	(291,850)
Deductions	(5,076,700)	(1,597,097)
Total tier 1 capital	**31,443,877**	**31,026,753**
Tier 2 capital		
Revaluation surplus for buildings	2,670,214	2,670,214
Revaluation reserve for available-for-sale financial assets	2,110,753	247,617
Deductions	(281,807)	(65,140)
Total tier 2 capital	**4,499,160**	**2,852,691**
Total capital	**35,943,037**	**33,879,444**
Total risk weighted assets, combining credit, market and operational risks	**221,786,911**	**173,075,457**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**16%**	**20%**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**14%**	**18%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognized contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

22 Credit related commitments

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers. The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

	2013 AMD'000	**2012 AMD'000**
Contracted amount		
Credit card commitments	6,829,931	4,101,616
Loan and credit line commitments	5,039,900	6,018,626
Undrawn overdraft facilities	2,547,309	4,306,078
Guarantees and letters of credit	9,623,974	5,477,386
	24,041,114	19,903,706

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional credit related commitment by the Bank.

23 Operating leases

(a) Leases as lessee

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2013 AMD'000	**2012 AMD'000**
Less than 1 year	208,712	167,513
Between 1 and 5 years	378,590	233,932
More than 5 years	156,405	32,655
	743,707	**434,100**

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

24 Contingencies

(a) Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(b) Taxation contingencies

The taxation system in the Republic of Armenia continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

These circumstances may create tax risks in the Republic of Armenia that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

25 Related party transactions

(a) Control relationships

The Bank's parent company is Center for Business Investments LLC, majority of ultimate shareholding of which belongs to Mrs. Anya Babaeva who together with her son – Karen Safaryan, Chairman of the Board of the Bank exercises control over the Bank. They also have a number of other business interests outside the Bank.

No publicly available financial statements are produced by the Bank's parent company or ultimate controlling party.

(i) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2013 and 2012 is as follows:

	2013 AMD'000	**2012 AMD'000**
Salary	351,348	407,943
Bonuses	102,150	60,161
	453,498	**468,104**

The outstanding balances and average effective interest rates as at 31 December 2013 and 2012 for transactions with the members of the Board and the Management Board are as follows:

	2013 AMD'000	Average effective interest rate, %	2012 AMD'000	Average effective interest rate, %
Statement of financial position				
Loans to customers	73,752	11.6%	177,209	14.0%
Current accounts and deposits from customers	186,818	8.9%	223,320	8.2%
Lending commitments	206,952	-	220,106	-

Amounts included in profit or loss in relation to transactions with the members of the Board of and the Management Board for the year ended 31 December are as follows:

	2013 AMD'000	2012 AMD'000
Profit or loss		
Interest income	6,684	10,649
Interest expense	(13,005)	(24,282)
Fee and commission income	649	1,755

(b) Transactions with other related parties

Other related parties include entities under common control with the Bank, close members of the families of and entities controlled by the Board and the Management Board members. The outstanding balances and the related average effective interest rates as at 31 December 2013 and related profit or loss amounts of transactions for the year ended 31 December 2013 with other related parties are as follows:

	Entities under common control		Other		
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	Total AMD'000
Statement of financial position					
ASSETS					
Loans to customers	3,710,102	11.4%	-	-	3,710,102
LIABILITIES					
Current accounts and deposits from customers	397,161	14.0%	210,144	7.0%	607,305
Items not recognised in the statement of financial position					
Lending commitments	18,903		228,770		247,673
Guarantees given	-		47,221		47,221
Profit (loss)					
Interest income	294,255		174,227		468,482
Interest expense	(41,938)		(12,148)		(54,086)
Fee and commission income	4,289		4,362		8,651
Fee and commission expense	(33,000)		(8,718)		(41,718)
General administrative expenses	(72,363)		-		(72,363)

The outstanding balances and the related average effective interest rates as at 31 December 2012 and related profit or loss amounts of transactions for the year ended 31 December 2012 with other related parties are as follows.

	Entities under common control		Other		
	AMD'000	Average effective interest rate, %	AMD'000	Average effective interest rate, %	Total AMD'000
Statement of financial position					
ASSETS					
Loans to customers	4,209,577	13.8%	3,635	17.2%	4,213,212
LIABILITIES					
Current accounts and deposits from customers	454,601	9.6%	142,154	8.4%	596,755
Items not recognised in the statement of financial position					
Lending commitments	167,863		7,312		175,175
Guarantees given	600		-		600
Profit (loss)					
Interest income	429,540		937		430,477
Interest expense	(11,379)		(15,448)		(26,827)
Fee and commission income	14,492		1,921		16,413

26 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The table below sets out the accounting classifications of financial assets and financial liabilities as at 31 December 2013:

AMD'000	Trading	Loans and receivables	Available-for-sale	Other amortized cost	Total carrying amount
Cash and cash equivalents	-	50,093,541	-	-	50,093,541
Available-for-sale financial assets	-	-	22,521,426	-	22,521,426
Loans and advances to banks	-	10,490,422	-	-	10,490,422
Loans customers:					
Loans to legal entities	-	121,479,555	-	-	121,479,555
Loans to retail customers	-	50,807,714	-	-	50,807,714
Other financial assets	-	316,886	-	-	316,886
	-	**233,188,118**	**22,521,426**	**-**	**255,709,544**
Deposits and balances from banks and other borrowings	-	-	-	63,534,083	63,534,083
Current accounts and deposits from customers	-	-	-	159,155,858	159,155,858
Other financial liabilities	-	-	-	263,516	263,516
	-	**-**	**-**	**222,953,457**	**222,953,457**

The table below sets out the accounting classifications of financial assets and financial liabilities as at 31 December 2012:

AMD'000	Trading	Loans and receivables	Available-for-sale	Other amortized cost	Total carrying amount
Cash and cash equivalents	-	33,926,454	-	-	33,926,454
Financial instruments at fair value through profit or loss	291,873	-	-	-	291,873
Available-for-sale financial assets	-	-	13,400,011	-	13,400,011
Loans and advances to banks	-	5,525,172	-	-	5,525,172
Loans customers:					
Loans to corporate customers	-	87,328,959	-	-	87,328,959
Loans to retail customers	-	45,407,088	-	-	45,407,088
Other financial assets	-	138,464	-	-	138,464
	291,873	**172,326,137**	**13,400,011**	**-**	**186,018,021**
Financial instruments at fair value through profit or loss	5,850	-	-	-	5,850
Deposits and balances from banks and other borrowings	-	-	-	46,019,475	46,019,475
Current accounts and deposits from customers	-	-	-	114,428,790	114,428,790
Other financial liabilities	-	-	-	252,314	252,314
	5,850	**-**	**-**	**160,700,579**	**160,706,429**

The estimated fair values of all financial instruments except for unquoted equity securities available-for-sale approximate their carrying values. The fair value of unquoted equity securities available for sale with a carrying value of AMD 50,287 thousand (2012: AMD 50,287 thousand) could not be determined.

The estimates of fair value are intended to approximate 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. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for debt securities and simple over the counter derivatives like currency swaps.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 8.5%- 11% and 10% - 17% are used for discounting future cash flows from loans and advances to banks and loans to customers, respectively;
- discount rates of 0.1%-14.5% are used for discounting future cash flows from liabilities.

(b) Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position:

AMD '000	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
- Debt and other fixed income instruments	-	22,459,919	-	22,459,919
- Equity instruments	-	11,220	-	11,220

The table below analyses financial instruments measured at fair value at 31 December 2012, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position:

AMD '000	Level 1	Level 2	Level 3	Total
Financial instruments at fair value through profit or loss				
- Derivative assets	-	291,873	-	291,873
- Derivative liabilities	-	(5,850)	-	(5,850)
Available-for-sale financial assets				
- Debt and other fixed income instruments	-	13,337,724	-	13,337,724
- Equity instruments	-	12,000	-	12,000

Ardshininvestbank cjsc

Financial Statements

for the year ended 31 December 2012

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Independent Auditors' Report

To the Board of
Ardshininvestbank cjsc

We have audited the accompanying financial statements of Ardshininvestbank cjsc (the Bank), which comprise the statement of financial position as at 31 December 2012, and the statements of 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Andrew Coxshall
Director

KPMG Armenia cjsc

Tigran Gasparyan
Head of Audit Department

KPMG Armenia cjsc
11 April 2013

	Notes	2012 AMD'000	2011 AMD'000
Interest income	4	18,779,660	14,214,299
Interest expense	4	(8,421,325)	(5,490,712)
Net interest income		**10,358,335**	**8,723,587**
Fee and commission income	5	3,061,540	2,184,726
Fee and commission expense		(379,227)	(269,749)
Net fee and commission income		**2,682,313**	**1,914,977**
Net foreign exchange income	6	1,363,755	1,321,844
Net gain on available-for-sale financial assets		28,257	19,015
Other operating income		701,654	458,138
Operating income		**15,134,314**	**12,437,561**
Impairment losses	14	(2,527,913)	(3,037,580)
Personnel expenses	7	(3,607,523)	(3,358,545)
Other general administrative expenses	8	(3,578,960)	(3,035,165)
Profit before income tax		**5,419,918**	**3,006,271**
Income tax expense	9	(1,186,539)	(646,134)
Profit for the year		**4,233,379**	**2,360,137**
Other comprehensive income, net of income tax			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		112,383	94,790
- Net change in fair value transferred to profit or loss		(22,606)	(15,212)
Revaluation of buildings		-	56,009
Other comprehensive income for the year, net of income tax		**89,777**	**135,587**
Total comprehensive income for the year		**4,323,156**	**2,495,724**

The financial statements as set out on pages 4 to 58 were approved by management on 11 April 2013 and were signed on its behalf by:

Mher Grigoryan
Chairman of the Management Board

Manvel Sahakyan
Chief Accountant

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2012 AMD'000	2011 AMD'000
ASSETS			
Cash and cash equivalents	10	33,926,454	41,520,820
Financial instruments at fair value through profit or loss			
- Held by the Bank	11	291,873	2,590
Available-for-sale financial assets			
- Held by the Bank	12	620,498	7,472,700
- Pledged under sale and repurchase agreements	12	12,779,513	5,649,046
Loans and advances to banks	13	5,525,172	4,431,220
Loans to customers	14	132,736,047	91,445,689
Repossessed property	14	3,983,853	712,193
Property, equipment and intangible assets	15	7,721,381	8,250,118
Other assets	16	941,495	905,758
Total assets		**198,526,286**	**160,390,134**
LIABILITIES			
Derivative instruments at fair value through profit or loss	11	5,850	59,238
Deposits and balances from banks and other borrowings	17	46,019,475	32,197,617
Current accounts and deposits from customers	18	114,428,790	95,235,009
Current tax liability		796,511	181,733
Deferred tax liability	9	513,992	605,016
Other liabilities	19	928,137	601,146
Total liabilities		**162,692,755**	**128,879,759**
EQUITY			
Share capital	20	13,802,404	13,802,404
Share premium		1,711,179	1,711,179
Revaluation surplus for buildings		2,670,214	2,670,214
Revaluation reserve for available-for-sale financial assets		247,617	157,840
Retained earnings		17,402,117	13,168,738
Total equity		**35,833,531**	**31,510,375**
Total liabilities and equity		**198,526,286**	**160,390,134**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2012 AMD'000	2011 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		17,780,098	13,825,926
Interest payments		(8,129,742)	(5,302,733)
Fee and commission receipts		3,298,769	2,258,636
Fee and commission payments		(379,227)	(422,008)
Net receipts from foreign exchange		1,411,983	1,367,843
Other income receipts		819,688	473,044
General administrative expenses payments		(6,000,197)	(5,626,735)
(Increase) decrease in operating assets			
Available-for-sale financial assets		(510,576)	(1,512,641)
Financial assets at fair value through profit and loss		(266,347)	-
Loans and advances to banks		(691,753)	(1,402,870)
Loans to customers		(43,714,436)	(18,211,310)
Other assets		(63,427)	110,174
Increase (decrease) in operating liabilities			
Deposits and balances from banks and other borrowings		7,686,014	4,822,231
Current accounts and deposits from customers		16,296,940	22,714,272
Other liabilities		88,370	(9,447)
Net cash from (used in) operating activities before income tax paid		**(12,373,843)**	**13,084,382**
Income tax paid		(640,341)	(744,134)
Cash flows (used in) from operations		**(13,014,184)**	**12,340,248**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and intangible assets		(587,371)	(827,570)
Cash flows used in investing activities		**(587,371)**	**(827,570)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of long-term loans from banks and other borrowings		29,140,780	29,795,075
Repayments of long-term loans from banks and other borrowings		(23,821,011)	(20,803,603)
Cash flows from financing activities		**5,319,769**	**8,991,472**
Net (decrease) increase in cash and cash equivalents		**(8,281,786)**	**20,504,150**
Effect of changes in exchange rates on cash and cash equivalents		687,420	1,094,445
Cash and cash equivalents as at the beginning of the period		41,520,820	19,922,225
Cash and cash equivalents as at the end of the period	10	**33,926,454**	**41,520,820**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

AMD'000	Share capital	Share premium	Revaluation surplus for buildings	Revaluation reserve for available-for-sale financial assets	Retained earnings	Total
Balance as at 1 January 2011	13,802,404	1,711,179	2,614,205	78,262	10,808,601	29,014,651
Total comprehensive income						
Profit for the year	-	-	-	-	2,360,137	2,360,137
Other comprehensive income						
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	-	94,790	-	94,790
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax	-	-	-	(15,212)	-	(15,212)
Revaluation of property and equipment, net of income tax	-	-	56,009	-	-	56,009
Total other comprehensive income	-	-	56,009	79,578	-	135,587
Total comprehensive income for the year	**-**	**-**	**56,009**	**79,578**	**2,360,137**	**2,495,724**
Balance as at 31 December 2011	**13,802,404**	**1,711,179**	**2,670,214**	**157,840**	**13,168,738**	**31,510,375**
Balance as at 1 January 2012	13,802,404	1,711,179	2,670,214	157,840	13,168,738	31,510,375
Total comprehensive income						
Profit for the year	-	-	-	-	4,233,379	4,233,379
Other comprehensive income						
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	-	112,383	-	112,383
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax	-	-	-	(22,606)	-	(22,606)
Total other comprehensive income	-	-	-	89,777	-	89,777
Total comprehensive income for the year	**-**	**-**	**-**	**89,777**	**4,233,379**	**4,323,156**
Balance as at 31 December 2012	**13,802,404**	**1,711,179**	**2,670,214**	**247,617**	**17,402,117**	**35,833,531**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organisation and operations

Ardshininvestbank cjsc (the Bank) was established in the Republic of Armenia as a closed joint stock company in 2003. The principal activities are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement transactions and transactions with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of Armenia (CBA). The Bank has a general banking license, and is a member of the state deposit insurance system in the Republic of Armenia.

The Bank has 55 branches from which it conducts business throughout the Republic of Armenia. The registered address of the head office is 13 and 13/1 Grigor Lusavorich street, Yerevan, Armenia. The majority of the assets and liabilities are located in the Republic of Armenia.

The Bank is ultimately controlled by a single individual, Mr. Karen Safaryan. He also has a number of other business interests outside the Bank.

(b) Business environment

The Bank's operations are primarily located in Armenia. Consequently, the Bank is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Armenia. The financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value and buildings are stated at revalued amounts.

(c) Functional and presentation currency

The functional currency of the Bank is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to the Bank.

The AMD is also the presentation currency for the purposes of these financial statements.

Financial information presented in AMD is rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates - note 14;
- valuation of repossessed assets – note 14; and
- building revaluation estimates - note 15.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBA and other banks. The mandatory reserve deposit with the CBA is considered to be a cash equivalent due to the absence of restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeble future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss
- the Bank designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(v) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

(vi) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss
- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

(vii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans and advances to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(ix) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(x) Offsetting

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

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income. When the asset is derecognized the revaluation surplus is transferred directly to retained earnings.

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- buildings	20 years
- equipment	1 to 5 years
- fixtures and fittings	5 years
- motor vehicles	5 years
- leasehold improvements	lease term

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life of intangible assets is 10 years.

(f) Repossessed property

Repossessed property is stated at the lower of cost and net realisable value.

(g) Impairment

(i) Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and can not be reversed.

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security 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, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iv) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. 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. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(i) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the followings:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss
- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument.
- commitments to provide a loan at a below-market interest rate.

(j) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Share premium

Any amount paid in excess of par value of shares issued is recognised as share premium.

(iii) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Armenian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(k) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(m) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2012, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective.

- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2012 AMD'000	2011 AMD'000
Interest income		
Loans to customers	16,975,607	12,703,377
Available-for-sale financial assets	1,538,355	1,394,782
Loans and advances to banks	233,760	116,140
Other	31,938	-
	18,779,660	**14,214,299**
Interest expense		
Current accounts and deposits from customers	6,730,593	4,183,368
Deposits and balances from banks and other borrowings	1,690,732	1,295,180
Other	-	12,164
	8,421,325	**5,490,712**

Included within various line items under interest income for the year ended 31 December 2012 is a total of AMD 1,415,743 thousand (2011: AMD 1,473,827 thousand) accrued on impaired or overdue financial assets.

5 Fee and commission income

	2012 AMD'000	2011 AMD'000
Loan servicing fee	1,109,717	436,737
Plastic card servicing	781,423	428,107
Remittances	659,626	764,345
Cash withdrawal	436,263	489,593
Guarantee and letter of credit issuance	74,511	65,944
	3,061,540	**2,184,726**

6 Net foreign exchange income

	2012 AMD'000	2011 AMD'000
Gain on spot transactions	1,411,983	1,367,843
Loss from revaluation of financial assets and liabilities	(48,228)	(45,999)
	1,363,755	**1,321,844**

7 Personnel expenses

	2012 AMD'000	2011 AMD'000
Employee compensation	3,267,921	3,037,336
Payroll related taxes	339,602	321,209
	3,607,523	**3,358,545**

8 Other general administrative expenses

	2012 AMD'000	2011 AMD'000
Depreciation and amortization	1,115,749	993,555
Security	270,043	258,057
Taxes other than on income	204,450	166,088
Operating lease expense	196,325	178,709
Communications and information services	160,574	144,250
Charity and sponsorship	143,613	174,097
Insurance	137,172	83,145
Advertising and marketing	133,510	108,329
Repairs and maintenance	116,550	117,312
Deposit insurance fund	109,795	79,930
Currency collection expenses	99,000	95,639
Utilities and office maintenance	83,106	78,948
Travel expenses	61,116	64,990
Office supplies	53,303	49,868
Professional services	40,173	23,234
Other	654,481	419,014
	3,578,960	**3,035,165**

9 Income tax expense

	2012 AMD'000	2011 AMD'000
Current year tax expense	(1,300,008)	(580,073)
Origination and reversal of temporary differences	113,469	(66,061)
Total income tax expense	**(1,186,539)**	**(646,134)**

In 2012, the applicable tax rate for current and deferred tax is 20% (2011: 20%).

Reconciliation of effective tax rate:

	2012 AMD'000	%	2011 AMD'000	%
Profit before tax	5,419,918		3,006,271	
Income tax at the applicable tax rate	(1,083,984)	(20)	(601,254)	(20)
Non-deductible costs	(102,555)	(2)	(44,880)	(1)
	(1,186,539)	**(22)**	**(646,134)**	**(21)**

(a) Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2012 and 2011.

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2012 and 2011 are presented as follows:

AMD'000	Balance 1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2012
Available-for-sale financial assets	(39,461)	-	(22,445)	(61,906)
Loans to customers	(60,283)	52,849	-	(7,434)
Property and equipment	(502,508)	39,398	-	(463,110)
Placements with banks	-	(10,819)	-	(10,819)
Other assets	(9,112)	14,588	-	5,476
Other liabilities	6,348	17,453	-	23,801
	(605,016)	**113,469**	**(22,445)**	**(513,992)**

AMD'000	Balance 1 January 2011	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2011
Available-for-sale financial assets	(19,566)	-	(19,895)	(39,461)
Loans to customers	43,066	(103,349)	-	(60,283)
Property and equipment	(527,266)	38,760	(14,002)	(502,508)
Other assets	(9,574)	462	-	(9,112)
Other liabilities	8,282	(1,934)	-	6,348
	(505,058)	**(66,061)**	**(33,897)**	**(605,016)**

(b) Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income for the years ended 31 December 2012 and 2011 comprise the following:

	2012			2011		
AMD'000	**Amount before tax**	**Tax expense**	**Amount net-of-tax**	**Amount before tax**	**Tax expense**	**Amount net-of-tax**
Net change in fair value of available-for-sale financial assets	140,479	(28,096)	112,383	118,488	(23,698)	94,790
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(28,257)	5,651	(22,606)	(19,015)	3,803	(15,212)
Revaluation of property and equipment	-	-	-	70,011	(14,002)	56,009
Other comprehensive income	**112,222**	**(22,445)**	**89,777**	**169,484**	**(33,897)**	**135,587**

10 Cash and cash equivalents

	2012 AMD'000	2011 AMD'000
Cash on hand	5,180,840	6,804,911
Nostro accounts with the CBA	26,602,961	32,482,042
Nostro accounts with other banks		
- rated AAA	-	60,017
- rated A- to A+	1,744,565	1,542,270
- rated BBB	6,653	207,863
- rated from BB- to BB+	391,433	318,583
- rated below B+	2	105,134
Total nostro accounts with other banks	**2,142,653**	**2,233,867**
Total cash and cash equivalents	**33,926,454**	**41,520,820**

The nostro accounts include non-interest bearing mandatory minimum reserve deposits calculated in accordance with regulations promulgated by the CBA at 8% to 12% from the attracted funds. Withdrawal of such reserves is not restricted; however, the Bank is subject to penalties if the required minimum average balance is not periodically maintained.

The Bank uses credit ratings per Standard&Poor's and Fitch in disclosing credit quality.

No cash and cash equivalents are impaired or past due.

11 Financial instruments at fair value through profit or loss

	2012 AMD'000	2011 AMD'000
ASSETS		
Held by the Bank		
Derivative financial instruments		
Foreign currency contracts	**291,873**	**2,590**
LIABILITIES		
Derivative financial instruments		
Foreign currency contracts	**5,850**	**59,238**

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2012 and 31 December 2011 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2012 AMD'000	2011 AMD'000	2012	2011
Buy USD sell AMD				
Between 3 and 12 months	143,220	-	378	-
More than 1 year	-	137,529	-	382
Sell USD buy Euros				
Less than 3 months	1,309,640	557,958	1.08	1.37
Sell USD buy AMD				
Less than 3 months	807,325	-	401	-

12 Available-for-sale financial assets

	2012 AMD'000	2011 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	266,247	7,315,072
Corporate bonds	291,964	95,938
Total debt and other fixed-income instruments	**558,211**	**7,411,010**
Equity investments		
Corporate shares	62,287	61,690
	620,498	**7,472,700**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	12,779,513	5,649,046
	12,779,513	**5,649,046**

The Bank has transactions to lend securities and to sell securities under agreements to repurchase and to purchase securities under agreements to resell.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. The Bank recognises a financial liability for cash received as collateral included in deposits and balances from banks and other borrowings (note 17).

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

13 Loans and advances to banks

	2012 AMD'000	**2011 AMD'000**
Reverse repurchase agreements with Armenian banks	1,714,865	-
Reverse repurchase agreements with medium-size Armenian financial institutions	1,487,713	1,509,011
Credit card settlement deposit with the CBA	1,020,000	1,054,157
Loans and deposits with top 10 Armenian Banks	861,532	-
Deposits in banks rated A- to A	-	1,296,816
Other	441,062	571,236
Total loans and deposits	**5,525,172**	**4,431,220**

None of loans and advances to banks are impaired or past due.

(a) Collateral accepted as security for assets

At 31 December 2012 the fair value of financial assets accepted as collateral under reverse repurchase agreements that the Bank is permitted to sell or re-pledge in the absence of default is AMD 2,937,390 thousand (2011: AMD 1,535,959 thousand), excluding the effect of overcollateralisation.

(b) Concentration of loans and advances to banks

As at 31 December 2012 and 2011 the Bank had no banks whose balances exceed 10% of equity.

14 Loans to customers

	2012 AMD'000	2011 AMD'000
Loans to corporate customers	**89,908,633**	**64,620,739**
Loans to retail customers		
Gold loans	23,530,420	17,186,306
Credit cards	9,397,543	4,226,060
Mortgage loans	4,139,917	3,294,320
Auto loans	273,196	1,325,658
Other	8,815,126	4,532,218
Total loans to retail customers	**46,156,202**	**30,564,562**
Gross loans to customers	**136,064,835**	**95,185,301**
Impairment allowance	(3,328,788)	(3,739,612)
Net loans to customers	**132,736,047**	**91,445,689**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2012 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	3,365,435	374,177	3,739,612
Net charge	2,058,934	468,979	2,527,913
Write-offs	(2,844,695)	(94,042)	(2,938,737)
Balance at the end of the year	**2,579,674**	**749,114**	**3,328,788**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2011 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	2,496,202	266,421	2,762,623
Net charge	2,925,714	111,866	3,037,580
Write-offs	(2,923,324)	(514,242)	(3,437,566)
Reversals	866,843	510,132	1,376,975
Balance at the end of the year	**3,365,435**	**374,177**	**3,739,612**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2012:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans without individual signs of impairment	87,531,132	1,485,082	86,046,050	1.7%
Impaired loans:				
- not overdue	1,386,998	443,839	943,159	32.0%
-overdue less than 90 days	656,303	413,471	242,832	63.0%
- overdue more than 90 days and less than 270 days	334,200	237,282	96,918	71.0%
Total impaired loans	2,377,501	1,094,592	1,282,909	46.0%
Total loans to corporates customers	**89,908,633**	**2,579,674**	**87,328,959**	**2.9%**
Loans to retail customers				
Gold loans				
- not overdue	23,317,456	949	23,316,507	0.0%
- overdue less than 30 days	108,693	1,425	107,268	1.3%
- overdue 30-89 days	59,682	5,097	54,585	8.5%
- overdue 90-179 days	22,208	4,193	18,015	18.9%
- overdue 180-270 days	22,381	13,200	9,181	59.0%
Total gold loans	**23,530,420**	**24,864**	**23,505,556**	**0.1%**
Credit cards				
- not overdue	8,474,441	31,685	8,442,756	0.4%
- overdue less than 30 days	346,333	47,110	299,223	13.6%
- overdue 30-89 days	229,909	62,953	166,956	27.4%
- overdue 90-179 days	164,004	95,597	68,407	58.3%
- overdue 180-270 days	182,856	123,246	59,610	67.4%
Total credit cards	**9,397,543**	**360,591**	**9,036,952**	**3.8%**
Mortgage loans				
- not overdue	3,973,749	1,397	3,972,352	0.0%
- overdue less than 30 days	40,056	712	39,344	1.8%
- overdue 30-89 days	45,835	2,022	43,813	4.4%
- overdue 180-270 days	80,277	25,854	54,423	32.2%
Total mortgage loans	**4,139,917**	**29,985**	**4,109,932**	**0.7%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Auto loans				
- not overdue	190,448	841	189,607	0.4%
- overdue less than 30 days	16,644	1,039	15,605	6.2%
- overdue 30-89 days	22,149	3,856	18,293	17.4%
- overdue 90-179 days	26,331	11,314	15,017	43.0%
- overdue 180-270 days	17,624	16,456	1,168	93.4%
Total auto loans	**273,196**	**33,506**	**239,690**	**12.3%**
Other loans to retail customers				
- not overdue	8,068,119	37,007	8,031,112	0.5%
- overdue less than 30 days	194,820	28,750	166,070	14.8%
- overdue 30-89 days	268,215	84,568	183,647	31.5%
- overdue 90-179 days	210,032	100,453	109,579	47.8%
- overdue 180-360 days	73,940	49,390	24,550	66.8%
Total other loans to retail customers	**8,815,126**	**300,168**	**8,514,958**	**3.4%**
Total loans to retail customers	**46,156,202**	**749,114**	**45,407,088**	**1.6%**
Total loans to customers	**136,064,835**	**3,328,788**	**132,736,047**	**2.4%**

The following table provides information on the credit quality of the loans to customers as at 31 December 2011:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans without individual signs of impairment	50,242,621	753,639	49,488,982	1.5%
Impaired loans:				
- not overdue	10,216,377	530,160	9,686,217	5.2%
- overdue less than 90 days	161,936	19,452	142,484	12.0%
- overdue more than 90 days and less than 270 days	2,712,580	1,446,307	1,266,273	53.3%
- overdue more than 270 days	1,287,225	615,877	671,348	47.8%
Total impaired loans	14,378,118	2,611,796	11,766,322	18.2%
Total loans to corporate customers	**64,620,739**	**3,365,435**	**61,255,304**	**5.2%**
Loans to retail customers				
Gold loans				
- not overdue	17,145,212	171,653	16,973,559	1.0%
- overdue less than 30 days	27,837	1,252	26,585	4.5%
- overdue 30-89 days	13,257	2,639	10,618	19.9%
Total gold loans	**17,186,306**	**175,544**	**17,010,762**	**1.0%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Credit cards				
- not overdue	3,939,620	6,785	3,932,835	0.2%
- overdue less than 30 days	95,008	10,291	84,717	10.8%
- overdue 30-89 days	79,390	17,656	61,734	22.2%
- overdue 90-179 days	72,261	24,188	48,073	33.5%
- overdue 180-270 days	39,781	15,241	24,540	38.3%
Total credit cards	**4,226,060**	**74,161**	**4,151,899**	**1.8%**
Mortgage loans				
- not overdue	3,127,169	-	3,127,169	0.0%
- overdue less than 30 days	47,207	2,548	44,659	5.4%
- overdue 30-89 days	38,045	5,968	32,077	15.7%
- overdue 90-179 days	44,327	13,554	30,773	30.6%
- overdue 180-270 days	37,572	15,167	22,405	40.4%
Total mortgage loans	**3,294,320**	**37,237**	**3,257,083**	**1.1%**
Auto loans				
- not overdue	1,096,329	2,224	1,094,105	0.2%
- overdue less than 30 days	52,562	1,608	50,954	3.1%
- overdue 30-89 days	97,298	9,771	87,527	10.0%
- overdue 90-179 days	45,987	12,912	33,075	28.1%
- overdue 180-270 days	33,482	13,532	19,950	40.4%
Total auto loans	**1,325,658**	**40,047**	**1,285,611**	**3.0%**
Other loans to retail customers				
- not overdue	4,295,485	6,817	4,288,668	0.2%
- overdue less than 30 days	82,071	4,122	77,949	5.0%
- overdue 30-89 days	66,795	8,039	58,756	12.0%
- overdue 90-179 days	60,747	17,961	42,786	29.6%
- overdue 180-360 days	27,120	10,249	16,871	37.8%
Total other loans to retail customers	**4,532,218**	**47,188**	**4,485,030**	**1.0%**
Total loans to retail customers	**30,564,562**	**374,177**	**30,190,385**	**1.2%**
Total loans to customers	**95,185,301**	**3,739,612**	**91,445,689**	**3.9%**

(b) Key assumptions and judgments for estimating the loan impairment

(i) Loans to corporate customers

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in business environment, negative changes in the borrower's markets

The Bank estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- historic annual loss rate of 1.7%
- a discount of between 20% and 40% to the originally appraised value if the property pledged is sold
- a delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2012 would be AMD 873,289 thousand lower/higher (2011: AMD 612,553 thousand lower/higher).

(ii) Loans to retail customers

The Bank estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumption used by management in determining the impairment losses for loans to retail customers is that loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 24 months.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to retail customers as at 31 December 2012 would be AMD 1,362,213 thousand lower/higher (2011: AMD 905,712 thousand).

(c) Analysis of collateral

(i) Loans to corporate customers

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2012 **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral assessed as of reporting date**	**Fair value of collateral assessed as of loan inception date**
Loans without individual signs of impairment			
Real estate	36,829,384	-	36,829,384
Plant and equipment	13,463,352	6,687,355	6,775,997
Cash and deposits	2,908,332	-	2,908,332
Inventory	298,520	-	298,520
Motor vehicles	130,027	-	130,027
Gold	13,309	-	13,309
Other collateral	1,842,215	-	1,842,215
Current accounts	21,299,997	-	-
State and municipal guarantees	4,808,644	-	-
Corporate guarantees (unrated)	1,637,504	-	-
Bank guarantees	998,492	-	-
No collateral or other credit enhancement	1,816,274	-	-
Total loans without individual signs of impairment	86,046,050	6,687,355	48,797,784
Overdue or impaired loans			
Real estate	1,238,560	-	1,238,560
Other collateral	23,435	-	23,435
Current accounts	7,742	-	-
No collateral or other credit enhancement	13,172	-	-
Total overdue or impaired loans	1,282,909	-	1,261,995
Total loans to corporate customers	**87,328,959**	**6,687,355**	**50,059,779**

31 December 2011 **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral assessed as of reporting date**	**Fair value of collateral assessed as of loan inception date**
Loans without individual signs of impairment			
Real estate	27,108,378	-	27,108,378
Plant and equipment	8,840,860	-	8,840,860
Inventory	688,499	-	688,499
Motor vehicles	285,150	-	285,150
Cash and deposits	201,556	-	201,556
Gold	71,329	-	71,329
Other collateral	576,366	-	576,366
State and municipal guarantees	7,495,836	-	-
Current accounts	3,603,255	-	-
Corporate guarantees (unrated)	529,432	-	-
No collateral or other credit enhancement	88,321	-	-
Total loans without individual signs of impairment	49,488,982	-	37,772,138
Overdue or impaired loans			
Plant and equipment	8,872,898	-	8,872,898
Real estate	2,796,103	-	2,796,103
Motor vehicles	21,866	-	21,866
No collateral	75,455	-	-
Total overdue or impaired loans	11,766,322	-	11,690,867
Total loans to corporate customers	**61,255,304**	-	**49,463,005**

Current account as credit enhancement represents settlement account of borrowers which may not necessarily have sufficient balance to repay the outstanding loan at any point in time. These accounts are used by borrowers to collect their revenue.

The tables above are presented on the basis of excluding overcollateralization. For loans secured by multiple type collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

The recoverability of loans to corporate customers loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the bank does not necessarily update the valuation of collateral as at each reporting date.

(ii) Loans to retail customers

Gold loans

The fair value of gold securing gold loans is at least equal to carrying amounts of individual loans based on the values determined at the loan inception date.

Credit cards

Approximately 60% of credit card loan portfolio is guaranteed by an insurance company. Remaining credit card loans are not secured.

Mortgage loans

Mortgage loans are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans with a loan-to-value ratio of maximum of 80%. The fair value of real estate securing mortgage loans is at least equal to the carrying amounts of individual loans based on the values determined at the loan inception date.

Auto loans

Auto loans are secured by the underlying cars. The fair value of autos securing auto loans is at least equal to the carrying amounts of individual loans based on the values determined at the loan inception date.

Other loans

Other loans are mainly secured by real estate, but also by motor vehicles. The Bank's policy is to issue other loans with a loan-to-value ratio of maximum of 60%.

(iii) Repossessed collateral

During the year ended 31 December 2012, the Bank obtained certain real estate by taking possession of collateral for loans to customers.

	2012 **AMD'000**	**2011** **AMD'000**
At 1 January	712,193	5,768
Additions	3,271,660	706,425
At 31 December	**3,983,853**	**712,193**

On the date of foreclosure the real estate is measured at the lower of carrying amount of the defaulted loan and the fair value of real estate. Fair values are estimated based on the market approach. The market approach is based upon an analysis of the results of comparable sales of similar real estate.

The Bank's policy is to sell these assets as soon as it is practicable.

(d) Assets under lien

As at 31 December 2012, loans to customers with a gross value of AMD 21,548,250 thousand (2011: AMD 21,703,658 thousand) serve as collateral for loans from banks and other financial institutions (see note 17).

(e) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Armenia who operate in the following economic sectors:

	2012 AMD'000	**2011 AMD'000**
Energy	39,093,568	17,387,052
Construction	8,721,728	5,032,857
Manufacturing	8,536,049	8,721,572
Trade	7,938,425	8,222,980
Agriculture, forestry and timber	6,863,976	6,793,093
Public food and services	3,172,802	4,448,034
Transportation	2,638,690	6,273,922
Foundations	2,440,155	1,372,640
Education	1,897,504	1,363,160
Finance	1,635,336	256,962
Municipal authorities	1,116,101	579,416
Mining/metallurgy	639,475	133,724
Other	5,214,824	4,035,327
Loans to retail customers	46,156,202	30,564,562
	136,064,835	**95,185,301**
Impairment allowance	(3,328,788)	(3,739,612)
	132,736,047	**91,445,689**

(f) Significant credit exposures

As at 31 December 2012 the Bank has six borrowers or groups of connected borrowers, excluding related parties (see note 26), (2011: five), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2012 is AMD 35,330,126 thousand (2011: AMD 22,955,422 thousand).

(g) Loan maturities

The maturity of the loan portfolio is presented in note 21(d), which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Bank, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the term based on contractual terms.

15 Property, equipment and intangible assets

AMD'000	Land and buildings	Equipment	Fixtures and fittings	Motor vehicles	Construction in progress	Leasehold improvements	Intangible assets	Total
Cost/revalued amount								
Balance at 1 January 2012	6,644,278	1,795,399	1,300,844	259,273	9,906	419,588	409,261	10,838,549
Additions	8,064	312,054	140,480	36,033	15,549	28,699	76,631	617,510
Disposals	-	(22,373)	(8,013)	(10,595)	-	-	-	(40,981)
Balance at 31 December 2012	**6,652,342**	**2,085,080**	**1,433,311**	**284,711**	**25,455**	**448,287**	**485,892**	**11,415,078**
Depreciation and amortization								
Balance at 1 January 2012	-	1,135,887	911,146	227,817	-	148,650	164,931	2,588,431
Depreciation and amortization for the year	501,423	275,045	188,813	19,959	-	39,936	90,573	1,115,749
Disposals	-	(7,302)	-	(3,181)	-	-	-	(10,483)
Balance at 31 December 2012	**501,423**	**1,403,630**	**1,099,959**	**244,595**	**-**	**188,586**	**255,504**	**3,693,697**
Carrying amount								
At 31 December 2012	**6,150,919**	**681,450**	**333,352**	**40,116**	**25,455**	**259,701**	**230,388**	**7,721,381**

AMD'000	Land and buildings	Equipment	Fixtures and fittings	Motor vehicles	Construction in progress	Leasehold improvements	Intangible assets	Total
Cost/revalued amount								
Balance at 1 January 2011	8,052,675	1,362,613	1,211,014	253,433	1,084	409,239	192,589	11,482,647
Additions	16,829	486,723	78,775	8,990	8,822	10,349	216,672	827,160
Disposals	-	(53,937)	(2,187)	(3,150)	-	-	-	(59,274)
Revaluation	(1,411,984)	-	-	-	-	-	-	(1,411,984)
Transfers	(13,242)	-	13,242	-	-	-	-	-
Balance at 31 December 2011	**6,644,278**	**1,795,399**	**1,300,844**	**259,273**	**9,906**	**419,588**	**409,261**	**10,838,549**
Depreciation and amortization								
Balance at 1 January 2011	982,663	1,020,504	717,039	203,088	-	109,711	103,140	3,136,145
Depreciation and amortization for the year	499,332	169,320	196,294	27,879	-	38,939	61,791	993,555
Revaluation	(1,481,995)	-	-	-	-	-	-	(1,481,995)
Disposals	-	(53,937)	(2,187)	(3,150)	-	-	-	(59,274)
Balance at 31 December 2011	**-**	**1,135,887**	**911,146**	**227,817**	**-**	**148,650**	**164,931**	**2,588,431**
Carrying amount								
At 31 December 2011	**6,644,278**	**659,512**	**389,698**	**31,456**	**9,906**	**270,938**	**244,330**	**8,250,118**
At 1 January 2011	**7,070,012**	**342,109**	**493,975**	**50,345**	**1,084**	**299,528**	**89,449**	**8,346,502**

The carrying value of buildings as at 31 December 2012, if the buildings would not have been revalued, would be AMD 3,692,653 thousand (2011: AMD 3,974,851thousand).

The carrying value of buildings as at 31 December 2012 is AMD 5,837,181 thousand (2011: AMD 6,487,409 thousand).

The fair value of the buildings was last determined and recorded as at 31 December 2011. The basis used for the appraisal was the market approach. The market approach is based upon an analysis of the results of comparable sales of similar buildings. Management believes that there is no significant change in the fair value of buildings during the year ended 31 December 2012.

16 Other assets

	2012 AMD'000	2011 AMD'000
Other receivables	138,464	67,103
Total other financial assets	**138,464**	**67,103**
Prepayments	645,621	687,697
Materials and supplies	105,494	98,763
Other	51,916	52,195
Total other non-financial assets	**803,031**	**838,655**
Total other assets	**941,495**	**905,758**

17 Deposits and balances from banks and other borrowings

	2012 AMD'000	2011 AMD'000
Loans from banks and other financial institutions	31,950,974	26,511,138
Amounts payable under repurchase agreements	14,056,704	5,666,670
Vostro accounts	11,797	19,809
	46,019,475	**32,197,617**

As at 31 December 2012 the Bank has three financial institutions (2011: three financial institutions), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 is AMD 12,000,418 thousand (2011: AMD 11,660,076 thousand).

18 Current accounts and deposits from customers

	2012 AMD'000	2011 AMD'000
Current accounts and demand deposits		
- Retail	6,988,967	5,755,481
- Corporate	20,404,492	31,139,395
Term deposits		
- Retail	56,202,269	44,364,633
- Corporate	30,833,062	13,975,500
	114,428,790	**95,235,009**

As at 31 December 2012, the Bank maintained customer deposit balances of AMD 5,314,335 thousand (2011: AMD 3,815,664 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Bank.

As at 31 December 2012, the Bank has one customer (2012: one customer), whose balances exceed 10% of equity. These balances as at 31 December 2012 are AMD 13,307,400 thousand (2011: AMD 13,245,199 thousand).

19 Other liabilities

	2012 AMD'000	2011 AMD'000
Salary and similar payables	174,141	142,545
Payables to suppliers	78,173	108,483
Total other financial liabilities	**252,314**	**251,028**
Deferred income	394,304	156,965
Other taxes payable	160,193	159,353
Other	121,326	33,800
Total other non-financial liabilities	**675,823**	**350,118**
Total other liabilities	**928,137**	**601,146**

20 Share capital

(a) Issued capital

The authorised, issued and outstanding share capital comprises 179,252 ordinary shares (2011: 179,252). All shares have a nominal value of AMD 77,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Republic of Armenia. In accordance with the legislation of the Republic of Armenia, as at the reporting date, reserves available for distribution amount to AMD 16,177,320 thousand (2011: AMD 12,239,136 thousand).

21 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Management Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the President and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the Head of Planning and Analysis Department. Market risk limits are approved by the Management Board and Board of Directors based on recommendations of ALCO.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2012							
ASSETS							
Cash and cash equivalents	-	-	-	-	-	33,926,454	33,926,454
Financial instruments at fair value through profit or loss	-	-	-	-	-	291,873	291,873
Available-for-sale financial assets	621,515	418,304	1,001,890	9,567,310	1,728,705	62,287	13,400,011
Loans and advances to banks	3,202,578	861,532	-	-	-	1,461,062	5,525,172
Loans to customers	45,750,967	20,079,613	15,541,171	39,508,457	11,855,839	-	132,736,047
	49,575,060	**21,359,449**	**16,543,061**	**49,075,767**	**13,584,544**	**35,741,676**	**185,879,557**
LIABILITIES							
Derivative instruments at fair value through profit or loss	-	-	-	-	-	5,850	5,850
Deposits and balances from banks and other borrowings	29,464,143	4,208,107	3,553,360	6,024,296	2,757,772	11,797	46,019,475
Current accounts and deposits from customers	58,602,908	14,363,481	31,142,329	10,317,784	2,288	-	114,428,790
	88,067,051	**18,571,588**	**34,695,689**	**16,342,080**	**2,760,060**	**17,647**	**160,454,115**
Interest rate gap	**(38,491,991)**	**2,787,861**	**(18,152,628)**	**32,733,687**	**10,824,484**	**35,724,029**	**25,425,442**
31 December 2011							
ASSETS							
Cash and cash equivalents	-	-	-	-	-	41,520,820	41,520,820
Financial instruments at fair value through profit or loss	-	-	-	-	-	2,590	2,590
Available-for-sale financial assets	631,814	3,702,369	682,738	7,146,571	896,564	61,690	13,121,746
Loans and advances to banks	2,805,827	-	-	-	-	1,625,393	4,431,220
Loans to customers	18,423,874	20,214,668	11,690,888	34,000,985	7,115,274	-	91,445,689
	21,861,515	**23,917,037**	**12,373,626**	**41,147,556**	**8,011,838**	**43,210,493**	**150,522,065**
LIABILITIES							
Derivative instruments at fair value through profit or loss	-	-	-	-	-	59,238	59,238
Deposits and balances from banks and other borrowings	11,144,248	12,318,370	644,410	5,496,545	2,574,235	19,809	32,197,617
Current accounts and deposits from customers	53,146,348	13,988,885	26,228,944	1,853,544	17,288	-	95,235,009
	64,290,596	**26,307,255**	**26,873,354**	**7,350,089**	**2,591,523**	**79,047**	**127,491,864**
Interest rate gap	**(42,429,081)**	**(2,390,218)**	**(14,499,728)**	**33,797,467**	**5,420,315**	**43,131,446**	**23,030,201**

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2012 and 2011. These interest rates are an approximation of the yields to maturity of these assets and liabilities except for the deposits and balances from banks and other borrowings of AMD 13,374,181 thousand (2011: AMD 12,577,656 thousand) the interest rates on which are floating.

	2012 Average effective interest rate, %			**2011 Average effective interest rate, %**		
	AMD	**USD**	**Other currencies**	**AMD**	**USD**	**Other currencies**
Interest bearing assets						
Available-for-sale financial assets	13.4%	-	-	13.5%	-	-
Loans and advances to banks						
- Loans	-	11.0%	-	-	-	-
- Deposits	-	-	-	-	-	0.8%
- Reverse repurchase agreements	9.4%	-	-	12.0%	-	-
Loans to customers	18.9%	11.4%	9.9%	17.9%	12.7%	10.8%
Interest bearing liabilities						
Deposits and balances from banks and other borrowings						
- Loans from banks and other financial institutions	6.1%	5.4%	6.0%	6.8%	4.9%	8.1%
- Amounts payable under repurchase agreements	8.1%	-	-	8.0%	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	0.1-1.0%	0.1-1.0%	0.1-1.0%	0.1-1.0%	0.1-1.0%	0.1-1.0%
- Term deposits	11.9%	8.1%	5.6%	11.3%	8.2%	5.1%

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is suplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities (excluding on demand liabilities which are relatively insensitive to interest rate changes) existing as at 31 December 2012 and 2011 is as follows:

	2012 AMD'000	2011 AMD'000
100 bp parallel fall	173,614	64,821
100 bp parallel rise	(173,614)	(64,821)

An anlaysis of sensitivity of equity as a result of changes in the fair value of financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2012 and 2011 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	2012	2011
	Equity AMD'000	Equity AMD'000
100 bp parallel fall	259,061	190,219
100 bp parallel rise	(259,061)	(190,219)

(ii) *Currency risk*

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the foreign currency exposure as at 31 December 2012:

	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS				
Cash and cash equivalents	9,452,545	494,704	445,346	10,392,595
Loans and advances to banks	1,150,316	2,528	88,748	1,241,592
Loans to customers	75,324,673	3,065,308	-	78,389,981
Total assets	**85,927,534**	**3,562,540**	**534,094**	**90,024,168**
LIABILITIES				
Deposits and balances from banks and other borrowings	24,240,160	762,896	266,243	25,269,299
Current accounts and deposits from customers	60,021,926	5,028,070	666,053	65,716,049
Total liabilities	**84,262,086**	**5,790,966**	**932,296**	**90,985,348**
Net position	**1,665,448**	**(2,228,426)**	**(398,202)**	**(961,180)**
The effect of derivatives	**(1,973,746)**	**1,596,720**	**-**	**(377,026)**

The following table shows the foreign currency exposure as at 31 December 2011:

	USD	EUR	Other currencies	Total
	AMD'000	AMD'000	AMD'000	AMD'000
ASSETS				
Cash and cash equivalents	19,912,958	2,423,577	660,893	22,997,428
Loans and advances to banks	269,505	1,302,078	248,350	1,819,933
Loans to customers	48,314,912	1,658,702	-	49,973,614
Total assets	**68,497,375**	**5,384,357**	**909,243**	**74,790,975**
LIABILITIES				
Deposits and balances from banks and other borrowings	17,100,812	650,766	360,899	18,112,477
Current accounts and deposits from customers	51,541,352	5,263,704	-	56,805,056
Total liabilities	**68,642,164**	**5,914,470**	**360,899**	**74,917,533**
Net position as at 31 December 2011	**(144,789)**	**(530,113)**	**548,344**	**(126,558)**
The effect of derivatives	**(420,429)**	**557,958**	**-**	**137,529**

A strengthening of the AMD, as indicated below, against the following currencies at 31 December 2012 and 2011 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2012	2011
	AMD'000	AMD'000
10% depreciation of USD against AMD	30,830	56,522
10% depreciation of EUR against AMD	63,171	(2,785)

A weakening of the AMD against the above currencies at 31 December 2012 and 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Management Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Corporate Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists, if the need for that is obvious as a result of loan monitoring. and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Managemen Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2012 AMD'000	2011 AMD'000
ASSETS		
Cash and cash equivalents	28,745,614	34,715,909
Financial instruments at fair value through profit or loss	291,873	2,590
Available-for-sale financial debt assets	13,337,724	13,060,056
Loans and advances to banks	5,525,172	4,431,220
Loans to customers	132,736,047	91,445,689
Other financial assets	138,464	67,103
Total maximum exposure	**180,774,894**	**143,722,567**

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of value are based on the value of collateral assessed at the time of borrowing, and generally are not updated.

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 14.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 23.

As at 31 December 2012 the Bank has no debtors or groups of connected debtors (2011: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The maturity analysis for financial liabilities as at 31 December 2012 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other borrowings	16,678,082	1,613,241	5,116,906	4,970,619	24,159,562	52,538,410	46,019,475
Current accounts and deposits from customers	45,571,594	13,473,165	15,053,703	33,038,405	11,207,358	118,344,225	114,428,790
Other financial liabilities	252,314	-	-	-	-	252,314	252,314
Derivative liabilities							
- Inflow	(801,475)	-	-	-	-	(801,475)	-
- Outflow	807,325	-	-	-	-	807,325	5,850
Total liabilities	**62,507,840**	**15,086,406**	**20,170,609**	**38,009,024**	**35,366,920**	**171,140,799**	**160,706,429**
Credit related commitments	**19,903,706**	**-**	**-**	**-**	**-**	**19,903,706**	**-**

The maturity analysis for financial liabilities as at 31 December 2011 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other borrowings	6,472,635	1,258,079	4,094,566	2,105,522	22,678,381	36,609,183	32,197,617
Current accounts and deposits from customers	42,446,016	11,463,226	14,677,758	27,479,488	2,038,833	98,105,321	95,235,009
Other financial liabilities	120,361	23,758	35,636	71,273	-	251,028	251,028
Derivative liabilities							
- Inflow	(498,720)	-	-	-	-	(498,720)	(498,720)
- Outflow	557,958	-	-	-	-	557,958	557,958
Total liabilities	**49,098,250**	**12,745,063**	**18,807,960**	**29,656,283**	**24,717,214**	**135,024,770**	**127,742,892**
Credit related commitments	**15,834,957**	-	-	**-**	**-**	**15,834,957**	**-**

In accordance with Armenian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

- less than 1 month: AMD 4,481,092 thousand (2011: AMD 3,388,102 thousand)
- from 1 to 3 months: AMD 8,204,954 thousand (2011: AMD 7,831,126 thousand)
- from 3 to 6 months: AMD 11,829,734 thousand (2011: AMD 11,448,964 thousand)
- from 6 to 12 months: AMD 23,474,594 thousand (2011: AMD 19,904,171 thousand)
- more than 1 year: AMD 8,211,895 thousand (2011: AMD 1,792,270 thousand)

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2012:

AMD'000	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**No maturity**	**Overdue**	**Total**
Non-derivative assets								
Cash and cash equivalents	33,926,454	-	-	-	-	-	-	33,926,454
Available-for-sale financial assets	223,838	397,677	1,420,194	9,567,310	1,728,705	62,287	-	13,400,011
Loans and advances to banks	3,329,595	-	861,532	-	-	1,334,045	-	5,525,172
Loans to customers	27,050,010	17,679,062	35,620,784	39,508,457	11,855,839	-	1,021,895	132,736,047
Repossessed property	-	-	-	-	-	3,983,853	-	3,983,853
Property, equipment and intangible assets	-	-	-	-	-	7,721,381	-	7,721,381
Other assets	143,781	429,901	32,681	-	20,000	315,132	-	941,495
Total assets	**64,673,678**	**18,506,640**	**37,935,191**	**49,075,767**	**13,604,544**	**13,416,698**	**1,021,895**	**198,234,413**
Non-derivative liabilities								
Deposits and balances from banks and other borrowings	14,711,749	1,544,929	9,080,118	16,373,732	4,308,947	-	-	46,019,475
Current accounts and deposits from customers	45,124,240	13,478,669	45,505,809	10,317,784	2,288	-	-	114,428,790
Current tax liability	-	-	796,511	-	-	-	-	796,511
Deferred tax liability	-	-	-	-	-	513,992	-	513,992
Other liabilities	923,593	4,544	-	-	-	-	-	928,137
Total liabilities	**60,759,582**	**15,028,142**	**55,382,438**	**26,691,516**	**4,311,235**	**513,992**	**-**	**162,686,905**
Net position	**3,914,096**	**3,478,498**	**(17,447,247)**	**22,384,251**	**9,293,309**	**12,902,706**	**1,021,895**	**35,547,508**

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2011:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	41,520,820	-	-	-	-	-	-	41,520,820
Available-for-sale financial assets	211,243	420,571	4,385,107	7,146,571	896,564	61,690	-	13,121,746
Loans and advances to banks	3,134,404	1,296,816	-	-	-	-	-	4,431,220
Loans to customers	4,524,399	13,768,618	31,905,557	34,000,985	7,115,274	-	130,856	91,445,689
Repossessed property	-	-	-	-	-	712,193	-	712,193
Property, equipment and intangible assets	-	-	-	-	-	8,250,118	-	8,250,118
Other assets	195,402	116,444	87,143	280,415	123,752	102,602	-	905,758
Total assets	**49,586,268**	**15,602,449**	**36,377,807**	**41,427,971**	**8,135,590**	**9,126,603**	**130,856**	**160,387,544**
Non-derivative liabilities								
Deposits and balances from banks and other borrowings	6,421,546	1,251,239	5,465,951	14,748,868	4,310,013	-	-	32,197,617
Current accounts and deposits from customers	42,175,330	10,971,018	40,217,829	1,853,544	17,288	-	-	95,235,009
Current tax liability	-	-	181,733	-	-	-	-	181,733
Deferred tax liability	-	-	-	-	-	605,016	-	605,016
Other liabilities	322,082	41,216	185,472	52,376	-	-	-	601,146
Total liabilities	**48,918,958**	**12,263,473**	**46,050,985**	**16,654,788**	**4,327,301**	**605,016**	**-**	**128,820,521**
Net position	**667,310**	**3,338,976**	**(9,673,178)**	**24,773,183**	**3,808,289**	**8,521,587**	**130,856**	**31,567,023**

22 Capital management

The CBA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBA, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2012, this minimum level is 12%. The Bank was in compliance with the statutory capital ratio as at 31 December 2012 and 2011.

The calculation of capital adequacy based on requirements set by the CBA as at 31 December is as follows:

	2012 AMD'000 Unaudited	2011 AMD'000 Unaudited
Tier 1 capital		
Share capital	13,802,404	13,802,404
Share premium	1,711,179	1,711,179
Retained earnings	17,402,117	13,168,738
Adjustment to CBA accounting principles	(291,850)	937,953
Deductions	(1,597,097)	(823,262)
Total tier 1 capital	**31,026,753**	**28,797,012**
Tier 2 capital		
Revaluation surplus for buildings	2,670,214	2,670,214
Revaluation reserve for available-for-sale financial assets	247,617	157,840
Deductions	(65,140)	(704,055)
Total tier 2 capital	**2,852,691**	**2,123,999**
Total capital	**33,879,444**	**30,921,011**
Risk weighted assets, combining credit, market and operational risks	**173,075,457**	**132,216,355**
Total capital ratio	**20%**	**23%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

23 Commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2012 AMD'000	2011 AMD'000
Contracted amount		
Loan and credit line commitments	6,018,626	6,088,053
Undrawn overdraft facilities	4,306,078	2,889,634
Credit card commitments	4,101,616	2,945,369
Guarantees and letters of credit	5,477,386	3,911,901
	19,903,706	**15,834,957**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional commitment by the Bank.

24 Operating leases

Leases as lessee

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2012 AMD'000	2011 AMD'000
Less than 1 year	167,513	149,831
Between 1 and 5 years	233,932	330,408
More than 5 years	32,655	34,355
	434,100	**514,594**

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

25 Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(c) Taxation contingencies

The taxation system in the Republic of Armenia continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, who have the authority to impose severe fines, penalties and interest charges. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

These circumstances may create tax risks in the Republic of Armenia that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

26 Related party transactions

(a) Control relationships

The Bank's parent company is Center for Business Investments LLC. The party with ultimate control over the Bank is Mr. Karen Safaryan.

No publicly available financial statements are produced by the Bank's parent company or any intermediate controlling party.

(b) Transactions with the members of the Board and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2012 and 2011 is as follows:

	2012 AMD'000	2011 AMD'000
Salary	407,943	235,422
Bonuses	60,161	94,550
	468,104	**329,972**

The outstanding balances and average interest rates as at 31 December 2012 and 2011 for transactions with the members of the Board and the Management Board are as follows:

	2012 AMD'000	Average interest rate, %	2011 AMD'000	Average interest rate, %
Statement of financial position				
ASSETS				
Loans to customers	177,209	14.0%	92,587	10.0%
LIABILITIES				
Current accounts and deposits from customers	223,320	8.2%	191,230	5.8%
Items not recognised in the statement of financial position				
Lending commitments	220,106	-	143,321	-

Amounts included in profit or loss in relation to transactions with the members of the Board and the Management Board for the year ended 31 December are as follows:

	2012 AMD'000	2011 AMD'000
Profit or loss		
Interest income	10,649	5,420
Interest expense	24,282	15,717
Fee and comission income	1,755	37,635

(c) Transactions with other related parties

Other related parties include entities under common control with the Bank, close members of the families of and entities controlled by the Board and the Management Board members. The outstanding balances and the related average interest rates as at 31 December 2012 and related profit or loss amounts of transactions for the year ended 31 December 2012 with other related parties are as follows.

	Entities under common control		**Other related parties**		
	AMD'000	**Average interest rate, %**	**AMD'000**	**Average interest rate, %**	**Total AMD'000**
Statement of financial position					
ASSETS					
Loans to customers	4,209,577	13.8%	3,635	17.2%	4,213,212
LIABILITIES					
Current accounts and deposits from customers	454,601	9.6%	142,154	8.4%	596,755
Items not recognised in the statement of financial position					
Lending committments	167,863		7,312		175,175
Guarantees given	600		-		600
Profit (loss)					
Interest income	429,540		937		430,477
Interest expense	(11,379)		(15,448)		(26,827)
Fee and commission income	14,492		1,921		16,413

The outstanding balances and the related average interest rates as at 31 December 2011 and related profit or loss amounts of transactions for the year ended 31 December 2011 with other related parties are as follows.

	Entities under common control		**Other related parties**		
	AMD'000	**Average interest rate, %**	**AMD'000**	**Average interest rate, %**	**Total AMD'000**
Statement of financial position					
ASSETS					
Loans to customers	2,822,441	12.2%	23,634	17.9%	2,846,075
LIABILITIES					
Current accounts and deposits from customers	377,430	8.0%	308,151	8.5%	685,581
Items not recognised in the statement of financial position					
Lending committments	89,942		23,857		113,799
Profit (loss)					
Interest income	114,880		2,940		117,820
Interest expense	(36,865)		(21,290)		(58,155)
Fee and commission income	3,748		1,420		5,168
Fee and commission expense	(164)		(34)		(198)
Other operating income	83,687		-		83,687
Other general and administrative expenses	(90,849)		(6,393)		(97,242)

27 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The estimated fair values of all financial instruments except for unquoted equity securities available-for-sale approximate their carrying values. The fair value of unquoted equity securities available for sale with a carrying value of AMD 50,287 (2011: AMD 50,390 thousand) could not be determined.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for debt securities and simple over the counter derivatives like currency swaps.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 8.5%- 13% and 10% - 19% are used for discounting future cash flows from loans and advances to banks and loans to customers, respectively;
- discount rates of 0.1%-12% are used for discounting future cash flows from liabilities.

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

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2012:

AMD'000	Trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	33,926,454	-	-	33,926,454	33,926,454
Financial instruments at fair value through profit or loss	291,873	-	-	-	291,873	291,873
Available-for-sale financial assets	-	-	13,400,011	-	13,400,011	13,400,011
Loans and advances to banks	-	5,525,172	-	-	5,525,172	5,525,172
Loans to customers	-	132,736,047	-	-	132,736,047	132,736,047
Other financial assets	-	138,464	-	-	138,464	138,464
	291,873	**172,326,137**	**13,400,011**	**-**	**186,018,021**	**186,018,021**
Financial instruments at fair value through profit or loss	5,850	-	-	-	5,850	5,850
Deposits and balances from banks and other borrowings	-	-	-	46,019,475	46,019,475	46,019,475
Current accounts and deposits from customers	-	-	-	114,428,790	114,428,790	114,428,790
Other financial liabilities	-	-	-	252,314	252,314	252,314
	5,850	**-**	**-**	**160,700,579**	**160,706,429**	**160,706,429**

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2011:

AMD'000	Trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	41,520,820	-	-	41,520,820	41,520,820
Financial instruments at fair value through profit or loss	2,590	-	-	-	2,590	2,590
Available-for-sale financial assets	-	-	13,121,746	-	13,121,746	13,121,746
Loans and advances to banks	-	4,431,220	-	-	4,431,220	4,431,220
Loans to customers	-	91,445,689	-	-	91,445,689	91,445,689
Other financial assets	-	67,103	-	-	67,103	67,103
	2,590	**137,464,832**	**13,121,746**	**-**	**150,589,168**	**150,589,168**
Financial instruments at fair value through profit or loss	59,238	-	-	-	59,238	59,238
Deposits and balances from banks and other borrowings	-	-	-	32,197,617	32,197,617	32,197,617
Current accounts and deposits from customers	-	-	-	95,235,009	95,235,009	95,235,009
Other financial liabilities	-	-	-	251,028	251,028	251,028
	59,238	**-**	**-**	**127,683,654**	**127,742,892**	**127,742,892**

(b) Fair value hierarchy

The Bank measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2012, by the level in the fair value hierarchy into which the fair value measurement is categorised:

AMD '000	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through profit or loss				
- Derivative assets	-	291,873	-	291,873
- Derivative liabilities	-	(5,850)	-	(5,850)
Available-for-sale financial assets				
- Debt and other fixed income instruments	-	13,337,724	-	13,337,724
- Equity investments	-	12,000	-	12,000

The table below analyses financial instruments measured at fair value at 31 December 2011, by the level in the fair value hierarchy into which the fair value measurement is categorised:

AMD '000	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through profit or loss				
- Derivative assets	-	2,590	-	2,590
- Derivative liabilities	-	(59,238)	-	(59,238)
Available-for-sale financial assets				
- Debt and other fixed income instruments	-	13,060,056	-	13,060,056
- Equity investments	-	11,300	-	11,300

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