Financial Statements and Independent Auditor's Report

ARMSWISSBANK Closed Joint Stock Company

31 December 2009

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Independent auditor's report

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To the Shareholder and Board of Directors of Closed Joint Stock Company Armswissbank:

We have audited the accompanying financial statements of Armswissbank CJSC (the "Bank"), which comprise the statement of financial position as at December 31, 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gagik Gyulbudaghyan	Armen Vanyan
Managing partner	Auditor

Grant Thornton Amyot LLC
06 April 2010
Yerevan

Statement of comprehensive income

In thousand Armenian drams	Notes	**Year ended December 31, 2009**	Year ended December 31, 2008
Interest and similar income	6	**2,513,160**	1,652,478
Interest and similar expense	6	**(1,244,919)**	(901,720)
Net interest income		**1,268,241**	750,758
Fee and commission income	7	**75,883**	57,823
Fee and commission expense	7	**(18,166)**	(11,551)
Net fee and commission income		**57,717**	46,272
Net trading income	8	**62,961**	111,590
Gains less losses on investments available for sale		**156,733**	45,971
Other income	9	**74,930**	43,281
Impairment charge for credit losses	15	**(299,971)**	(50,389)
Staff costs	10	**(416,427)**	(405,262)
Depreciation of property and equipment	17	**(34,423)**	(25,275)
Amortization of intangible assets	18	**(5,912)**	(3,732)
Other expenses	11	**(176,127)**	(158,583)
Profit before income tax		**687,722**	354,631
Income tax expense	12	**(127,404)**	(74,868)
Profit for the year		**560,318**	279,763
Other comprehensive income:			
Net unrealized gains from changes in fair value		**69,733**	21,691
Net (gains)/losses realized to net profit on disposal of available-for-sale instruments		**(109,833)**	65,330
Income tax relating to components of other comprehensive income		**8,067**	(17,452)
Other comprehensive income/(expense) for the year, net of tax		**(32,033)**	69,569
Total comprehensive income for the year		**528,285**	349,332

The accompanying notes on pages 7 to 45 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	**As of December 31, 2009**	As of December 31, 2008
ASSETS			
Cash and balances with CBA	13	**2,030,121**	2,465,474
Precious metals		**-**	110,496
Amounts due from other financial institutions	14	**2,595,767**	2,871,730
Loans and advances to customers	15	**10,376,790**	7,156,858
Investments available for sale	16	**6,771,933**	2,413,411
Securities pledged under repurchase agreements	24	**7,070,431**	8,055,331
Property, plant and equipment	17	**668,888**	289,892
Intangible assets	18	**41,853**	47,765
Deferred income tax assets	12	**38,995**	25,184
Other assets	19	**54,483**	68,965
TOTAL ASSETS		**29,649,261**	23,505,106
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the CBA	20	**8,150,878**	8,648,165
Amounts due to financial institutions	21	**4,674,120**	433,109
Amounts due to customers	22	**8,593,538**	8,844,940
Current income tax liabilities		**81,375**	16,396
Other liabilities	23	**79,912**	22,343
Total liabilities		**21,579,823**	17,964,953
Equity			
Share capital	25	**7,002,000**	5,001,000
Statutory general reserve		**200,000**	100,000
Other reserves		**(151,998)**	(119,965)
Retained earnings		**1,019,436**	559,118
Total equity		**8,069,438**	5,540,153
TOTAL LIABILITIES AND EQUITY		**29,649,261**	23,505,106

The financial statements from pages 3 to 45 were signed by the Bank's Executive Director and Chief Accountant on 06 April 2010. The accompanying notes on pages 7 to 45 are an integral part of these financial statements.

G. MACHANYAN
Executive Director

S. BAGHDASARYAN
Chief accountant

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Revaluation reserve of securities available for sale	Retained earnings	Total
Balance as of January 1, 2008	3,750,000	20,000	(189,534)	359,355	3,939,821
Increase in share capital	1,251,000	-	-	-	1,251,000
Distribution to reserve	-	80,000	-	(80,000)	-
Transactions with owners	1,251,000	80,000	-	(80,000)	1,251,000
Profit for the year	-	-	-	279,763	279,763
Other comprehensive income:					
Net unrealized gains from changes in fair value	-	-	21,691	-	21,691
Net losses realized to net profit on disposal of available-for-sale instruments	-	-	65,330	-	65,330
Income tax relating to components of other comprehensive income	-	-	(17,452)	-	(17,452)
Total comprehensive income for the year	-	-	69,569	279,763	349,332
Balance as of December 31, 2008	5,001,000	100,000	(119,965)	559,118	5,540,153
Increase in share capital	**2,001,000**	**-**	**-**	**-**	**2,001,000**
Distribution to reserve	**-**	**100,000**	**-**	**(100,000)**	**-**
Transactions with owners	**2,001,000**	**100,000**	**-**	**(100,000)**	**2,001,000**
Profit for the year	**-**	**-**	**-**	**560,318**	**560,318**
Other comprehensive income:					
Net unrealized gains from changes in fair value	**-**	**-**	**69,733**	**-**	**69,733**
Net gains realized to net profit on disposal of available-for-sale instruments	**-**	**-**	**(109,833)**	**-**	**(109,833)**
Income tax relating to components of other comprehensive income	**-**	**-**	**8,067**	**-**	**8,067**
Total comprehensive income for the year	**-**	**-**	**(32,033)**	**560,318**	**528,285**
Balance as of December 31, 2009	**7,002,000**	**200,000**	**(151,998)**	**1,019,436**	**8,069,438**

Statement of cash flows

In thousand Armenian drams

	Year ended December 31, 2009	Year ended December 31, 2008
Cash flows from operating activities		
Profit before tax	**687,722**	354,631
Adjustments for		
Impairment charge for credit losses	**299,971**	50,389
Amortization and depreciation allowances	**40,335**	29,007
Loss from sale of PPE	**36**	96
Interests receivable	**(93,418)**	(49,440)
Interests payable	**9,712**	17,964
Foreign currency translation net (gains)/loss of non-trading assets and liabilities	**(19,115)**	6,100
Cash flows from operating activities before changes in operating assets and liabilities	**925,243**	408,747
(Increase)/decrease in operating assets		
Precious metals	**110,496**	(110,496)
Amounts due from other financial institutions	**(803,315)**	4,585,131
Loans and advances to customers	**(2,596,166)**	(2,626,934)
Other assets	**56,798**	(59,255)
Increase/(decrease) in operating liabilities		
Repurchase agreements with the CBA	**(2,844,637)**	5,896,055
Amounts due to financial institutions	**2,308,391**	(6,530,249)
Amounts due to customers	**(2,137,488)**	1,684,039
Other liabilities	**52,944**	(1,331)
Net cash flow from/(used in) operating activities before income tax	**(4,927,734)**	3,245,707
Income tax paid	**(68,171)**	(114,294)
Net cash from/(used in) operating activities	**(4,995,905)**	3,131,413
Cash flows from investing activities		
Purchase of investment securities	**(3,311,025)**	(4,144,713)
Purchase of property and equipment	**(414,255)**	(257,225)
Proceeds from sale of property and equipment	**800**	-
Purchase of intangible assets	**-**	(25,388)
Net cash used in investing activities	**(3,724,480)**	(4,427,326)
Cash flow from financing activities		
Proceeds from issue of share capital	**2,001,000**	1,251,000
Loans received/(redeemed) from the CBA	**2,321,440**	417,595
Loans received/(redeemed) from financial institutions	**1,827,673**	(420,460)
Net cash flow from financing activities	**6,150,113**	1,248,135
Net decrease in cash and cash equivalents	**(2,570,272)**	(47,778)
Cash and cash equivalents at the beginning of the year	**4,274,357**	4,286,997
Exchange differences on cash and cash equivalents	**892,908**	35,138
Cash and cash equivalents at the end of the year (Note 13)	**2,596,993**	4,274,357

Supplementary information:

Interest received	**2,419,742**	1,603,038
Interest paid	**(1,235,207)**	(883,756)

Accompanying notes to the financial statements

1 Principal activities

Armswissbank CJSC (the "Bank") incorporated in the Republic of Armenia (RA) in 2004 is a closed joint stock company regulated by the legislation of RA. The Bank conducts its business under license number 84, granted on 07.10.2004 by the Central Bank of Armenia (the "CBA").

The Bank's main activities include provision of corporate, investment and private banking services – investments in financial instruments, accepting deposits from physical and legal entities, provision of other service in the field of finance and banking (lending and factoring). Its head office is located in Yerevan. The registered office of the Bank is located at: V. Sargsyan 10, Yerevan, 0010, RA.

2 Armenian business environment

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

The international economic crisis led to shortage of RA GDP, as well as the cash flow transfers from abroad upon which the economy of Armenia is significantly dependant. Though the RA Government and the CBA have undertaken a number of preventing procedures, still there are uncertainties on the capital availability and acquisition cost both for the Bank and for its customers, and in times of more severe market stress the effects of the crisis may be significant both for the Armenian economy and for the Bank. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Bank may be affected.

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

3 Basis of preparation

3.1 Statement of compliance

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Reclassifications

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

3.5 Changes in accounting policies

In the current year the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2009. The standards and interpretations which have had effect on the financial statements are presented below:

IAS 1 *Presentation of Financial Statements* (revised 2007)

The Bank applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. The amendment has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. This standard affects the presentation of owner changes in equity and introduces a statement of comprehensive income. The Bank chooses the present income and expense and components of other comprehensive income in a single statement of comprehensive income with subtotals. The adoption of the standard does not affect the financial position or profits of the Bank, but gives rise to additional disclosures.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

IFRS 7 (Amendment) *7 Financial Instruments: Disclosures* (effective from January 1, 2009)

The Bank has implemented the improvements made to IFRS 7 in March 2009. The effective date of the amendments is 1 January 2009. The amendments extend and specify the disclosures for the fair value of financial instruments and liquidity risk (see note 28.1). The Bank selected not to provide comparative information for these expanded disclosures in the current year, in accordance with transitional relieves offered in these amendments.

3.6 Standards and Interpretations not yet applied by the Bank

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

Management anticipates that all of the pronouncements will be adopted in the Bank's accounting policy for the first period beginning after the effect date of the pronouncement. At the moment in management’s estimation their possible effect on the Bank’s financial statements can not be material.

IFRS 2(Amendment) *Share-based payment-Group Cash-settled Share-based Payment Transactions*

The main purpose of the Amendments to IFRS 2 is to specify the accounting, in the financial statements of an entity that receives goods or services from its suppliers (including employees), for similar arrangements that are share-based and cash-settled when the entity itself does not have any obligation to make the required payments to its suppliers. IFRS 2 (Amendment) will be applied retrospectivelly for annual periods beginning on or after 1 January 2010.

IFRS 3 *Business Combinations* (revised 2008)

This standard is applicable for business combinations occurring in reporting periods beginning on or after July 1, 2009 and will be applied prospectively. The new standard introduces changes to the accounting requirements for business combinations, but still requires the use of the purchase method, and will have a significant effect on business combinations occurring in reporting periods beginning on or after July 1, 2009.

IAS 27 *Consolidated and Separate Financial Statements* (revised 2008)

The revised standard introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the entity’s interest in subsidiaries.

IAS 32 (Amendment) *Financial instruments: Presentation-Classification of Right Issues*

The Amendment alters IAS 32 *Financial Instruments: Presentation* so that rights, options or warrants to acquire a fixed number of the entity’s own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own (non-derivative) equity instruments. Prior to the Amendment, rights issues denominated in a foreign currency 'failed' equity classification and were required to be accounted for as derivative liabilities. IAS 32 (Amendment) will be applied retrospectively for annual periods beginning on or after 1 February 2010.

IAS 39(Amendment) *Financial Instruments: Recognition and Measurement-Eligible hedged items*

The final amendments addressed only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situation. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. (effective from July 1, 2009).

Amendments to IFRIC 9 and IAS 39-*Embedded derivatives*. (effective from July 1, 2009).

The Amendment is consequential upon the changes made to IAS 39 in October and November 2008 permitting the reclassification of non-derivative financial assets out of the fair value through profit or loss category in some circumstances. The Amendment clarifies that:

- If an entity transfers a financial asset out of the fair value through profit or loss category in accordance with the previous IAS 39 amendments, it must assess whether the financial asset contains an embedded derivative that is required to be separated from the host contract.

- This assessment is based on circumstances that existed when the entity first became party to the contract (not the date of the reclassification).

- If the financial asset contains an embedded derivative that is required to be separated, but the entity is unable to measure the derivative reliably, it is prohibited from reclassifying the asset.

IFRIC 17 Distributions of Non-cash Assets to Owners

This Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to shareholders. This Interpretation will be effective for annual periods beginning on or after July 1, 2009.

IFRIC 18 *Transfers of Assets from Customers*

Applies to agreements in which an entity receives an item of property, plant and equipment from a customer that the entity must then use to connect the customer to a network, or to provide the customer with ongoing access to a supply of goods or services, or both. It also applies to agreements in which an entity receives cash that must be used only to construct or acquire property, plant and equipment that must be used for those purposes. IFRIC 18 will be applied prospectively to transfers of assets received on or after 1 July 2009.

Annual improvements 2009

In April 2009 the IASB has published *Improvements to IFRSs* ('2009 Improvements') which makes minor amendments to a number of International Financial Reporting Standards (IFRSs). This publication completes the IASB's second round of annual improvements. Most of these improvements become effective in annual periods beginning on January 1, 2010.

IFRS 5 (Amendment) *Non-current Assets Held for Sale and Discontinued Operations*

Clarifies that IFRS 5 and other IFRSs that specifically refer to non-current assets (or disposal groups) classified as held for sale or discontinued operations set out all the disclosures required in respect of those assets or operations. IFRS 5 (Amendment) will be applied prospectively for annual periods beginning on or after 1 January 2010.

IFRS 8 (Amendment) *Operating Segments*

Clarifies that a measure of segment assets should be disclosed, only if that amount is regularly provided to the chief operating decision maker. IFRS 8 (Amendment) will be applied retroprospectively for annual periods beginning on or after 1 January 2010.

IAS 1 (Amendment) *Presentation of Financial Statements*

Amendment to clarify the classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments. IAS 1 (Amendment) will be applied retrospectively for annual periods beginning on or after 1 January 2010.

IAS 7 (Amendment) *Statement of Cash Flows*

Amends IAS 7 to state explicitly that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. IAS 7 (Amendment) will be applied retrospectively for annual periods beginning on or after 1 January 2010.

IAS 17 (Amendment) *Leases*

Amendment to IAS 17 clarifying that when a lease includes both land and buildings elements, an entity assesses the classification of each element as a finance or an operating lease separately in accordance with the general guidance on lease classification in paragraphs 7-13 of IAS 17. IAS 17 (Amendment) will be applied retrospectively for annual periods beginning on or after 1 January 2010.

IAS 36 (Amendment) *Impairment of Assets*

Clarifies that the largest unit permitted by IAS 36 for the purpose of allocating goodwill to cash-generating units is the operating segment level defined in IFRS 8 before aggregation as permitted in that Standard. IAS 36 (Amendment) will be applied prospectively for annual periods beginning on or after 1 January 2010.

IAS 38 (Amendment) *Intangible Assets*

Clarifies the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. IAS 38 (Amendment) will be applied prospectively for annual periods beginning on or after 1 July 2009.

IAS 39 (Amendment) *Financial Instruments: Recognition and Measurement*

- Aims to clarify whether embedded prepayment options, in which the exercise price represented a penalty for early repayment of the loan, are considered closely related to the host debt contract.

- Aims to clarify that the scope exemption in IAS 39.2(g) applies only to binding (forward) contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date.

- Clarifies when gains and losses on hedging instruments should be reclassified from equity to profit and loss account as a reclassification adjustment.

IAS 39 (Amendment) will be applied prospectively for annual periods beginning on or after 1 January 2010.

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Interest income and expense

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

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

Fee and commission income

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

Dividend income

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

Net trading income

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

4.2 Foreign currency translation

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

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

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

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

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

	December 31, 2009	December 31, 2008
AMD/1 US Dollar	**377.89**	**306.73**
AMD/1 Euro	**542.23**	**435.00**

4.3 Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

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

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

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

4.4 Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost.

4.5 Precious metals

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

4.6 Amounts due from other financial institutions

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

4.7 Derivative financial assets

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

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

4.8 Financial instruments

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

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

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

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

Financial assets at fair value through profit or loss

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

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

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue;

- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the statement of income.

Loans and receivables

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

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

Available-for-sale financial instruments

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

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

4.9 Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

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

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

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

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

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

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

Renegotiated loans

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

Available-for-sale financial assets

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

4.10 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

4.11 Repurchase and reverse repurchase agreements

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

4.12 Securities lending and borrowing

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

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

4.13 Property, plant and equipment

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

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

	Useful life (years)	Rate (%)
Buildings	30	3.3
Computers	4	25
Vehicles	5	20
Office inventory	5	20
Other fixed assets	3-5	33.33-20

Repairs and maintenance are charged to the income statement during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Bank. Major renovations are depreciated over the remaining useful life of the related asset.

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

4.14 Intangible assets

Intangible assets include computer software.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. Software development costs are recognised as an expense as incurred.

4.15 Borrowings

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

4.16 Pensions

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

4.17 Financial guarantees

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

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

4.18 Share capital

Share capital

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

Treasury shares

Where the Bank purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

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

4.19 Offsetting

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

5 Critical accounting estimates and judgements

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

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

Classification of investment securities

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

Related party transactions

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

Allowance for impairment of loans and receivables

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

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

Tax legislation
Armenian tax legislation is subject to varying interpretations. Refer to Note 26.

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

6 Interest and similar income and expense

In thousand Armenian drams	2009	2008
Loans and advances to customers	**1,213,001**	754,162
Debt investment securities available-for-sale	**1,133,049**	656,383
Amounts due from other financial institutions	**63,107**	136,259
Reverse repurchase transactions	**8,683**	46,307
Income from factoring	**94,777**	55,552
Other interest income	**543**	3,815
Total interest and similar income	**2,513,160**	1,652,478
Amounts due to customers	**606,349**	431,375
Amounts due to financial institutions	**141,084**	110,380
Repurchase transactions	**497,486**	359,965
Total interest and similar expense	**1,244,919**	901,720

7 Fee and commission income and expense

In thousand Armenian drams	2009	2008
Cash collection	**15,415**	20,287
Wire transfer fees	**22,877**	20,109
Brokerage operations	**29,572**	12,014
Guarantees and letters of credit	**5,153**	3,006
Other fees and commissions	**2,866**	2,407
Total fee and commission income	**75,883**	57,823

In thousand Armenian drams	**2009**	2008
Wire transfer fees	**9,097**	7,362
Foreign currency translation operations	**1,838**	1,546
Other expenses	**7,231**	2,643
Total fee and commission expense	**18,166**	11,551

8 Net trading income

In thousand Armenian drams	**2009**	2008
Gains less losses from transactions in foreign currencies	**109,063**	113,610
Gains less losses from derivatives	**(46,102)**	(2,020)
Total net trading income	**62,961**	111,590

9 Other income

In thousand Armenian drams	**2009**	2008
Fines and penalties received	**27,323**	4,790
Gains from operations of precious metals	**27,567**	24,344
Dividend income	**367**	435
Foreign currency translation net gains of non-trading assets and liabilities	**19,115**	-
Income from brokerage services	**558**	12,750
Other income	**-**	962
Total other income	**74,930**	43,281

10 Staff costs

In thousand Armenian drams	**2009**	2008
Wages and salaries	**384,575**	374,397
Social security contributions	**31,852**	30,865
Total staff costs	**416,427**	405,262

11 Other expenses

In thousand Armenian drams	**2009**	2008
Fixed assets maintenance	**18,101**	6,695
Advertising costs	**5,683**	4,164
Business trip expenses	**7,802**	10,660
Communications	**46,779**	35,449
Operating lease	**19,000**	36,000
Taxes, other than income tax, duties	**13,624**	9,836
Consulting and other services	**10,200**	10,200
Security	**7,224**	2,333
Representative expenses	**22,280**	19,334
Office supplies	**8,216**	7,865
Penalties paid	**389**	-
Loss on disposal of PPE	**36**	96
Foreign currency translation net losses of non-trading assets and liabilities	**-**	6,100
Other expenses	**16,793**	9,851
Total other expense	**176,127**	158,583

12 Income tax expense

In thousand Armenian drams	**2009**	2008
Current tax expense	**134,058**	71,093
Adjustments of current income tax of previous years	**(910)**	3,931
Deferred tax	**(5,744)**	(156)
Total income tax expense	**127,404**	74,868

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2008: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

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

In thousand Armenian drams	**2009**	**Effective rate (%)**	2008	Effective rate (%)
Profit before tax	**687,722**		354,631	
Income tax at the rate of 20%	**137,544**	**20**	70,926	20
Non-taxable income	**(73)**	**-**	(87)	-
Non-deductible expenses	**1,669**	**-**	1,606	1
Foreign exchange (gains)/losses	**(3,823)**	**(1)**	1,220	-
Other	**(7,003)**	**(1)**	1,203	-
Adjustments of current income tax of previous years	**(910)**	**-**	-	-
Income tax expense	**127,404**	**18**	74,868	21

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2008	Recognized in comprehensive income statement	Recognized in equity	2009
Allowances for impairment and provisions for other losses	**-**	**4,020**	**-**	**4,020**
Fair value measurement of available-for-sale securities	**29,932**	**-**	**8,067**	**37,999**
Accrued expenses and other liabilities	**2,005**	**1,185**	**-**	**3,190**
Total deferred tax assets	**31,937**	**5,205**	**8,067**	**45,209**
Allowances for impairment and provisions for other losses	**(6,753)**	**539**	**-**	**(6,214)**
Total deferred tax liability	**(6,753)**	**539**	**-**	**(6,214)**
Net deferred tax asset	**25,184**	**5,744**	**8,067**	**38,995**

In thousand Armenian drams	2007	Recognized in comprehensive income statement	Recognized in equity	2008
Accrued expenses and other liabilities	2,066	(61)	-	2,005
Fair value measurement of available-for-sale securities	47,384	-	(17,452)	29,932
Total deferred tax assets	49,450	(61)	(17,452)	31,937
Allowances for impairment and provisions for other losses	(6,970)	217	-	(6,753)
Total deferred tax liability	(6,970)	217	-	(6,753)
Net deferred tax asset	42,480	156	(17,452)	25,184

13 Cash, cash equivalents and balances with CBA

In thousand Armenian drams	2009	2008
Cash on hand	**302,907**	150,732
Correspondent account with the CBA	**1,727,214**	2,314,742
Included in cash and cash equivalents	**2,030,121**	2,465,474
Cash and balances with the CBA, included in cash flows	**2,030,121**	2,465,474
Placements with other banks (note 14)	**566,872**	1,808,883
Total cash and cash equivalents	**2,596,993**	4,274,357

As at 31 December 2009 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 8% of certain obligations of the Bank denominated in Armenian drams and 12% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 1,273,183 thousand (2008: AMD 633,546 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Mandatory reserve deposits are non-interest bearing.

Non-cash transactions performed by the Bank during 2009 are represented by:

- repayment of loan by immovable property valued at AMD 39,700 thousand (2008: nil)

14 Amounts due from other financial institutions

In thousand Armenian drams	2009	2008
Correspondent accounts with financial institutions	**566,872**	764,961
Deposits in banks	**-**	1,043,922
Included in cash and cash equivalents	**566,872**	1,808,883
Loans and deposits to financial institutions	**1,320,228**	846,673
Reverse repurchase agreements	**13,541**	-
Other amounts	**695,126**	216,174
Total amounts due from other financial institutions	**2,595,767**	2,871,730

As at 31 December 2009 the correspondent accounts and deposits in amount of AMD 983,420 thousand (38%) were due from one bank (2008: AMD 1,043,921 thousand or 58%).

As at 31 December 2009 item "Loans and deposits" includes balance at the amount of AMD 133,230 thousand (2008: AMD 85,620 thousand), which is guarantee amount for making trade operations in international markets and the amount of AMD 25,812 thousand is a security for banking guarantee for the Bank's customer.

Other accounts include short-term funds in various currencies signed by 4 contracts with resident and non-resident banks in the amount of 1,838 thousand in US dollars. Short-term funds in various currencies have been appropriately received in respect of them presented in Note 21. These accounts include the accrued interest of the above-mentioned deposits at AMD 482 thousand (2008: 1 contract in foreign currency, accrued interest of AMD 83 thousand).

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December are presented as follows:

In thousand Armenian drams	2009		2008	
	Fair value of collateral	**Carrying value of loans**	Fair value of collateral	Carrying value of loans
Securities issued by the RA Ministry of Finance	**14,183**	**13,541**	**-**	**-**
Total assets pledged and loans under reverse repurchase agreements	**14,183**	**13,541**	**-**	**-**

The transactions with the Bank's management and related parties is disclosed in Note 27.

15 Loans and advances to customers

In thousand Armenian drams	2009	2008
Loans to customers	**9,767,357**	6,507,987
Factoring	**689,003**	422,513
Loans granted under reverse repurchase agreements	**39,325**	-
Other	**10,005**	323,566
	10,505,690	7,254,066
Less allowance for loan impairment	**(128,900)**	(97,208)
Total loans and advances to customers	**10,376,790**	7,156,858

As of 31 December 2009 accrued interest income included in loans and advances to customers amounted to AMD 77,882 thousand (2008: AMD 64,007 thousand).

As of December 31, 2009 the Bank had a concentration of loans represented by AMD 4,702,228 thousand due from the ten largest third party entities and parties related with them (45% of gross loan portfolio) (2008 AMD 3,415,760 thousand due from the ten largest third party entities and parties related with them or 47%). An allowance of AMD 4,702 thousand (2008: AMD 61,806 thousand) was made against these loans.

Other amounts include deposit at the amount of USD 9,592 thousand due to individuals with the maturity period till one month, accrued interests included at the amount of AMD 158 thousand (2008: a deposit to a legal entity at the amount of USD 1,055 thousand, accrued interests included at the amount of AMD 5,155 thousand), for which 2 thousand US dollars and 21 thousand Euros have been attracted (2008: AMD 350,000 thousand) (the mentioned amount is included in Note 22).

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

In thousand Armenian drams	2009	2008
Manufacture	**4,771,515**	2,307,247
Agriculture	**128,755**	-
Construction	**129,196**	113,735
Trading	**2,096,257**	2,093,728
Consumer	**113,891**	90,530
Mortgage loans	**792,554**	1,040,228
Other	**2,473,522**	1,608,598
	10,505,690	7,254,066
Less allowance for loan impairment	**(128,900)**	(97,208)
Total loans and advances to customers	**10,376,790**	7,156,858

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

In thousand Armenian drams	Manu-facture	Agri-culture	Const-ruction	Trading	Con-sumer	Mortgage	Other	Total
								2009
At 1 January 2009	**41,530**	**-**	**1,137**	**20,937**	**905**	**10,402**	**22,297**	**97,208**
Charge/(Reversal) for the year	**298,308**	**1,287**	**155**	**25**	**234**	**(2,476)**	**2,438**	**299,971**
Amounts written off	**(268,279)**	**-**	**-**	**-**	**-**	**-**	**-**	**(268,279)**
Recoveries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
At 31 December 2009	**71,559**	**1,287**	**1,292**	**20,962**	**1,139**	**7,926**	**24,735**	**128,900**
Collective impairment	**71,559**	**1,287**	**1,292**	**20,962**	**1,139**	**7,926**	**24,735**	**128,900**

In thousand Armenian drams	Manu-facture	Agri-culture	Const-ruction	Trading	Con-sumer	Mortgage	Other	Total
								2008
At 1 January 2009	17,386	-	1,203	13,013	175	1,263	1,665	34,705
Charge/(Reversal) for the year	10,468	-	(66)	7,924	730	9,139	22,194	50,389
Amounts written off	-		-	-			(1,562)	(1,562)
Recoveries	13,676		-	-				13,676
At 31 December 2009	41,530	-	1,137	20,937	905	10,402	22,297	97,208
Collective impairment	41,530	-	1,137	20,937	905	10,402	22,297	97,208

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

In thousand Armenian drams	2009	2008
State owned enterprises	**874,508**	-
Privately held companies	**7,288,916**	4,749,923
Individuals	**1,866,391**	2,105,121
Sole proprietors	**397,993**	335,015
Accrued interest	**77,882**	64,007
	10,505,690	7,254,066
Less allowance for loan impairment	**(128,900)**	(97,208)
Total loans and advances to customers	**10,376,790**	7,156,858

Loans to individuals comprise the following products:

In thousand Armenian drams	2009	2008
Mortgage loans	**776,146**	995,121
Consumer loans	**87,064**	70,037
Car loans	**26,827**	33,542
Other	**976,354**	1,006,421
Total loans and advances to individuals (gross)	**1,866,391**	2,105,121

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December 2009 are presented as follows:

In thousand Armenian drams	**2009**		2008	
	Fair value of collateral	**Carrying value of loans**	Fair value of collateral	Carrying value of loans
Securities issued by the Ministry of Finance of RA	**38,967**	**39,325**	-	-
Total assets pledged and loans under reverse repurchase agreements	**38,967**	**39,325**	-	-

At 31 December 2009 and 2008 the estimated fair value of loans and advances to customers approximates it carrying value. Refer to Note 28.

Credit, currency, liquidity and interest rate analyses of loans and advances to customers are disclosed in Note 30. The information on related party balances is disclosed in Note 27.

16 Investment securities available for sale

In thousand Armenian drams	**2009**	2008
Quoted investments		
Equity securities	**21,956**	11,389
State bonds of other countries	**10,905**	26,608
	32,861	37,997
Unquoted investments		
Shares of Armenian companies	**60,572**	19,575
Securities issued by the Ministry of Finance of Armenia	**5,916,093**	1,580,183
Corporate bonds of RA	**762,407**	775,656
	6,739,072	2,375,414
Total investments	**6,771,933**	2,413,411

All debt securities have fixed coupons.

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

All unquoted RA available-for-sale equities are recorded at cost since its fair value cannot be reliably estimated. There is no market for these investments and the Bank intends to hold it for the long term.

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

In thousand Armenian drams	**2009**		2008	
	%	**Maturity**	%	Maturity
Securities issued the Ministry of Finance of Armenia	**7.88-13.90**	**2010-2028**	8.62-10.53	2009-2028
Corporate bonds of RA	**9.00-12.00**	**2009-2011**	10.5-11	2009-2011
State bonds of other countries	**8.25**	**2011**	8.25	2010

The RA debt securities available for sale at fair value of AMD 7,070,431 thousand (2008: AMD 7,979,149 thousand and RA corporate bonds at fair value of AMD 76,182 thousand) are pledged to third parties for periods not exceeding one month. These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet (Note 24).

17 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Computers and communi-cation means	Vehicles	Office equipment	Capital investments in fixed assets	Total
COST						
Cost/Revalued amount at January 1, 2008	-	66,818	22,071	20,433	-	109,322
Additions	-	10,326	-	1,899	245,000	257,225
Disposals	-	(244)	-	(47)	-	(291)
At December 31, 2008	**-**	**76,900**	**22,071**	**22,285**	**245,000**	**366,256**
Additions	**-**	**49,896**	**5,600**	**51,807**	**306,916**	**414,219**
Disposals	**-**	**(2,911)**	**-**	**(1,446)**	**(91)**	**(4,448)**
Reclassifications	**551,825**	**-**	**-**	**-**	**(551,825)**	**-**
At December 31, 2009	**551,825**	**123,885**	**27,671**	**72,646**	**-**	**776,027**
DEPRECIATION						
At January 1, 2008	-	34,140	8,573	8,571	-	51,284
Depreciation charge	-	16,748	4,421	4,106	-	25,275
Disposals	-	(182)	-	(13)	-	(195)
At December 31, 2008	**-**	**50,706**	**12,994**	**12,664**	**-**	**76,364**
Depreciation charge	**6,131**	**15,469**	**5,271**	**7,552**	**-**	**34,423**
Disposals	**-**	**(2,647)**	**-**	**(1,001)**	**-**	**(3,648)**
At December 31, 2009	**6,131**	**63,528**	**18,265**	**19,215**	**-**	**107,139**
CARRYING VALUE						
CARRYING VALUE at December 31, 2009	**545,694**	**60,357**	**9,406**	**53,431**	**-**	**668,888**
At December 31, 2008	-	26,194	9,077	9,621	245,000	289,892

The management believes the fair value of the building of the Bank approximates its carrying amount.

Fully depreciated items

As at 31 December 2009 fixed assets included fully depreciated and amortized assets in amount of AMD 44,412 thousand (2008: AMD 25,810 thousand).

Fixed assets in the phase of installation

As at 31 December 2009 fixed assets included assets in the phase of installation in amount of AMD 128 thousand (2008: AMD 1,851 thousand), which are not amortized and are classified in accordance with their type.

18 Intangible assets

In thousand Armenian drams	Software	Total
COST		
At January 1, 2008	33,273	33,273
Additions	25,388	25,388
At December 31, 2008	58,661	58,661
Additions	-	-
At December 31, 2009	**58,661**	**58,661**
AMORTISATION		
At January 1, 2008	7,164	7,164
Amortisation charge	3,732	3,732
At December 31, 2008	**10,896**	**10,896**
Amortisation charge	**5,912**	**5,912**
At December 31, 2009	**16,808**	**16,808**
CARRYING VALUE		
At December 31, 2009	**41,853**	**41,853**
At December 31, 2008	47,765	47,765

19 Other assets

In thousand Armenian drams	**2009**	2008
Prepayments and other debtors	**7,637**	61,761
Confiscated property	**39,700**	-
Other prepaid taxes	**6,246**	1,057
Materials	**900**	1,647
Other assets	**-**	4,500
Total other assets	**54,483**	**68,965**

20 Amounts due to the CBA

In thousand Armenian drams	**2009**	2008
Subordinate debt	**2,007,990**	-
Other loans and advances	**939,397**	600,037
Repurchase agreements	**5,203,491**	8,048,128
Total amounts due to financial institutions	**8,150,878**	8,648,165

Other loans and advances include loans at the amount of AMD 630,672 thousand received within the scope of loan project “Development of the renewable energies” of the German-Armenian fund (2008: AMD 600,037 thousand) and at the amount of AMD 308,725 thousand within the scope of the project “Accrediting economy stability” (2008: nil).

The subordinate debt was provided on 29.10.2009, the maturity term of which is determined till 29.10.2014. The interest rate comprises 7.5%.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2008: nil).

21 Amounts due to financial institutions

In thousand Armenian drams	2009	2008
Loans under repurchase agreements	**1,787,879**	-
Correspondent accounts of other banks	**3,114**	5,566
Current accounts of other financial institutions	**150,189**	9,955
Loans and deposits from financial institutions	**2,027,761**	200,088
Other amounts	**705,177**	217,500
Total amounts due to financial institutions	**4,674,120**	433,109

All deposits and loans have fixed interest rates.

As at 31 December 2009 included in other amounts due to financial institutions are deposits received from other bank amounting to 300 thousand Euros and 2,009 thousand Russian roubles, and AMD 37,014 thousand which relate to deposits granted to the same bank (See Note 14).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2008: nil).

22 Amounts due to customers

In thousand Armenian drams	2009	2008
Corporate customers		
Current/Settlement accounts	**1,204,926**	1,174,556
Time deposits	**4,486,387**	5,359,949
Other amounts	**11,656**	350,000
	5,702,969	6,884,505
Retail customers		
Current/Demand accounts	**389,102**	454,572
Time deposits	**2,501,467**	1,505,863
	2,890,569	1,960,435
Total amounts due to customers	**8,593,538**	8,844,940

All deposits carry fixed rates.

As at 31 December 2009 included in amounts due to customers are deposits amounting to AMD 164,134 thousand held as security against loans and guarantees issued (2008: AMD 199,514 thousand). The fair value of those deposits approximates the carrying amount.

At 31 December 2009 the aggregate balance of top three customers of the Bank amounts to AMD 5,609,457 thousand (2008: AMD 5,734,239 thousand) or 65% of total customer accounts (2008: 65%). The information on related party balances is disclosed in Note 27.

As at 31.12.09 other liabilities are the amount of 2 thousand Euros and 24 thousand US dollars (2008: AMD 350,000 thousand) attracted from individuals, against which deposits in the amount of AMD 9,434 thousand (2008: USD 1,038 thousand) have been placed (Refer to Note 15).

23 Other liabilities

In thousand Armenian drams	**2009**	2008
Accounts payables	**7,173**	7,942
Tax payable, other than income tax	**1,724**	-
Accounts payables for factoring	**53,820**	-
Revenues of future periods	**1,250**	750
Due to personnel	**15,945**	10,027
Other	**-**	3,624
Total other liabilities	**79,912**	22,343

24 Securities pledged under repurchase agreements

In thousand Armenian drams	**2009**		2008	
	Asset	**Liability**	**Asset**	**Liability**
Investment securities available for sale (Note 16, 20,21)	**7,070,431**	**6,991,370**	8,055,331	8,048,128

25 Equity

As at 31 December 2009 the Bank's registered and paid-in share capital was AMD 7,002,000 thousand. In accordance with the Bank's statues, the share capital consists of 11,670 ordinary shares, all of which have a par value of AMD 600,000 each.

The only shareholder of the Bank is the Swiss businessman Vardan Sirmakes.

As at 31 December 2009, the Bank did not possess any of its own shares.

In 2009 the shareholders of the Bank increased its share capital by AMD 2,001,000 thousand. This increase has been performed in AMD and the shareholder has the right to receive a share and distribute the profit in AMD.

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 15 % of the Bank's share capital reported in statutory books.

26 Contingent liabilities and commitments

Tax and legal matters

The taxation system in Armenia is characterized by frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among various taxation authorities and jurisdictions.

Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.

As of 31 December 2009 and 2008 there were no legal actions and complaints taken against the Bank.

Therefore, the Bank has not made any respective provision related to such tax and legal matters.

Loan commitment, guarantee and other financial facilities

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	**2009**	2008
Undrawn loan commitments	**761,078**	261,150
Letters of credit	**25,745**	-
Guarantees	**370,071**	156,940
Total commitments and contingent liabilities	**1,156,894**	418,090

Operating lease commitments – Bank as a leasee

In the normal course of business the Bank enters into commercial lease agreements for offices and facilities.

The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:

In thousand Armenian drams	**2009**	2008
Not later than 1 year	**-**	16,500
Total operating lease receivable	**-**	16,500

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

Starting from 2005 the Bank is member of the obligatory deposit insurance system. The system operates under the Armenian laws and regulations and is governed by the Law on Guarantee of Physical Persons Deposits. Insurance covers Bank's liabilities to individual depositors for the amount up to AMD 2,000 thousand (up to AMD 1,000 thousand for deposits in foreign currency) for each individual in case of business failure and revocation of the banking license.

27 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively.

The ultimate controlling party of the Bank is the only shareholder Swiss businessman Vardan Sirmakes.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	**2009**		2008	
	Shareholders	**Key management personnel**	Shareholders	Key management personnel
Loans and advances to customers				
Loans outstanding at January 1, gross	**-**	**187,493**	-	35,865
Loans issued during the year	**-**	**386,380**	-	188,330
Loan repayments during the year	**-**	**(299,460)**	-	(36,702)
Loans outstanding at December 31, gross	**-**	**274,413**	-	187,493
Less: allowance for loan impairment	**-**	**(2,744)**	-	(2,512)
Loans outstanding at December 31	**-**	**271,669**	-	184,981
Interest income on loans	**-**	**16,897**	-	9,742
Impairment charge for credit losses	**-**	**232**	-	2,155
Amounts due to customers				
Deposits at January 1	**6,085,808**	**69,038**	2,810,891	24,753
Deposits received during the year	**31,354,290**	**1,673,472**	16,916,368	1,419,504
Deposits repaid during the year	**(31,833,892)**	**(1,659,129)**	(13,641,451)	(1,375,219)
Deposits at December 31	**5,606,206**	**83,381**	6,085,808	69,038
Interest expense on deposits	**116,512**	**1,420**	210,588	-

In thousand Armenian drams	2009		2008	
	Shareholders	**Key management personnel**	Shareholders	Key management personnel
Amounts due from other financial institutions				
At January 1	**1,043,921**	**-**	122	-
Increase	**5,813,935**	**-**	1,250,485	-
Decrease	**(6,526,348)**	**-**	(206,686)	-
At December 31	**331,508**	**-**	1,043,921	-
Interest income	**16,201**	**-**	4,384	-
Amounts due to financial institutions				
At January 1	**3,462**	**-**	8,075	-
Increase	**5,487,190**	**-**	6,121,996	-
Decrease	**(5,490,057)**	**-**	(6,126,609)	-
At December 31	**595**	**-**	3,462	-
Interest expense	**389**	**-**	472	-
Guarantees issued	**37,789**	**7,558**	30,673	-
Other Income and expenses				
Fee and commission income	**2130**	**1,399**	104	1,292
Other income	**4**	**6**	**-**	**-**

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2009	2008
Salaries and other short-term benefits	**257,815**	246,978
Social security costs	**16,674**	15,612
Total key management compensation	**274,489**	262,590

The loans issued to directors and other key management personnel are repayable from 2010 to 2024 and have interest rates of 11% (2008: 9%).

28 Fair value of financial instruments

Financial instruments not measured at fair value

The fair value of financial assets and liabilities, not presented on the balance sheet at their fair value, are presented below with their carrying values:

In thousand Armenian drams	2009		2008	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL ASSETS				
Cash and balances with CBA	**2,030,121**	**2,030,121**	2,465,474	2,465,474
Amounts due from financial institutions	**2,595,767**	**2,595,767**	2,871,730	2,871,730
Loans and advances to customers	**10,376,790**	**10,376,790**	7,156,858	7,156,858
FINANCIAL LIABILITIES				
Amounts due to the CBA	**8,150,878**	**8,150,878**	8,648,165	8,648,165
Amounts due to financial institutions	**4,674,120**	**4,674,120**	433,109	433,109
Amounts due to customers	**8,593,538**	**8,593,538**	8,844,940	8,844,940

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 10% to 24% per annum and mainly coincide with the current rates.

Other borrowings

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

28.1 Fair Value Hierarchy

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In thousand Armenian drams				2009
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Quoted securities and debentures	**32,861**	**-**	**-**	**32,861**
Unquoted equity investments	**-**	**6,678,500**	**-**	**6,678,500**
Securities pledged under repurchase agreements	**-**	**7,070,431**	**-**	**7,070,431**
Total	**32,861**	**13,748,931**	**-**	**13,781,792**

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

Unquoted RA equity investments

The fair value of Bank's investment in unquoted RA equity investments cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 16 for further information about this equity investment.

29 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 30.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total 2009
ASSETS								
Cash and balances with CBA	**2,030,121**	**-**	**-**	***2,030,121***	**-**	**-**	***-***	**2,030,121**
Amounts due from other financial institutions	**2,331,537**	**-**	**190,874**	***2,522,411***	**73,356**	**-**	***73,356***	**2,595,767**
Loans and advances to customers	**881,863**	**-**	**990,453**	***1,872,316***	**7,603,024**	**901,450**	***8,504,474***	**10,376,790**
Investments available for sale	**330,868**	**23,180**	**743,795**	***1097,843***	**5,591,562**	**82,528**	***5,674,090***	**6,771,933**
Securities pledged under repurchase agreements	**5,903,346**	**1,167,085**	**-**	***7,070,431***	**-**	**-**	***-***	***7,070,431***
	11,477,735	**1,190,265**	**1,925,122**	**14,593,122**	**13,267,942**	**983,978**	**14,251,920**	**28,845,042**
LIABILITIES								
Amounts due to the CBA	**5,228,266**	**25,766**	**29,624**	***5,283,656***	**432,945**	**2,434,277**	***2,867,222***	**8,150,878**
Amounts due to financial institutions	**2,151,404**	**1,168,608**	**1,298,719**	***4,618,731***	**-**	**55,389**	***55,389***	**4,674,120**
Amounts due to customers	**1,615,656**	**592,424**	**2,352,848**	***4,560,928***	**4,032,610**	**-**	***4,032,610***	**8,593,538**
	8,995,326	**1,786,798**	**3,681,191**	**14,463,315**	**4,465,555**	**2,489,666**	**6,955,221**	**21,418,536**
Net position	**2,482,409**	**(596,533)**	**(1,756,069)**	***129,807***	**8,802,387**	**(1,505,688)**	***7,296,699***	**7,426,506**
Accumulated gap	**2,482,409**	**1,885,876**	**129,807**		**8,932,194**	**7,426,506**		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total 2008
ASSETS								
Cash and balances with CBA	2,465,474	-	-	2,465,474	-	-	-	2,465,474
Precious metals	110,496	-	-	110,496	-	-	-	110,496
Amounts due from other financial institutions	1,894,503	934,751	15,383	2,844,637	27,093	-	27,093	2,871,730
Loans and advances to customers	628,825	1,187,443	471,400	2,287,668	4,022,206	846,984	4,869,190	7,156,858
Investments available for sale	247,537	219,733	925,180	1,392,450	761,618	259,343	1,020,961	2,413,411
Securities pledged under repurchase agreements	8,055,331	-	-	8,055,331	-	-	-	8,055,331
	13,402,166	2,341,927	1,411,963	17,156,056	4,810,917	1,106,327	5,917,244	23,073,300
LIABILITIES								
Amounts due to the CBA	8,061,915	4,854	18,296	8,085,065	120,643	442,457	563,100	8,648,165
Amounts due to financial institutions	1,734	431,375	-	433,109	-	-	-	433,109
Amounts due to customers	1,630,140	606,565	3,984,447	6,221,152	2,623,788	-	2,623,788	8,844,940
	9,693,789	1,042,794	4,002,743	14,739,326	2,744,431	442,457	3,186,888	17,926,214
Net position	3,708,377	1,299,133	(2,590,780)	2,416,730	2,066,486	663,870	2,730,356	5,147,086
Accumulated gap	3,708,377	5,007,519	2,416,730		4,483,216	5,147,086		

30 Risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by a Risk Management Department under policies approved by the Board of the Bank. The Risk Management Department identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

30.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Bank's Risk Management Department and reported to the Board of the Bank and head of each business unit regularly.

30.1.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below represents a worst case scenario of credit risk exposure to the Bank at 31 December 2009 and 2008, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

In thousand Armenian drams	Notes	**Gross maximum exposure as of December 31, 2009**	Gross maximum exposure as of December 31, 2008
Balances with CBA	13	**1,727,214**	2,314,742
Amounts due from other financial institutions	14	**2,595,767**	2,871,730
Loans and advances to customers	15	**10,376,790**	7,156,858
Investments available for sale	16	**6,771,933**	2,413,411
Securities pledged under repurchase agreements	24	**7,070,431**	8,055,331
Total		**28,542,135**	22,812,072
Commitments and contingent liabilities	26	**1,156,894**	418,090
Total credit risk exposure		**29,699,029**	23,230,162

When financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

30.1.2 Risk concentrations of the maximum exposure to credit risk

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December.

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Balances with CBA	**1,727,214**	**-**	**-**	**1,727,214**
Amounts due from other financial institutions	**1,870,758**	**335,003**	**390,006**	**2,595,767**
Loans and advances to customers	**10,365,249**	**-**	**11,541**	**10,376,790**
Investments available for sale	**6,739,072**	**10,905**	**21,956**	**6,771,933**
Securities pledged under repurchase agreements	**7,070,431**	**-**	**-**	**7,070,431**
As at 31 December 2009	**27,772,724**	**345,908**	**423,503**	**28,542,135**
As at 31 December 2008	**21,871,725**	**167,115**	**773,232**	**22,812,072**

Assets have been classified based on the country in which the counterparty is located.

Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December.

In thousand Armenian drams	Financial institutions	Manufacturing	Energy	Construction	Trading	Consumer sector	Mortgage	Other	Total
Balances with CBA	**1,727,214**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,727,214**
Amounts due from other financial institutions	**2,595,767**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,595,767**
Loans and advances to customers	**-**	**2,217,448**	**2,482,501**	**127,904**	**2,075,294**	**112,752**	**784,628**	**2,576,263**	**10,376,790**
Investments available for sale	**6,174,995**	**-**	**355,830**	**-**	**221,533**	**-**	**-**	**19,575**	**6,771,933**
Securities pledged under repurchase agreements	**7,070,431**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,070,431**
As at 31 December 2009	**17,568,407**	**2,217,448**	**2,838,331**	**127,904**	**2,296,827**	**112,752**	**784,628**	**2,595,838**	**28,542,135**
As at 31 December 2008	14,903,295	1,600,509	702,663	113,457	2,436,767	1,141,466	1,029,826	884,089	22,812,072

30.1.3 Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of the Bank.

The Board has defined criteria for choosing counterparties in the framework of credit risk based on the rating of famous credit rating agencies such as S&P's and Moody's Credit Rating agencies. The Board of the Bank exceptionally specifies corresponding limits of credit risk if a necessity arises to collaborate with a counterparty which does not have investment reputation.

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

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

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

The analysis of loan portfolio by collateral is represented as follows:

In thousand Armenian drams	**2009**	2008
Loans collateralized by real estate	**7,568,834**	6,033,633
Loans collateralized by movable property	**486,913**	27,133
Loans collateralized by Armenian Government guarantees	**1,301,953**	-
Loans collateralized by guarantees of financial institutions	**329,413**	446,315
Loans collateralized by shares of other companies	**471,568**	222,577
Loans collateralized by cash	**64,087**	90,806
Other collateral	**282,922**	433,602
Total loans and advances to customers (gross)	**10,505,690**	7,254,066

Credit-related commitments

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

30.1.4 Impairment and provisioning policies

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

Individually assessed allowances

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

Collectively assessed allowances

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

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

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

Loans and advances neither past due or impaired

The table below shows the credit quality by class of asset for loans and advances neither past due or impaired, based on the historical counterparty default rates.

In thousand Armenian drams	**2009**	2008
Loans and advances to customers		
Manufacture	**1.5%**	-
Other	**-**	0,1%

As of 31.12.09 and 31.12.08 the Bank has not had any losses on other financial assets bearing credit risk.

Past due but not impaired loans

As of 31.12.09 and 31.12.08 the Bank has not had any past due loans.

Renegotiated loans

As of 31.12.09 and 31.12.08 the Bank has not had any renegotiated loans.

30.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The market risk is managed and monitored based on sensitivity analysis and stress tests. The foreign currency risk is managed and monitored based on hedging strategies and positions management.

30.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2009, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, at 31 December 2009 for the effects of the assumed changes in interest rates. At 31 December 2009 the Bank has no floating interest rate financial instruments. The sensitivity of equity is analysed by maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

In thousand Armenian drams							**2009**
			Sensitivity of equity				
Currency	**Change in basis points**	**Sensitivity of net interest income**	**Up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
AMD	**+1**	**-**	**(193)**	**(565)**	**(31,284)**	**(6,300)**	**(38,342)**
USD	**+1**	**-**	**(2)**	**-**	**-**	**-**	**(2)**
AMD	**(1)**	**-**	**194**	**566**	**31,403**	**6,376**	**38,539**
USD	**(1)**	**-**	**2**	**-**	**-**	**-**	**2**

In thousand Armenian drams							2008
			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	+1	-	(150)	(335)	(7,897)	(14,099)	(33,481)
USD	+1	-	(2)	(5)	(33)	-	(40)
AMD	(1)	-	155	340	8,268	14,099	22,936
USD	(1)	-	2	5	33	-	40

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2008 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges, and equity instruments). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	**2009**		2008	
Currency	**Change in currency rate in %**	**Effect on profit before tax**	Change in currency rate in %	Effect on profit before tax
USD	**+10**	**9,317**	+20	(27,383)
EUR	**+10**	**1,277**	+20	(4,787)

The Bank's exposure to foreign currency exchange risk is as follows:

In thousand Armenian drams	**Armenian Dram**	**Freely convertible currencies**	**Non-freely convertible currencies**	**Total**
ASSETS				
Cash and balances with the CBA	**684,572**	**1,343,031**	**2,518**	**2,030,121**
Amounts due from other financial institutions	**391,595**	**2,195,366**	**8,806**	**2,595,767**
Loans and advances to customers	**5,480,293**	**4,865,638**	**30,859**	**10,376,790**
Investments available for sale	**6,739,072**	**32,861**	**-**	**6,771,933**
Securities pledged under repurchase agreements	**7,070,431**	**-**	**-**	**7,070,431**
	20,365,963	**8,436,896**	**42,183**	**28,845,042**
LIABILITIES				
Amounts due to the CBA	**8,150,878**	**-**	**-**	**8,150,878**
Amounts due to financial institutions	**4,144,263**	**504,717**	**25,140**	**4,674,120**
Amounts due to customers	**748,796**	**7,836,407**	**8,335**	**8,593,538**
	13,043,937	**8,341,124**	**33,475**	**21,418,536**
Net position as at 31 December 2009	**7,322,026**	**95,772**	**8,708**	**7,426,506**
Commitments and contingent liabilities as at 31 December 2009	**727,956**	**428,938**	**-**	**1,156,894**
Total financial assets	15,324,054	7,711,574	37,672	23,073,300
Total financial liabilities	9,963,282	7,957,452	-	17,926,214
Net position as at 31 December 2008	5,250,282	(135,382)	32,192	5,147,086
Commitments and contingent liabilities as at 31 December 2008	135,195	282,895	-	418,090

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

30.3 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily bases. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 8% of certain obligations of the Bank denominated in Armenian drams and 12% on certain obligations of the Bank denominated in foreign currency. See note 13. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Armenia.

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2009 based on contractual undiscounted repayment obligations. See note 29 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams						**2009**
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
FINANCIAL LIABILITIES						
Amounts due to the CBA	**5,251,901**	**26,077**	**30,517**	**515,976**	**3,627,073**	**9,451,544**
Amounts due to financial institutions	**2,163,782**	**1,186,537**	**1,348,533**	**-**	**74,775**	**4,773,627**
Amounts due to customers	**1,622,296**	**602,812**	**2,455,987**	**5,026,952**	**-**	**9,708,047**
Total undiscounted financial liabilities	**9,037,979**	**1,815,426**	**3,835,037**	**5,542,928**	**3,701,848**	**23,933,218**
Commitments and contingent liabilities	**761,078**	**138,082**	**101,892**	**155,842**	**-**	**1,156,894**

In thousand Armenian drams						2008
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
FINANCIAL LIABILITIES						
Amounts due to the CBA	8,090,076	4,913	18,847	138,822	612,803	8,865,461
Amounts due to financial institutions	1,734	436,102	-	-	-	437,836
Amounts due to customers	1,635,499	615,871	4,006,280	3,198,865	-	9,456,515
Total undiscounted financial liabilities	9,727,309	1,056,886	4,025,127	3,337,687	612,803	18,759,812
Commitments and contingent liabilities	261,150	68,039	50,386	38,515	556,957	418,090

31 Capital adequacy

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

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 12%.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit and general reserve. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserve.

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

The Bank has complied with all externally imposed capital requirements through the period.

The Central Bank of Armenia has set the minimal required total capital at AMD 5,000,000 thousand from January 1, 2009.

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