

Financial Statements and Independent Auditor's
Report

ARMSWISSBANK closed joint stock company

31 December 2010

Contents

	Page
Independent auditor’s report	1
Statement of comprehensive income	3
Statement of financial position	4
Statement of changes in equity	5
Statement of cash flows	6
Accompanying notes to the financial statements	7

Independent auditor's report

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To the Shareholder and Board of Directors of “Armswissbank” CJSC:

We have audited the accompanying financial statements of “Armswissbank” CJSC (the “Bank”), which comprise the statement of financial position as at December 31, 2010, 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, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gagik Gyulbudaghyan
Managing partner

Armen Vanyan
Auditor

Grant Thornton CJSC
14 February 2011
Yerevan

Statement of comprehensive income

In thousand Armenian drams	Notes	Year ended December 31, 2010	Year ended December 31, 2009
Interest and similar income	6	3,316,153	2,513,160
Interest and similar expense	6	(1,583,504)	(1,244,919)
Net interest income		1,732,649	1,268,241
Fee and commission income	7	92,897	75,883
Fee and commission expense	7	(13,049)	(18,166)
Net fee and commission income		79,848	57,717
Net trading income	8	68,960	62,961
Gains less losses on investments available for sale		39,184	156,733
Other income	9	74,465	74,930
Impairment charge for credit losses	17	(42,528)	(299,971)
Staff costs	10	(480,447)	(416,427)
Depreciation of property and equipment	19	(57,944)	(34,423)
Amortization of intangible assets	20	(6,529)	(5,912)
Other expenses	11	(202,096)	(176,127)
Profit before income tax		1,205,562	687,722
Income tax expense	12	(252,571)	(127,404)
Profit for the year		952,991	560,318
Other comprehensive income:			
Net unrealized gains/(losses) from changes in fair value		(186,985)	69,733
Net (gains)/losses realized to net profit on disposal of available-for-sale instruments		196,158	(109,833)
Income tax relating to components of other comprehensive income		(1,834)	8,067
Other comprehensive income for the year, net of tax		7,339	(32,033)
Total comprehensive income for the year		960,330	528,285

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

Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2010	As of December 31, 2009
ASSETS			
Cash and balances with CBA	13	4,040,968	2,030,121
Precious metals	14	153,785	-
Amounts due from other financial institutions	15	4,368,441	2,595,767
Derivative financial assets	16	20,644	-
Loans and advances to customers	17	13,034,621	10,376,790
Investments available for sale	18	7,347,074	6,771,933
Securities pledged under repurchase agreements	26	5,320,918	7,070,431
Property, plant and equipment	19	619,868	668,888
Intangible assets	20	50,354	41,853
Deferred income tax assets	12	16,306	38,995
Other assets	21	191,233	54,483
TOTAL ASSETS		35,164,212	29,649,261
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the CBA	22	5,661,265	7,842,153
Derivative financial liabilities	16	10,716	-
Amounts due to other financial institutions	23	7,936,890	4,674,120
Amounts due to customers	24	12,313,526	8,902,263
Current income tax liabilities		127,913	81,375
Other liabilities	25	84,134	79,912
Total liabilities		26,134,444	21,579,823
Equity			
Share capital	27	7,002,000	7,002,000
Statutory general reserve		500,000	200,000
Other reserves		(144,659)	(151,998)
Retained earnings		1,672,427	1,019,436
Total equity		9,029,768	8,069,438
TOTAL LIABILITIES AND EQUITY		35,164,212	29,649,261

The financial statements from pages 3 to 50 were signed by the Bank’s Executive Director and Chief Accountant on 14 February 2011. The accompanying notes on pages 7 to 50 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, 2009	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
Distribution to reserve	-	300,000	-	(300,000)	-
Transactions with owners	-	300,000	-	(300,000)	-
Profit for the year	-	-	-	952,991	952,991
Other comprehensive income:					
Net unrealized loss from changes in fair value	-	-	(186,985)	-	(186,985)
Net loss realized to net profit on disposal of available-for-sale instruments	-	-	196,158	-	196,158
Income tax relating to components of other comprehensive income	-	-	(1,834)	-	(1,834)
Total comprehensive income for the year	-	-	7,339	952,991	960,330
Balance as of December 31, 2010	7,002,000	500,000	(144,659)	1,672,427	9,029,768

Statement of cash flows

In thousand Armenian drams

	Year ended December 31, 2010	Year ended December 31, 2009
Cash flows from operating activities		
Profit before tax	1,205,562	687,722
<i>Adjustments for</i>		
Impairment charge for credit losses	42,528	299,971
Amortization and depreciation allowances	64,473	40,335
Net (gains)/losses from sale of PPE	(140)	36
Interests receivable	(140,627)	(93,418)
Interests payable	114,015	9,712
Foreign currency translation net (gains)/losses of non-trading assets and liabilities	9,015	(19,115)
Net income from changes in fair value of trading instruments	(9,928)	-
Cash flows from operating activities before changes in operating assets and liabilities	1,284,898	925,243
<i>(Increase)/decrease in operating assets</i>		
Precious metals	(153,785)	110,496
Amounts due from other financial institutions	(1,792,252)	(803,315)
Loans and advances to customers	(2,992,258)	(2,596,166)
Other assets	(63,478)	56,798
<i>Increase/(decrease) in operating liabilities</i>		
Repurchase agreements with the CBA	(2,199,985)	(2,844,637)
Amounts due to financial institutions	(88,340)	2,308,391
Amounts due to customers	3,003,516	(2,137,488)
Other liabilities	20,175	52,944
Net cash flow used in operating activities before income tax	(2,981,509)	(4,927,734)
Income tax paid	(185,178)	(68,171)
Net cash used in operating activities	(3,166,687)	(4,995,905)
Cash flows from investing activities		
(Purchase) /sale of investment securities	1,281,803	(3,311,025)
Purchase of property and equipment	(8,951)	(414,255)
Proceeds from sale of property and equipment	167	800
Purchase of intangible assets	(15,030)	-
Net cash from/ (used in) investing activities	1,257,989	(3,724,480)
Cash flow from financing activities		
Proceeds from issue of share capital	-	2,001,000
Loans received from the CBA	7,445	2,012,715
Loans received from financial institutions	3,328,803	1,827,673
Other long term loans	755,317	308,725
Net cash flow from financing activities	4,091,565	6,150,113
Net increase/(decrease) in cash and cash equivalents	2,182,867	(2,570,272)
Cash and cash equivalents at the beginning of the year	2,596,993	4,274,357
Exchange differences on cash and cash equivalents	(46,936)	892,908
Cash and cash equivalents at the end of the year (Note 13)	4,732,924	2,596,993
Supplementary information:		
Interest received	3,175,545	2,419,742
Interest paid	(1,469,489)	(1,235,207)

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: 10 V. Sargsyan str., 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 situation of Armenian economy and of the Bank may be exposed to deterioration. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Bank may be affected.

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

3 Basis of preparation

3.1 Statement of compliance

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

3.2 Basis of measurement

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

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, 2010. The standards and interpretations which have had effect on the financial statements are presented below:

Adoption of Improvements to IFRSs 2009

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) is 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) is applied retrospectively for annual periods beginning on or after 1 January 2010.

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) is applied prospectively for annual periods beginning on or after 1 January 2010.

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 possible effect of most of the amendments on the Bank's financial statements can not be material.

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) is applied retrospectively for annual periods beginning on or after 1 February 2010.

IFRIC 19 *Extinguishing financial liabilities with equity instruments*

The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. It is not expected to have any impact on the group or the parent entity's financial statements.

IFRS 1 (Amendment) *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

The amendment to IFRS 1 enables first-time adopters to benefit from the same relief from comparatives available to those already using IFRSs when applying Improving Disclosures about Financial Instruments (Amendments to IFRS 7) for the first time. Effective for annual periods beginning on or after 1 July 2010.

IFRS 7 (Amendment) *Transfer of Financial Assets*

The amendment aims to help users of financial statements evaluate the risk exposure relating to more complex transfers of financial assets and the effect of those risks on an entity's financial position. The additional disclosures required are designed to provide information that enables users:

- To understand the relationship between transferred financial asset that are not derecognized in their entirety and the associated liabilities
- To evaluate the nature of and risks associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety.

This amendment is effective for annual periods beginning on or after July 1, 2010.

IAS 24 (revised) Related party disclosures

It supersedes IAS 24, ‘Related party disclosures’, issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. IAS 24 (revised) is effective for annual periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted.

IFRS 1 (Amendment) Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The IASB has published two limited amendments to IFRS 1 First-time adoption of International Financial Reporting Standards. The first amendment replaces references to a fixed date of ‘1 January 2004’ with ‘the date of transition to IFRSs’, thus eliminating the need for companies adopting IFRSs for the first time to restate some transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should present financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. Effective for annual periods beginning on or after 1 July 2011.

IAS 12 (Amendment) Recovery of underlying assets

The IASB has published some limited scope amendments to IAS 12 Income Taxes, which are relevant only when an entity elects to use the fair value model for measurement in IAS 40 Investment Property. The amendments introduce a rebuttable presumption that in such circumstances, an investment property is recovered entirely through sale. Effective for annual periods beginning on or after 1 January 2012.

IFRIC 14 (Amendment) ‘Prepayments of a minimum funding requirement’ issued in November 2009.

The amendments correct an unintended consequence of IFRIC 14, ‘IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction’. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented.

IFRS 9 Financial Instruments

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management has yet to assess the full impact that this amendment is likely to have on the financial statements of the Bank. However, initial indications are that it may affect the Bank’s accounting for its debt available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading.

Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognized directly in profit or loss. In the current reporting period, the Bank recognized AMD 186,985 thousand of such gains in other comprehensive income. Also there will be only two categories of financial assets: measured only at amortized cost and fair value.

Annual Improvements 2010 (effective from 1 July 2010 and later)

The IASB has issued *Improvements to IFRS 2010* (2010 Improvements). Most of these amendments become effective in annual periods beginning on or after 1 July 2010 or 1 January 2011. The 2010 Improvements amend certain provisions of IFRS 1, IFRS 3R, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13. The Bank’s preliminary assessments indicate that the 2010 Improvements will not have a material impact on the Bank’s financial statements, except for disclosure requirements for financial instruments, which eliminated the requirements to disclose:

- the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated,
- maximum exposure to credit risk for financial instruments whose carrying amount best represents the maximum exposure to credit risk,
- description and estimate of fair value of collateral held for past due or impaired financial assets.

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, 2010	December 31, 2009
AMD/1 US Dollar	363.44	377.89
AMD/1 Euro	481.16	542.23

4.3 Taxation

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

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

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

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

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

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

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia 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 Financial instruments

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

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

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

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

Financial assets at fair value through profit or loss

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

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognized 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 unrealized gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

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

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

Loans and receivables

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

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

Available-for-sale financial instruments

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

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

4.8 Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

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

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

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

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

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

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

Renegotiated loans

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement on income, is transferred from equity to the statement of income. Reversals 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.

4.9 Derecognition of financial assets and liabilities***Financial assets***

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

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

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

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

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new

liability, and the difference in the respective carrying amounts is recognised in the statement of income.

4.10 Repurchase and reverse repurchase agreements

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

4.11 Securities lending and borrowing

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

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

4.12 Leases

Finance – Bank as lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. The arrangement is presented within loans and advances. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

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	2-5	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 Central Bank and Government, amounts due to financial institutions, amounts due to customers and subordinated debt, are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the liabilities are derecognised as well as through the amortisation process.

4.16 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. Following initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

4.18 Provisions

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

4.19 Share capital

Share capital

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

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.

4.20 Offsetting

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

5 Critical accounting estimates and judgements

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

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

Derivative instruments

During 2010 in the result of conducting currency exchange transactions the Bank's management has changed its judgment regarding the classification of these transactions and has decided to measure and account these transactions as derivative instruments as opposed to deposit transactions. This change in the accounting estimate has been applied prospectively and consequently, the previous year's carrying amounts have not been changed. Otherwise the assets and liabilities as of December 31, 2009 would have decreased by AMD 704,718 thousand as a result of offsetting short term deposits reflected in the “other amounts” presented in amounts due from financial institutions and those reflected in other amounts presented in amount due to financial institutions.

Classification of investment securities

Securities owned by the Bank comprise Armenian state and corporate bonds and corporate shares. Upon initial recognition, the Bank designates securities as available-for-sale financial 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 takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Tax legislation

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

Impairment of available-for-sale equity investments

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

6 Interest and similar income and expense

In thousand Armenian drams	2010	2009
Loans and advances to customers	1,705,716	1,213,001
Debt investment securities available-for-sale	1,418,670	1,133,049
Income from factoring	126,390	94,777
Amounts due from other financial institutions	41,332	60,288
Reverse repurchase transactions	11,587	8,683
Income from guarantees	12,458	2,819
Other interest income	-	543
Total interest and similar income	3,316,153	2,513,160
Amounts due to customers	750,070	606,349
Amounts due to financial institutions	360,238	141,084
Repurchase transactions	471,994	497,486
Other interest expenses	1,202	-
Total interest and similar expense	1,583,504	1,244,919

7 Fee and commission income and expense

In thousand Armenian drams	2010	2009
Cash collection	20,217	15,415
Wire transfer fees	27,383	22,877
Brokerage operations	27,562	29,572
Guarantees and letters of credit	14,882	5,153
Other fees and commissions	2,853	2,866
Total fee and commission income	92,897	75,883
In thousand Armenian drams	2010	2009
Wire transfer fees	6,047	9,097
Other expenses	7,002	9,069
Total fee and commission expense	13,049	18,166

8 Net trading income

In thousand Armenian drams	2010	2009
Gains less losses from transactions in foreign currencies	99,533	109,063
Gains less losses from derivatives	(30,573)	(46,102)
Total net trading income	68,960	62,961

9 Other income

In thousand Armenian drams	2010	2009
Fines and penalties received	61,514	27,323
Gains from operations of precious metals	-	27,567
Income from disposal of collateral	6,100	-
Foreign currency translation net gains of non-trading assets and liabilities	-	19,115
Income from dividends	4,209	367
Income from sale of fixed assets	140	-
Other income	2,502	558
Total other income	74,465	74,930

10 Staff costs

In thousand Armenian drams	2010	2009
Wages and salaries	446,250	384,575
Social security contributions	34,197	31,852
Total staff costs	480,447	416,427

11 Other expenses

In thousand Armenian drams	2010	2009
Fixed assets maintenance	28,473	18,101
Advertising costs	6,540	5,683
Business trip expenses	7,709	7,802
Communications	49,525	46,779
Operating lease	-	19,000
Taxes, other than income tax, duties	19,101	13,624
Consulting and other services	13,727	10,200
Security	7,770	7,224
Representative expenses	15,209	22,280
Office supplies	7,029	8,216
Penalties paid	676	389
Loss on disposal of PPE	-	36
Insurance expenses	11,172	1,489
Losses from operations with precious metals	2,314	-
Foreign currency translation net losses of non-trading assets and liabilities	9,015	-
Other expenses	23,836	15,304
Total other expense	202,096	176,127

12 Income tax expense

In thousand Armenian drams	2010	2009
Current tax expense	215,775	134,058
Adjustments of current income tax of previous years	15,941	(910)
Deferred tax	20,855	(5,744)
Total income tax expense	252,571	127,404

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2009: 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	2010	Effective rate (%)	2009	Effective rate (%)
Profit before tax	1,205,562		687,722	
Income tax at the rate of 20%	241,112	20	137,544	20
Non-taxable income	(3,431)	-	(73)	-
Non-deductible expenses	1,248	-	1,669	-
Foreign exchange (gains)/losses	1,803	-	(3,823)	(1)
Other	(4,102)	-	(7,003)	(1)
Adjustments of current income tax of previous years	15,941	1	(910)	-
Income tax expense	252,571	21	127,404	18

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2009	Recognized in comprehensive income statement	Recognized in equity	2010
Other liabilities	3,190	1,266	-	4,456
Loans and advances to customers	4,020	(4,020)	-	-
Fair value measurement of available-for-sale securities	37,999	-	(1,834)	36,165
Total deferred tax assets	45,209	(2,754)	(1,834)	40,621
Loans and advances to customers	-	(4,753)	-	(4,753)
Accrued income	-	(9,240)	-	(9,240)
Other assets	(3,900)	(722)	-	(4,622)
Other provisions	(2,314)	(3,386)	-	(5,700)
Total deferred tax liability	(6,214)	(18,101)	-	(24,315)
Net deferred tax asset	38,995	(20,855)	(1,834)	16,306

In thousand Armenian drams	2008	Recognized in comprehensive income statement	Recognized in equity	2009
Other liabilities	2,005	1,185	-	3,190
Loans and advances to customers	-	4,020	-	4,020
Fair value measurement of available-for-sale securities	29,932	-	8,067	37,999
Total deferred tax assets	31,937	5,205	8,067	45,209
Other assets	(5,917)	2,017	-	(3,900)
Other provisions	(836)	(1,478)	-	(2,314)
Total deferred tax liability	(6,753)	539	-	(6,214)
Net deferred tax asset	25,184	5,744	8,067	38,995

13 Cash, cash equivalents and balances with CBA

In thousand Armenian drams	2010	2009
Cash on hand	390,989	302,907
Correspondent account with the CBA	3,649,979	1,727,214
Cash and balances with CBA	4,040,968	2,030,121
Cash and balances with the CBA, included in cash flows	4,040,968	2,030,121
Placements with other banks (note 15)	691,956	566,872
Total cash and cash equivalents	4,732,924	2,596,993

As at 31 December 2010 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 1,569,604 thousand (2009: AMD 1,273,183 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 2010 are represented by:

- repayment of loan by immovable property valued at AMD 13,800 thousand (2009: AMD 39,700 thousand)

14 Precious metals

In thousand Armenian drams	2010	2009
Gold in vault	150,584	-
Silver in vault	3,201	-
Total precious metals	153,785	-

15 Amounts due from other financial institutions

In thousand Armenian drams	2010	2009
Correspondent accounts with financial institutions	691,956	566,872
Included in cash and cash equivalents	691,956	566,872
Loans and deposits to financial institutions	1,304,550	1,320,228
Reverse repurchase agreements	2,190,381	13,541
Other amounts	181,554	695,126
Total amounts due from other financial institutions	4,368,441	2,595,767

As at 31 December 2010 the correspondent accounts and deposits in amount of AMD 1,411,654 thousand (32%) were due from one bank (2009: AMD 983,420 thousand or 38%).

As at 31 December 2010 item “Loans and deposits” includes balance at the amount of AMD 122,778 thousand (2009: AMD 133,230 thousand), which is guarantee amount for making trade operations in international markets.

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December, 2010 are presented as follows:

In thousand Armenian drams	2010		2009	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Securities issued by the RA Ministry of Finance	2,212,540	2,190,381	14,183	13,541
Total assets pledged and loans under reverse repurchase agreements	2,212,540	2,190,381	14,183	13,541

16 Derivative financial instruments

In thousand Armenian drams	2010			2009		
	Notional amount	Fair value of assets	Fair value of liabilities	Notional amount	Fair value of assets	Fair value of liabilities
Derivatives held for trading						
Swaps – domestic	727,835	9	2,866	-	-	-
Swaps - currency	2,421,026	20,635	7,850	-	-	-
Total derivative financial instruments and other trading liabilities	3,148,861	20,644	10,716	-	-	-

Contracts in nominal amount of AMD 1,304,983 thousand of currency swaps were signed with foreign partners.

17 Loans and advances to customers

In thousand Armenian drams	2010	2009
Loans to customers	12,863,996	9,767,357
Factoring	426,350	689,003
Loans granted under reverse repurchase agreements	7,799	39,325
Financial leasing	4,497	-
Other	980	10,005
	13,303,622	10,505,690
Less allowance for loan impairment	(269,001)	(128,900)
Total loans and advances to customers	13,034,621	10,376,790

As of 31 December 2010 accrued interest income included in loans and advances to customers amounted to AMD 116,997 thousand (2009: AMD 77,882 thousand).

As of December 31, 2010 the Bank had a concentration of loans represented by AMD 4,909,460 thousand due from the ten largest third party entities and parties related with them (37% of gross loan portfolio) (2009: AMD 4,702,228 thousand due from the ten largest third party entities and parties related with them or 45%). An allowance of AMD 109,974 thousand (2009: AMD 47,022 thousand) was made against these loans.

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

In thousand Armenian drams	2010	2009
Manufacture	5,168,308	4,771,515
Agriculture	1,355,731	128,755
Construction	966,982	129,196
Trading	1,764,731	2,096,257
Consumer	214,404	113,891
Mortgage loans	847,637	792,554
Transport and communications	483,971	208,642
Public food and other service sectors	836,651	591,844
Other	1,665,207	1,673,036
	13,303,622	10,505,690
Less allowance for loan impairment	(269,001)	(128,900)
Total loans and advances to customers	13,034,621	10,376,790

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

In thousand Armenian drams								2010
	Manu- facture	Agri- culture	Const- ruction	Trading	Con- sumer	Mortgage	Other	Total
At 1 January 2010	71,559	1,287	1,292	20,962	1,139	7,926	24,735	128,900
Charge/(Reversal) for the year	(50,941)	12,270	8,312	40,261	979	3,970	27,677	42,528
Amounts written off	-	-	-	(43,694)	-	-	-	(43,694)
Recoveries	141,267	-	-	-	-	-	-	141,267
At 31 December 2010	161,885	13,557	9,604	17,529	2,118	11,896	52,412	269,001
Individual impairment	120,214	-	-	-	-	4,018	25,464	149,696
Collective impairment	41,671	13,557	9,604	17,529	2,118	7,878	26,948	119,305
	161,885	13,557	9,604	17,529	2,118	11,896	52,412	269,001
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	975,477	-	-	-	-	54,955	270,298	1,300,730

In thousand Armenian drams	Manu- facture	Agri- culture	Const- ruction	Trading	Con- sumer	Mortgage	Other	2009
								Total
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	<u>71,559</u>	<u>1,287</u>	<u>1,292</u>	<u>20,962</u>	<u>1,139</u>	<u>7,926</u>	<u>24,735</u>	<u>128,900</u>
Collective impairment	<u>71,559</u>	<u>1,287</u>	<u>1,292</u>	<u>20,962</u>	<u>1,139</u>	<u>7,926</u>	<u>24,735</u>	<u>128,900</u>

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

In thousand Armenian drams	2010	2009
State owned enterprises	1,328,689	885,903
Privately held companies	9,033,250	7,333,974
Individuals	2,329,108	1,884,534
Sole proprietors	612,575	401,279
	<u>13,303,622</u>	<u>10,505,690</u>
Less allowance for loan impairment	(269,001)	(128,900)
Total loans and advances to customers	<u>13,034,621</u>	<u>10,376,790</u>

Loans to individuals comprise the following products:

In thousand Armenian drams	2010	2009
Trade loans	754,801	387,317
Mortgage loans	662,639	776,146
Consumer loans	179,828	87,795
Car loans	33,485	27,018
Other	698,355	606,258
Total loans and advances to individuals (gross)	<u>2,329,108</u>	<u>1,884,534</u>

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December 2010 are presented as follows:

In thousand Armenian drams	2010		2009	
	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	7,794	7,799	38,967	39,325
Total assets pledged and loans under reverse repurchase agreements	<u>7,794</u>	<u>7,799</u>	<u>38,967</u>	<u>39,325</u>

The finance lease receivables may be analyzed as follows:

In thousand Armenian drams	2010	2009
Gross investment in finance leases, receivable:		
Not later than 1 year	2,275	-
Later than 1 year and not later than 5 years	3,408	-
	<u>5,683</u>	
Unearned future finance income on finance leases	(1,186)	-
Net investment in finance leases	<u>4,497</u>	-

The allowance for uncollectable finance lease receivables included in the allowance for impairment amounted to AMD 44,0 thousand at 31 December 2010.

Implied interest rate of the lease amounts to 20 %.

At 31 December 2010 and 2009 the estimated fair value of loans and advances to customers approximates its carrying value. Refer to Note 30.

Maturity analysis of loans and advances to customers is disclosed in Note 32.

Credit, currency, liquidity and interest rate analyses of loans and advances to customers are disclosed in Note 33. The information on related party balances is disclosed in Note 29.

18 Investment securities available for sale

In thousand Armenian drams	2010	2009
Quoted investments		
Equity securities	16,522	21,956
State bonds of other countries	-	10,905
	<u>16,522</u>	<u>32,861</u>
Unquoted investments		
Shares of Armenian companies	54,651	60,572
Securities issued by the Ministry of Finance of Armenia	6,813,375	5,916,093
Corporate bonds of RA	462,526	762,407
	<u>7,330,552</u>	<u>6,739,072</u>
Total investments	<u>7,347,074</u>	<u>6,771,933</u>

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	2010		2009	
	%	Maturity	%	Maturity
Securities issued the Ministry of Finance of Armenia	12.00-14.04	2012-2014	7.88-13.90	2010-2028
Corporate bonds of RA	9.50-11.00	2011	9.00-12.00	2009-2011
State bonds of other countries	-	-	8.25	2011

The RA debt securities available for sale at fair value of AMD 5,320,918 thousand (2009: AMD 7,070,431 thousand are pledged to third parties for periods not exceeding three months. These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet (Note 26).

19 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Computers and communication means	Vehicles	Office equipment	Capital investments in fixed assets	Total
COST						
Cost at January 1, 2009	-	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)
Reclassification	551,825	-	-	-	(551,825)	-
At December 31, 2009	551,825	123,885	27,671	72,646	-	776,027
Additions	-	5,406	212	3,333	-	8,951
Disposals	-	(8,277)	-	(358)	-	(8,635)
At December 31, 2010	551,825	121,014	27,883	75,621	-	776,343
DEPRECIATION						
At January 1, 2009	-	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
Depreciation charge	18,394	21,034	4,370	14,146	-	57,944
Disposals	-	(8,277)	-	(331)	-	(8,608)
At December 31, 2010	24,525	76,285	22,635	33,030	-	156,475
CARRYING VALUE						
CARRYING VALUE at December 31, 2010	527,300	44,729	5,248	42,591	-	619,868
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 2010 fixed assets included fully depreciated and amortized assets **in cost** amount of AMD 50,001 thousand (2009: AMD 44,412 thousand).

20 Intangible assets

In thousand Armenian drams	Software	Total
COST		
At January 1, 2009	58,661	58,661
Additions	-	-
At December 31, 2009	58,661	58,661
Additions	15,030	15,030
At December 31, 2010	73,691	73,691
AMORTISATION		
At January 1, 2009	10,896	10,896
Amortisation charge	5,912	5,912
At December 31, 2009	16,808	16,808
Amortisation charge	6,529	6,529
At December 31, 2010	23,337	23,337
CARRYING VALUE		
At December 31, 2010	50,354	50,354
At December 31, 2009	41,853	41,853
At December 31, 2008	47,765	47,765

21 Other assets

In thousand Armenian drams	2010	2009
Prepayments and other debtors	24,624	7,637
Confiscated property	13,800	39,700
Other prepaid taxes	6,630	6,246
Materials	3,029	900
Other assets	143,150	-
Total other assets	191,233	54,483

As at December 31, 2010 other assets represent payment made for securities acquired by the Bank in the result of additional distribution of shares of “Artsakh” HPS. As at 31 December 2010 the acquisition of shares was not documented, the mentioned amount has been accounted as “other assets”.

22 Amounts due to the CBA

In thousand Armenian drams	2010	2009
Subordinate debt	2,007,990	2,007,990
Other loans and advances	637,531	630,672
Repurchase agreements	3,015,744	5,203,491
Total amounts due to financial institutions	5,661,265	7,842,153

Other loans and advances include loans at the amount of AMD 637,531 thousand received within the scope of loan project “Development of the renewable energies” of the German-Armenian fund (2009: AMD 630,672 thousand).

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 (2009: nil).

23 Amounts due to other financial institutions

In thousand Armenian drams	2010	2009
Loans under repurchase agreements	2,224,899	1,787,879
Correspondent accounts of other banks	1,671	3,114
Current accounts of other financial institutions	328,532	150,189
Loans and deposits from Banks and financial institutions	4,195,776	2,027,761
Loans from international financial institutions	1,186,012	-
Other amounts	-	705,177
Total amounts due to financial institutions	7,936,890	4,674,120

Loans from international financial institutions represent loans received within the scope of European Bank for Reconstruction and Development.

All deposits from banks have fixed interest rates.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2009: nil).

24 Amounts due to customers

In thousand Armenian drams	2010	2009
RA government		
Loans received from the RA government	1,048,447	308,725
Other liabilities	20,119	-
	1,068,566	308,725
Corporate customers		
Current/settlement accounts	1,684,661	1,204,926
Time deposits	6,184,767	4,486,387
Other liabilities	-	11,656
	7,869,428	5,702,969
Retail customers		
Current/settlement accounts	826,507	389,102
Time deposits	2,549,025	2,501,467
	3,375,532	2,890,569
Total amounts due to customers	12,313,526	8,902,263

Loans and deposits carry fixed interest rates.

Loans from the RA government include amounts received within the scope of “Accrediting economic stability” program.

As at 31 December 2010 included in amounts due to customers are deposits amounting to AMD 207,384 thousand held as security against loans and guarantees issued (2009: AMD 164,134 thousand). The fair value of those deposits approximates the carrying amount.

At 31 December 2010 the aggregate balance of top three customers of the Bank amounts to AMD 7,437,126 thousand (2009: AMD 5,609,457 thousand) or 66% of total customer accounts (2009: 65%). The information on related party balances is disclosed in Note 29.

25 Other liabilities

In thousand Armenian drams	2010	2009
Accounts payables	32,563	7,173
Tax payable, other than income tax	17,555	1,724
Accounts payables for factoring	10,686	53,820
Revenues of future periods	-	1,250
Due to personnel	21,382	15,945
Other	1,948	-
Total other liabilities	84,134	79,912

26 Securities pledged under repurchase agreements

In thousand Armenian drams	2010		2009	
	Asset	Liability	Asset	Liability
Investment securities available for sale (Note 18, 22,23)	5,320,918	7,070,431	5,240,643	6,991,370
	<u>5,320,918</u>	<u>7,070,431</u>	<u>5,240,643</u>	<u>6,991,370</u>

27 Equity

As at 31 December 2010 the Bank’s registered and paid-in share capital was AMD 7,002,000 thousand. In accordance with the Bank’s statutes, the share capital consists of 11,670 ordinary shares, all of which have a par value of AMD 600,0 each.

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

As at 31 December 2010, the Bank did not possess any of its own shares.

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.

28 Contingent liabilities and commitments

Tax and legal matters

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

Often tax authorities claim additional taxes for transactions and accounting methods, for which they did not claim previously. As a result additional fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include earlier periods.

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

As of 31 December 2010 and 2009 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	2010	2009
Undrawn loan commitments	1,430,245	761,078
Letters of credit	-	25,745
Guarantees	1,419,495	370,071
Total commitments and contingent liabilities	2,849,740	1,156,894

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. However, as at 31 December 2010 the Bank’s building and transportation are insured. The Bank possesses insurances for all banking liabilities, electronic or computer crimes and for professional responsibility. 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 4,000 thousand (up to AMD 2,000 thousand for deposits in foreign currency) for each individual in case of business failure and revocation of the banking license.

29 Transactions with related parties

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

The 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	2010		2009	
	Shareholders	Key management personnel	Shareholders	Key management personnel
Loans and advances to customers				
Loans outstanding at January 1, gross	-	274,413	-	187,493
Loans issued during the year	628,548	249,995	-	386,380
Loan repayments during the year	-	(252,614)	-	(299,460)
Loans outstanding at December 31, gross	628,548	271,794	-	274,413
Less: allowance for loan impairment	(6,285)	(2,718)	-	(2,744)
Loans outstanding at December 31	622,263	269,076	-	271,669
Interest income on loans	43,282	24,629	-	16,897
Impairment charge /(reversal) for credit losses	-	6,285	(26)	-
Amounts due to customers				
Deposits at January 1	5,606,206	83,381	6,085,808	69,038
Deposits received during the year	16,426,808	1,587,081	31,354,290	1,673,472
Deposits repaid during the year	(14,599,787)	(1,530,222)	(31,833,892)	(1,659,129)
Deposits at December 31	7,433,227	140,240	5,606,206	83,381
Interest expense on deposits	574,515	1,789	116,512	1,420
Amounts due from other financial institutions				
At January 1	331,508	-	1,043,921	-
Increase	3,572,821	-	5,813,935	-
Decrease	(3,158,355)	-	(6,526,348)	-
At December 31	745,974	-	331,508	-
Interest income	6,565	-	16,201	-
Amounts due to financial institutions				
At January 1	595	-	3,462	-
Increase	5,160,965	-	5,487,190	-
Decrease	(5,160,867)	-	(5,490,057)	-
At December 31	693	-	595	-
Interest expense	398	-	389	-
Guarantees issued	53,647	7,226	37,789	7,558
Other Income and expenses				
Fee and commission income	3,473	1,261	2,130	1,399
Other income	4	-	4	6

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2010	2009
Salaries and other short-term benefits	312,233	257,815
Social security costs	19,611	16,674
Total key management compensation	331,844	274,489

The loans issued to directors and other key management personnel are repayable from 2010 to 2024 and have interest rates of 12% (2009: 11%).

30 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	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS				
Cash and balances with CBA	4,040,968	4,040,968	2,030,121	2,030,121
Precious metals	153,785	153,785	-	-
Amounts due from financial institutions	4,368,441	4,368,441	2,595,767	2,595,767
Loans and advances to customers	13,034,621	13,034,621	10,376,790	10,376,790
Other assets	143,150	143,150	-	-
FINANCIAL LIABILITIES				
Amounts due to the CBA	5,661,265	5,661,265	7,842,153	7,842,153
Amounts due to financial institutions	7,936,890	7,936,890	4,674,120	4,674,120
Amounts due to customers	12,313,526	12,313,526	8,902,263	8,902,263

Amounts due from and to financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 9.5% 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.

31.1 Fair Value Hierarchy

The fair value hierarchy has the following three 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				2010
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Quoted securities and debentures	16,522	-	-	16,522
Unquoted equity investments	-	7,275,901	-	7,275,901
Securities pledged under repurchase agreements	-	5,320,918	-	5,320,918
Derivative financial assets	-	20,644	-	20,644
Total	16,522	12,617,463	-	12,633,985
FINANCIAL LIABILITIES				
Derivative financial assets	-	10,716	-	10,716
Total	-	10,716	-	10,716
Net fair value	16,522	12,606,747	-	12,623,269

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 18 for further information about this equity investment.

32 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 33.3 for the Bank’s contractual undiscounted repayment obligations.

In thousand Armenian
drams

2010

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Cash and balances with CBA	4,040,968	-	-	4,040,968	-	-	-	4,040,968
Precious metals	153,785	-	-	153,785	-	-	-	153,785
Amounts due from other financial institutions	4,235,457	8,046	96,591	4,340,094	28,347	-	28,347	4,368,441
Derivative financial instruments	20,644	-	-	20,644	-	-	-	20,644
Loans and advances to customers	127,283	819,573	3,587,737	4,534,593	7,570,414	929,614	8,500,028	13,034,621
Investments available for sale	223,321	462,526	-	685,847	2,572,541	4,088,686	6,661,227	7,347,074
Securities pledged under repurchase agreements	-	5,320,918	-	5,320,918	-	-	-	5,320,918
Other assets	143,150	-	-	143,150	-	-	-	143,150
	<u>8,944,608</u>	<u>6,611,063</u>	<u>3,684,328</u>	<u>19,239,999</u>	<u>10,171,302</u>	<u>5,018,300</u>	<u>15,189,602</u>	<u>34,429,601</u>
LIABILITIES								
Amounts due to the CBA	1,064,984	1,996,226	27,845	3,089,055	2,382,342	189,868	2,572,210	5,661,265
Amounts due to financial institutions	3,688,869	1,836,325	1,684,816	7,210,010	726,880	-	726,880	7,936,890
Derivative financial liabilities	10,716	-	-	10,716	-	-	-	10,716
Amounts due to customers	2,691,659	438,215	2,779,940	5,909,814	6,403,712	-	6,403,712	12,313,526
	<u>7,456,228</u>	<u>4,270,766</u>	<u>4,492,601</u>	<u>16,219,595</u>	<u>9,512,934</u>	<u>189,868</u>	<u>9,702,802</u>	<u>25,922,397</u>
Net position	<u>1,488,380</u>	<u>2,340,297</u>	<u>(808,273)</u>	<u>3,020,404</u>	<u>658,368</u>	<u>4,828,432</u>	<u>5,486,800</u>	<u>8,507,204</u>
Accumulated gap	<u>1,488,380</u>	<u>3,828,677</u>	<u>3,020,404</u>		<u>3,678,772</u>	<u>8,507,204</u>		

In thousand Armenian
drams

2009

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Cash and balances with CBA	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	1,097,843	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
	<u>11,477,735</u>	<u>1,190,265</u>	<u>1,925,122</u>	<u>14,593,122</u>	<u>13,267,942</u>	<u>983,978</u>	<u>14,251,920</u>	<u>28,845,042</u>
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
	<u>8,995,326</u>	<u>1,786,798</u>	<u>3,681,191</u>	<u>14,463,315</u>	<u>4,465,555</u>	<u>2,489,666</u>	<u>6,955,221</u>	<u>21,418,536</u>
Net position	<u>2,482,409</u>	<u>(596,533)</u>	<u>(1,756,069)</u>	<u>129,807</u>	<u>8,802,387</u>	<u>(1,505,688)</u>	<u>7,296,699</u>	<u>7,426,506</u>
Accumulated gap	<u>2,482,409</u>	<u>1,885,876</u>	<u>129,807</u>		<u>8,932,194</u>	<u>7,426,506</u>		

33 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.

33.1 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.

33.1.1 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 2010 and 2009, 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, 2010	Gross maximum exposure as of December 31, 2009
Balances with CBA	13	3,649,979	1,727,214
Precious metals	14	153,785	-
Amounts due from other financial institutions	15	4,368,441	2,595,767
Derivative financial assets	16	20,644	-
Loans and advances to customers	17	13,034,621	10,376,790
Investments available for sale	18	7,347,074	6,771,933
Securities pledged under repurchase agreements	26	5,320,918	7,070,431
Other assets	21	143,150	-
Total		34,038,612	28,542,135
Commitments and contingent liabilities	28	2,849,740	1,156,894
Total credit risk exposure		36,888,352	29,699,029

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.

33.1.2 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	3,649,979	-	-	3,649,979
Precious metals	153,785	-	-	153,785
Amounts due from other financial institutions	3,373,342	177,270	817,829	4,368,441
Derivative financial assets	11,418	9,226	-	20,644
Loans and advances to customers	12,455,418	56,817	522,386	13,034,621
Investments available for sale	7,330,552	-	16,522	7,347,074
Securities pledged under repurchase agreements	5,320,918	-	-	5,320,918
Other assets	143,150	-	-	143,150
As at 31 December 2010	32,438,562	243,313	1,356,737	34,038,612
As at 31 December 2009	27,772,724	345,908	423,503	28,542,135

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 2010 and 31 December 2009.

In thousand Armenian drams	Financial institutions	Manufacturing	Agriculture	Construction	Trading	Consumer sector	Mortgage	Other	Total
Balances with CBA	3,649,979	-	-	-	-	-	-	-	3,649,979
Precious metals	153,785	-	-	-	-	-	-	-	153,785
Amounts due from other financial institutions	4,368,441	-	-	-	-	-	-	-	4,368,441
Derivative financial assets	20,635	-	-	-	-	-	-	9	20,644
Loans and advances to customers	-	5,006,423	1,342,174	957,378	1,747,202	212,286	835,740	2,933,418	13,034,621
Investments available for sale	6,829,897	334,799	-	-	162,803	-	-	19,575	7,347,074
Securities pledged under repurchase agreements	5,320,918	-	-	-	-	-	-	-	5,320,918
	-	143,150	-	-	-	-	-	-	143,150
As at 31 December 2010	20,343,655	5,484,372	1,342,174	957,378	1,910,005	212,286	835,740	2,953,002	34,038,612
As at 31 December 2009	17,568,407	5,055,779	127,468	127,904	2,296,827	112,752	784,628	2,468,370	28,542,135

33.1.3 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	2010	2009
Loans collateralized by real estate	9,538,749	7,568,834
Loans collateralized by movable property	75,462	486,913
Loans collateralized by Armenian Government guarantees	2,175,748	1,301,953
Loans collateralized by guarantees of financial institutions	1,042,364	329,413
Loans collateralized by shares of other companies	298,017	471,568
Loans collateralized by cash	111,196	64,087
Other collateral	62,086	282,922
Total loans and advances to customers (gross)	13,303,622	10,505,690

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.

33.1.4 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	2010	2009
Loans and advances to customers		
Manufacture	0.5%	1.5%
Trade	0.8%	-

As of 31.12.10 and 31.12.09 the Bank has not had any losses on other financial assets bearing credit risk.

Past due, but not impaired loans

Past due loans and advances include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired. Analysis of past due loans by age and by class is provided below.

In thousand Armenian drams					2010
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacture	-	-	-	1,103	1,103
Total	-	-	-	1,103	1,103

The fair value of collateral that the Bank holds relating to past due loans at 31 December 2010 amounts to AMD 11,040 thousand. (2009: nil). The collateral consists of real estate and other fixed assets.

In 2009 the Bank has not had any past due loans.

Loans and advances individually impaired

The total gross amount of individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is AMD 1,300,730 thousand (2009: nil). The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2010 amounts to AMD 2,988,809 thousand. (2009: nil). The collateral consists of real estate, shares and other fixed assets.

Renegotiated loans

As of 31.12.10 and 31.12.09 the Bank has not had any renegotiated loans.

33.2 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.

33.2.1 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 following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank’s income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2010, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, at 31 December 2010 for the effects of the assumed changes in interest rates.

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

2010

Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity				Total
			Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	
AMD	+1	-	(165)	(761)	(27,311)	(5,500)	(33,737)
USD	+1	-	(2)	-	-	-	(2)
AMD	(1)	-	165	763	27,471	5,575	33,974
USD	(1)	-	2	-	-	-	(2)

In thousand Armenian drams

2009

Currency	Change in basis points	Sensitivity of net interest income	Sensitivity of equity				Total
			Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	
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

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 2010 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	Currency	2010		2009	
		Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD		8	(15,164)	10	9,317
EUR		8	206	10	1,277

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies/ Precious metals	Non-freely convertible currencies	Total
ASSETS				
Cash and balances with the CBA	828,488	3,195,450	17,030	4,040,968
Precious metals	-	150,584	3,201	153,785
Amounts due from other financial institutions	3,020,528	1,283,397	64,516	4,368,441
Derivative financial assets	9	20,635	-	20,644
Loans and advances to customers	4,212,690	8,804,620	17,311	13,034,621
Investments available for sale	7,330,552	16,522	-	7,347,074
Securities pledged under repurchase agreements	5,320,918	-	-	5,320,918
Other assets	143,150	-	-	143,150
	20,856,335	13,471,208	102,058	34,429,601
LIABILITIES				
Amounts due to the CBA	5,661,265	-	-	5,661,265
Amounts due to financial institutions	3,814,867	4,122,023	-	7,936,890
Derivative financial liabilities	2,865	7,851	-	10,716
Amounts due to customers	2,225,597	10,021,624	66,305	12,313,526
	11,704,594	14,151,498	66,305	25,922,397
Net position as at 31 December 2010	9,151,741	(680,290)	35,753	8,507,204
Commitments and contingent liabilities as at 31 December 2010	1,818,438	549,281	482,021	2,849,740
Total financial assets	20,365,963	8,436,896	42,183	28,845,042
Total financial liabilities	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

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.

33.3 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 2010 based on contractual undiscounted repayment obligations. See note 32 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						2010
	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
NON-DERIVATIVE FINANCIAL LIABILITIES						
Amounts due to the CBA	1,271,305	2,019,662	156,441	2,869,529	209,743	6,526,680
Amounts due to financial institutions	3,712,427	1,848,053	1,695,576	731,522	-	7,987,578
Amounts due to customers	2,706,017	447,603	2,976,149	6,823,161	-	12,952,930
Total undiscounted non-derivative financial liabilities	<u>7,689,749</u>	<u>4,315,318</u>	<u>4,828,166</u>	<u>10,424,212</u>	<u>209,743</u>	<u>27,467,188</u>
Derivative financial liabilities						
Currency swap contracts						
Inflow	3,160,825	-	-	-	-	3,160,825
Outflow	3,160,613	-	-	-	-	3,160,613
Commitments and contingent liabilities	<u>1,438,492</u>	<u>583,930</u>	<u>93,224</u>	<u>734,094</u>	<u>-</u>	<u>2,849,740</u>

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	
NON-DERIVATIVE 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 non-derivative financial liabilities	<u>9,037,979</u>	<u>1,815,426</u>	<u>3,835,037</u>	<u>5,542,928</u>	<u>3,701,848</u>	<u>23,933,218</u>	
Commitments and contingent liabilities	<u>761,078</u>	<u>138,082</u>	<u>101,892</u>	<u>155,842</u>	<u>-</u>	<u>1,156,894</u>	

34 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.

As of 31 December 2010 and 2009 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

In thousand Armenian drams	2010	2009
Tier 1 capital	8,877,620	8,021,415
Tier 2 capital	927,525	1,679,981
Total regulatory capital	9,805,145	9,701,396
Risk-weighted assets	28,162,237	24,151,497
Capital adequacy ratio	34.81%	40.16%

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.

35 Off balance sheet events

- According to the minute N 01-2011 taken at the extraordinary general meeting of the shareholder on 15 January 2011 a decision was made on the capital replenishment in the amount of AMD 1,998,000 thousand by establishing a capital of AMD nine billion. According to the minute of the meeting the additional distribution of shares must be carried out until March 31st. As a result of the distribution the overall quantity of the shares will comprise fifteen thousand ordinary shares. Vardan Sirmakes will continue to remain the ultimate owner of these shares.
- On 26 January 2011 the RA Central depository has approved the acquisition transaction of shares issued by “Artsakh” HPS by the Bank. The prepayment for the mentioned transaction is presented in note 21.

