Financial Statements and Independent Auditor's Report

“Armbusinessbank” closed joint stock company

31 December 2010

Contents

Statement of comprehensive income

In thousand Armenian drams	Notes	Year ended December 31, 2010	Year ended December 31, 2009
Interest and similar income	6	**10,427,671**	6,279,733
Interest and similar expense	6	**(5,806,968)**	(3,150,814)
Net interest income		**4,620,703**	3,128,919
Fee and commission income	7	**1,119,149**	903,246
Fee and commission expense	7	**(263,477)**	(213,865)
Net fee and commission income		**855,672**	689,381
Net trading income	8	**1,368,564**	2,083,934
Gains less losses on investments available for sale		**56,302**	(54,227)
Other income	9	**36,060**	24,983
Impairment charge for credit losses	10	**(1,557,985)**	(1,071,263)
Impairment charge for financial investments		**(295)**	(918)
Staff costs	11	**(1,512,943)**	(1,041,407)
Depreciation of property and equipment	19	**(637,069)**	(427,059)
Amortization of intangible assets	20	**(37,883)**	(39,872)
Foreign currency translation net loss of non-trading assets and liabilities		**(60,904)**	(1,111,481)
Other expenses	12	**(1,406,166)**	(876,297)
Profit before income tax		**1,724,056**	1,304,693
Income tax expense	13	**(400,944)**	(482,483)
Profit for the year		**1,323,112**	822,210
Other comprehensive income:			
Net unrealized gains/ (losses) from changes in fair value of investments available-for-sale		**75,773**	(52,350)
Net (gains)/losses realized to net profit on disposal of available-for-sale instruments		**(61,887)**	50,940
Income tax relating to components of other comprehensive income		**(2,777)**	282
Other comprehensive income for the year, net of tax		**11,109**	(1,128)
Total comprehensive income for the year		**1,334,221**	821,082

The accompanying notes on pages 7 to 53 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	14	**13,046,849**	12,475,646
Amounts due from other financial institutions	15	**1,688,133**	3,665,570
Derivative financial assets	16	**870,584**	488,018
Loans and advances to customers	17	**77,205,248**	59,688,133
Investments available for sale	18	**2,015,109**	1,341,474
Investments held to maturity	18	**51,805**	103,611
Securities pledged under repurchase agreements	28	**2,431,251**	-
Property, plant and equipment	19	**7,676,763**	4,635,524
Intangible assets	20	**213,081**	196,951
Deferred tax asset	13	**65,497**	72,802
Assets held for trading		**1,450,357**	436,201
Other assets	21	**10,342,300**	9,817,875
TOTAL ASSETS		**117,056,977**	92,921,805
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the CBA	22	**9,946,240**	9,773,826
Derivative financial liabilities	16	**30,425**	23,442
Amounts due to other financial institutions	23	**21,872,933**	13,670,791
Amounts due to customers	24	**60,075,899**	43,968,861
Financial liabilities held for trading	25	**7,362,308**	8,794,803
Current income tax liabilities		**-**	375,284
Other liabilities	26	**253,945**	133,792
Total liabilities		**99,541,750**	76,740,799
Equity			
Share capital	29	**13,450,000**	13,450,000
Statutory general reserve		**198,533**	157,422
Other reserves		**13,455**	2,346
Retained earnings		**3,853,239**	2,571,238
Total equity		**17,515,227**	16,181,006
TOTAL LIABILITIES AND EQUITY		**117,056,977**	92,921,805

The financial statements from pages 3 to 53 were signed by the Bank’s Chairman of the Executive Board and Chief Accountant on 18 April 2011. The accompanying notes on pages 7 to 53 are an integral part of these financial statements.

Ara Kirakosyan
Chairman of the Executive Board

Ruzan Khachatryan
Chief accountant

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Revaluation reserve of investments available for sale	Retained earnings	Total
Balance as of January 1, 2009	5,000,000	118,505	3,474	1,787,945	6,909,924
Increase in share capital	8,450,000	-	-	-	8,450,000
Distribution to reserve	-	38,917	-	(38,917)	-
Transactions with owners	8,450,000	38,917	-	(38,917)	8,450,000
Profit for the year	-	-	-	822,210	822,210
Other comprehensive income:					
Net unrealized loss from changes in fair value of investments available-for-sale	-	-	(52,350)	-	(52,350)
Net losses realized to net profit on disposal of available-for-sale instruments	-	-	50,940	-	50,940
Income tax relating to components of other comprehensive income	-	-	282	-	282
Total comprehensive income for the year	-	-	(1,128)	822,210	821,082
Balance as of December 31, 2009	**13,450,000**	**157,422**	**2,346**	**2,571,238**	**16,181,006**
Distribution to reserve	**-**	**41,111**	**-**	**(41,111)**	**-**
Transactions with owners		**41,111**		**(41,111)**	**-**
Profit for the year	**-**	**-**	**-**	**1,323,112**	**1,323,112**
Other comprehensive income:					
Net unrealized gain from changes in fair value of investments available-for-sale	**-**	**-**	**75,773**	**-**	**75,773**
Net gains realized to net profit on disposal of available-for-sale instruments	**-**	**-**	**(61,887)**	**-**	**(61,887)**
Income tax relating to components of other comprehensive income	**-**	**-**	**(2,777)**	**-**	**(2,777)**
Total comprehensive income for the year	**-**	**-**	**11,109**	**1,323,112**	**1,334,221**
Balance as of December 31, 2010	**13,450,000**	**198,533**	**13,455**	**3,853,239**	**17,515,227**

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	**1,724,056**	1,304,693
Adjustments for:		
Impairment charge for credit losses	**1,557,985**	1,071,263
Amortization and depreciation allowances	**674,952**	466,931
Gain from disposal of PPE	**(130)**	(349)
Foreign currency translation net loss of non-trading assets and liabilities	**60,904**	1,111,481
Recovery of loans previously written off	**99,261**	4,028
Interests receivable	**(125,996)**	(213,196)
Interests payable	**94,017**	(171,802)
Cash flows from operating activities before changes in operating assets and liabilities	**4,085,049**	3,573,049
(Increase)/decrease in operating assets		
Amounts due from the CBA	**(404,935)**	(18,077)
Amounts due from other financial institutions	**(543,036)**	423,098
Loans and advances to customers	**(22,307,768)**	(33,527,626)
Other assets	**(550,544)**	(9,366,046)
Derivative financial assets	**(382,566)**	(488,018)
Amounts due to the CBA	**-**	(3,804,505)
Amounts due to financial institutions	**3,322,344**	(1,458,710)
Amounts due to customers	**18,902,658**	17,936,018
Financial liabilities held for trading	**(1,432,495)**	7,980,304
Derivative financial liabilities	**6,983**	23,442
Other liabilities	**605,429**	56,616
Net cash flow from/(used in) operating activities before income tax	**1,301,119**	(18,670,455)
Income tax paid	**(771,700)**	(263,064)
Net cash from/(used in) operating activities	**529,419**	(18,933,519)
Cash flows from investing activities		
(Purchase)/sale of investment securities	**(3,026,552)**	2,858,954
Purchase of property and equipment	**(3,713,113)**	(1,805,837)
Proceeds from sale of property and equipment	**34,935**	16,159
Purchase of intangible assets	**(54,013)**	(137,424)
Net cash from/ (used) in investing activities	**(6,758,743)**	931,852
Cash flow from financing activities		
Proceeds from issue of share capital	**-**	8,450,000
Loans received from the CBA	**176,812**	9,232,378
Loans received from financial institutions	**4,891,050**	6,388,256
Net cash flow from financing activities	**5,067,862**	24,070,634
Net increase/(decrease) in cash and cash equivalents	**(1,161,462)**	6,068,967
Cash and cash equivalents at the beginning of the year	**15,317,239**	7,220,301
Exchange differences on cash and cash equivalents	**(214,969)**	2,027,971
Cash and cash equivalents at the end of the year (Note 14)	**13,940,808**	15,317,239
Supplementary information:		
Interest received	**10,514,871**	6,139,572
Interest paid	**(5,884,753)**	(3,220,893)

Accompanying notes to the financial statements

1 Principal activities

“Armbusinessbank” CJSC (previous “Hayinvestbank” CJSC) (the “Bank”) is a closed joint-stock company, which was incorporated in the Republic of Armenia in 1991. The Bank is regulated by the legislation of RA and conducts its business under license number 40, granted on 10 December, 1991 by the Central Bank of Armenia (the “CBA”).

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

The Bank’s main office and its 10 branches are located in Yerevan, 9 branches are located in different regions of Armenia and 6 branches are located in the Republic of Nagorno Karabakh. The registered office of the Bank is located at: 48 Nalbandyan Street, Yerevan.

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 IFRS. 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.

With the purpose of ensuring the comparability, cash and balances in the CBA, amounts due from other financial institutions and other assets were offset with amounts due to the CBA, amounts due to financial institutions and other liabilities in the amount of AMD 13,085,561 thousand with regard to mutually placed and received deposits, and the remaining balances are accounted as derivative financial assets in the amount of AMD 488,018 thousand and derivative financial liabilities in the amount of AMD 23,442 thousand (Note 16).

In addition, amounts due to the CBA in the amount of AMD 1,661,254 thousand has been reclassified to loans received from the RA Government (Note 22, 24).

3.5 Standards and Interpretations not yet applied by the Bank

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

Management anticipates that all of the pronouncements will be adopted in the Bank’s accounting policy for the first period beginning after the 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 thoise 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 entirely 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 entirely.

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 75,773 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 (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks, which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

4.5 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.

4.6 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.

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

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than insignificant amount of held-to-maturity assets not close to their maturity, the entire category would be reclassified as available-for-sale. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

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.

4.7 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 amortization) and its current fair value, less any impairment loss previously recognized in the statement on income, is transferred from equity to the statement of income. Reversals of impairment in respect of equity instruments classified as available-for-sale are not recognized in the statement of income but accounted for in other comprehensive income in a separate component of equity. Reversals of impairment losses on debt instruments are reversed through the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

4.8 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.

4.9 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.

4.10 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".

4.11 Leases

Operating - Bank as leasee

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

4.12 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. Land is carried at historical cost. It has unlimited useful life and thus is not depreciated.

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	20	5
Computers	3-5	33-20
Vehicles	7	14
Office equipments	8	13
Other fixed assets	10	10

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property plant and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

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.

4.13 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 15 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.

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

4.14 Assets held for sale

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

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

4.15 Grants

Grants relating to the assets are included in other liabilities and are credited to the income statement on a straight line basis over the expected lives of the related assets.

4.16 Borrowings

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

4.17 Pensions

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

4.18 Financial guarantees

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

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

4.19 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.

4.20 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.

4.21 Offsetting

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

5 Critical accounting estimates and judgements

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

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

Classification of investment securities

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

Related party transactions

In the normal course of business the Bank enters into transactions with its related parties. 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 other advances

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

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

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 30.

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	**9,012,538**	5,400,559
Debt securities available-for-sale	**195,782**	203,184
Debt securities held to maturity	**9,195**	12,019
Amounts due from other financial institutions	**5,100**	11,355
Reverse repurchase transactions	**879,381**	385,330
Other interest income	**8,488**	1,317
Interest accrued on impaired financial assets	**317,187**	265,969
Total interest and similar income	**10,427,671**	6,279,733
Amounts due to customers	**3,049,123**	1,747,351
Amounts due to the CBA and financial institutions	**2,246,492**	1,182,588
Repurchase transactions	**508,736**	220,875
Other interest expenses	**2,617**	-
Total interest and similar expense	**5,806,968**	3,150,814

7 Fee and commission income and expense

In thousand Armenian drams	2010	2009
Cash operations	**178,188**	169,178
Wire transfer fees	**408,132**	310,147
Plastic cards operations	**192,408**	133,001
Service fee for account maintenance of Municipal and State budgets	**1,194**	2,124
Guarantees and letters of credit	**287,657**	228,884
Other fees and commissions	**51,570**	59,912
Total fee and commission income	**1,119,149**	903,246

In thousand Armenian drams	2010	2009
Wire transfer fees	**165,805**	127,724
Cash collection	**22,405**	27,350
Other expenses	**75,267**	58,791
Total fee and commission expense	**263,477**	213,865

8 Net trading income

In thousand Armenian drams	2010	2009
Net loss from financial liabilities held for trading	**(71,047)**	(1,034)
Net income from trading in foreign currency	**579,528**	1,042,123
Net income from derivative instruments	**860,083**	1,042,845
Total net trading income	**1,368,564**	2,083,934

9 Other income

In thousand Armenian drams	2010	2009
Income from sale of fixed assets	**130**	349
Fines and penalties received	**52**	6,426
Income from grants related to assets	**82**	82
Income from account closing	**9,541**	5,152
Other income	**26,255**	12,974
Total other income	**36,060**	24,983

10 Impairment charge/(reversal) for credit losses

In thousand Armenian drams	2010	2009
Amounts due from other financial institutions (Note 15)	**(20,154)**	45,574
Loans and advances to customers (Note 17)	**1,491,277**	947,857
Guarantees and other credit related commitments (Note 27)	**-**	(53,454)
Other assets (Note 21)	**86,862**	131,286
Total impairment charge for credit losses	**1,557,985**	1,071,263

11 Staff costs

In thousand Armenian drams	2010	2009
Wages and salaries	**1,372,011**	938,631
Social security contributions	**140,932**	102,776
Total staff costs	**1,512,943**	1,041,407

12 Other expenses

In thousand Armenian drams	2010	2009
Repair and maintenance of fixed assets	**248,675**	141,125
Advertising costs	**113,670**	111,291
Business trip expenses	**38,860**	31,280
Communications	**98,565**	86,952
Operating lease	**64,185**	96,117
Taxes, other than income tax, duties	**125,442**	101,745
Consulting and other services	**21,968**	31,776
Security	**97,727**	85,320
Representative expenses	**51,983**	54,827
Office supplies	**51,518**	36,634
Loss from disposal of confiscated property	**310,380**	-
Penalties paid	**3,481**	3,082
Other expenses	**179,712**	96,148
Total other expense	**1,406,166**	876,297

13 Income tax expense

In thousand Armenian drams	**2010**	2009
Current tax expense	**396,416**	552,231
Deferred tax	**4,528**	(69,748)
Total income tax expense	**400,944**	482,483

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	**1,724,056**		1,304,693	
Income tax at the rate of 20%	**344,811**	**20**	260,939	20
Non-taxable income	**-**	**-**	(12,839)	(1)
Non-deductible expenses	**43,952**	**2**	12,087	1
Foreign exchange losses	**12,181**	**1**	222,296	17
Income tax expense	**400,944**	**23**	482,483	37

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2009	Recognized in comprehensive income statement	Recognized in equity	**2010**
Other liabilities	**19,907**	**(3,901)**	**-**	**16,006**
Other assets	**87,633**	**(48,416)**	**-**	**39,217**
Impairment of investments available-for-sale	**659**	**(659)**	**-**	**-**
Amounts due from other financial institutions	**3,604**	**(3,604)**	**-**	**-**
Loans and advances to customers	-	**107,746**	**-**	**107,746**
Total deferred tax assets	**111,803**	**51,166**	**-**	**162,969**
Loans and advances to customers	**(13,323)**	**(14,118)**	**-**	**(27,441)**
Provisions	**(25,091)**	**(41,576)**	**-**	**(66,667)**
Adjustment of fair value of securities	**(587)**	**-**	**(2,777)**	**(3,364)**
Total deferred tax liability	**(39,001)**	**(55,694)**	**(2,777)**	**(97,472)**
Net deferred tax asset	**72,802**	**(4,528)**	**(2,777)**	**65,497**

In thousand Armenian drams	2008	Recognized in comprehensive income statement	Recognized in equity	**2009**
Other liabilities	10,025	9,882	-	19,907
Other assets	-	87,633	-	87,633
Impairment of investments available-for-sale	-	659	-	659
Amounts due from other financial institutions	-	3,604	-	3,604
Total deferred tax assets	10,025	101,778	-	111,803
Loans and advances to customers	(2,774)	(10,549)	-	(13,323)
Provisions	(3,610)	(21,481)	-	(25,091)
Adjustment of fair value of securities	(869)	-	282	(587)
Total deferred tax liability	(7,253)	(32,030)	282	(39,001)
Net deferred tax asset	2,772	69,748	282	72,802

14 Cash, cash equivalents and balances with CBA

In thousand Armenian drams	**2010**	2009
Cash on hand	**3,590,104**	2,399,119
Correspondent account with the CBA	**8,716,382**	9,741,099
Included in cash and cash equivalents	**12,306,486**	12,140,218
Deposits with the CBA	**740,363**	335,428
Total cash and balances with the CBA	**13,046,849**	12,475,646
Cash and balances with the CBA, included in cash flow	**12,306,486**	12,140,218
Placements with other banks (Note 15)	**1,634,322**	3,177,021
Total cash and cash equivalents	**13,940,808**	15,317,239

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 7,122,730 thousand (2009: AMD 4,905,356 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Cash on hand, correspondent account, deposited funds with CBA and mandatory reserve deposits are non-interest bearing.

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

The following non-cash transactions took place in 2010:

- repayment of AMD 1,895,915 thousand loan by foreclosure of property (2009: AMD 389,511 thousand)

15 Amounts due from other financial institutions

In thousand Armenian drams	2010	2009
Correspondent accounts with financial institutions	**1,632,879**	3,177,021
Other accounts	**1,443**	-
Included in cash and cash equivalents	**1,634,322**	3,177,021
Deposited funds in financial institutions	**70,848**	525,740
	70,848	525,740
Less allowance for impairment	**(17,037)**	(37,191)
Total amounts due from other financial institutions	**1,688,133**	3,665,570

As at 31 December 2010 the amounts due from other financial institutions in amounts of AMD 1,415,674 thousand (84%) were due from four banks, which represent significant concentration (2009: AMD 3,423,310 thousand (93%) were due from one bank).

As at 31 December 2010 the deposit accounts with financial institutions include guarantee amounts provided by the Bank for its operations through Master Card payment system in the amount of AMD 48,881 thousand (2009: AMD 47,194 thousand), as well as frozen accounts in non-resident Banks with regard to letters of credit provided by the Bank in the amount of AMD 21,967 thousand (2009: AMD 478,546 thousand).

The movement in allowance for impairment losses on amounts due from other financial institutions was as follows:

In thousand Armenian drams	Total
At January 1, 2009	9,637
Charge for the year	45,574
Amounts written off	(18,020)
At December 31, 2009	**37,191**
Reversal for the year	**(20,154)**
At December 31, 2010	**17,037**

16 Derivative financial instruments

The fair values of derivative instruments held are set out below.

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 – foreign	**8,588,087**	**842,059**	**-**	9,451,029	488,018	-
Swaps - domestic	**4,080,023**	**28,525**	**30,425**	3,776,513	-	23,442
Total derivative financial instruments	**12,668,110**	**870,584**	**30,425**	13,227,542	488,018	23,442

17 Loans and advances to customers

In thousand Armenian drams	2010	2009
Loans to customers	**68,757,505**	50,163,205
Reverse repurchase agreements	**9,135,448**	9,689,678
Leasing	**3,369**	4,025
Guarantee payments	**43,214**	102,505
Overdrafts	**921,735**	806,707
	78,861,271	60,766,120
Less allowance for loan impairment	**(1,656,023)**	(1,077,987)
Total loans and advances to customers	**77,205,248**	59,688,133

As of December 31, 2010, the Bank had a concentration of loans represented by AMD 16,273,016 thousand due from the ten largest third party entities and parties related with them (20.1% of gross loan portfolio) (2009: AMD 19,163,770 thousand due from ten largest third party entities and parties related with them or 31.5%). An allowance of AMD 162,730 thousand (2009: AMD 96,138 thousand) was made against these loans.

As of December 31, 2010, the Bank had a concentration of loan portfolio represented by AMD 13,493,071 thousand (2009: AMD 14,142,308 thousand) with regard to shareholders and organizations collaborating with them (17.1 % of the gross loan portfolio) (2009: 23.3%). An allowance of AMD 443,178 thousand was made against these loans (2009: AMD 44,526 thousand). The Management believes that the repayments of these loans will be made within terms set by contracts.

Analysis of loans and advances to customers by industry sectors is presented below:

In thousand Armenian drams	2010	2009
Manufacturing	**9,165,678**	3,725,960
Construction	**16,211,821**	12,627,823
Trading	**10,404,819**	8,114,895
Consumer	**5,153,830**	4,649,000
Agriculture	**2,659,898**	1,469,843
Mortgage loans	**9,115,195**	5,090,398
Other	**26,150,030**	25,088,201
	78,861,271	60,766,120
Less allowance for impairment	**(1,656,023)**	(1,077,987)
Total loans and advances to customers	**77,205,248**	59,688,133

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

In thousand Armenian drams	Manufacture	Const-ruction	Trading	Consumer	Agriculture	Mort-gage	Other	Total
								2010
At 1 January 2010	**50,637**	**193,050**	**342,270**	**124,676**	**39,287**	**166,427**	**161,640**	**1,077,987**
Charge for the year	**155,948**	**157,158**	**387,746**	**211,566**	**121,612**	**250,044**	**207,203**	**1,491,277**
Amounts written off	**(32,377)**	**(82,677)**	**(186,219)**	**(262,730)**	**(107,049)**	**(280,476)**	**(59,417)**	**(1,010,945)**
Recoveries	**-**	**-**	**50,150**	**36,912**	**-**	**-**	**10,642**	**97,704**
At 31 December 2010	**174,208**	**267,531**	**593,947**	**110,424**	**53,850**	**135,995**	**320,068**	**1,656,023**
Individual impairment	**66,425**	**79,602**	**476,717**	**36,269**	**20,275**	**23,322**	**119,318**	**821,928**
Collective impairment	**107,783**	**187,929**	**117,230**	**74,155**	**33,575**	**112,673**	**200,750**	**834,095**
	174,208	**267,531**	**593,947**	**110,424**	**53,850**	**135,995**	**320,068**	**1,656,023**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**157,688**	**570,829**	**986,717**	**164,439**	**62,480**	**134,281**	**292,600**	**2,369,034**

In thousand Armenian drams	Manufacture	Const-ruction	Trading	Consumer	Agriculture	Mort-gage	Other	Total
								2009
At 1 January 2009	83,284	46,094	81,005	74,763	5,294	33,418	63,634	387,492
Charge/(Reversal) for the year	(32,647)	146,956	291,800	200,013	49,915	175,068	116,752	947,857
Amounts written off	-	-	(30,535)	(154,103)	(15,922)	(42,059)	(18,749)	(261,368)
Recoveries	-	-		4,003	-	-	3	4,006
At 31 December 2009	50,637	193,050	342,270	124,676	39,287	166,427	161,640	1,077,987
Individual impairment	15,206	71,825	272,589	82,014	25,701	117,820	13,734	598,889
Collective impairment	35,431	121,225	69,681	42,662	13,586	48,607	147,906	479,098
	50,637	193,050	342,270	124,676	39,287	166,427	161,640	1,077,987
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	145,807	388,374	1,293,459	403,531	158,639	275,753	22,548	2,688,111

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

In thousand Armenian drams	**2010**	2009
State owned enterprises	**1,279,972**	1,281,064
Privately held companies	**56,239,529**	45,285,091
Individuals	**17,550,574**	11,662,184
Sole proprietors	**2,437,496**	2,052,600
Non-profit organizations	**1,353,700**	485,181
	78,861,271	60,766,120
Less allowance for loan impairment	**(1,656,023)**	(1,077,987)
Total loans and advances to customers	**77,205,248**	59,688,133

Loans to individuals comprise the following products:

In thousand Armenian drams	**2010**	2009
Agriculture	**1,175,922**	788,669
Car loans	**436,391**	998,332
Mortgage	**9,013,346**	5,132,543
Consumer	**4,744,774**	2,720,782
Other	**2,180,141**	2,021,858
Total loans and advances to individuals	**17,550,574**	11,662,184

The Bank accepted securities as collateral for commercial loans, which is permitted to sell or repledge.

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

In thousand Armenian drams		**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	**8,552,242**	**9,135,448**	9,168,694	9,689,678
Total assets pledged and loans under reverse repurchase agreements	**8,552,242**	**9,135,448**	9,168,694	9,689,678

As of 31 December 2010 out of total accepted securities AMD 7,362,308 thousand (2009: AMD 8,794,803 thousand) were repledged or lent to third parties for periods not exceeding one month from the transfer (Note 25).

At 31 December 2010 and at 31 December 2009 the estimated fair value of loans and advances to customers approximates it carrying value. Refer to Note 32.

Credit, currency, liquidity and interest rate analyses of loans and advances to customers are disclosed in Note 34. The information on related party balances is disclosed in Note 31.

Maturity analysis of loans and advances to customers is disclosed in Note 33.

18 Investment securities

			2010			2009
In thousand Armenian drams	**Available-for-sale**	**Held-to-maturity**	**Total**	Available-for-sale	Held-to-maturity	Total
Unquoted investments						
Shares of Armenian companies	**12,045**	**-**	**12,045**	12,340	-	12,340
Securities issued by the Ministry of Finance of Armenia	**2,003,064**	**-**	**2,003,064**	1,329,134	-	1,329,134
RA corporate bonds	**-**	**51,805**	**51,805**	-	103,611	103,611
Total investments	**2,015,109**	**51,805**	**2,066,914**	1,341,474	103,611	1,445,085

All debt securities have fixed coupons.

The Bank has not reclassified any financial assets measured at amortised cost rather than fair value during the year (2009: either).

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

Available for sale debt securities at fair value in the amount of AMD 2,431,251 thousand (2009:nil) were sold to third parties on reverse repurchase agreements for periods not exceeding three months. These securities were classified as securities pledged under repurchase agreements on the face of the balance sheet (Note 28).

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

In thousand Armenian drams		**2010**		2009
	%	**Maturity**	%	Maturity
Securities issued by the Ministry of Finance of Armenia	**7.5-13.5%**	**2011-2028**	7.1-13 %	2010-2015

Held-to-maturity investments

In thousand Armenian drams	**2010**	2009
Nominal value	**50,000**	100,000
Accrued interest	**1,805**	3,611
Total investments held to maturity	**51,805**	103,611

Held-to-maturity securities upon profitability and maturity terms:

In thousand Armenian drams		**2010**		2009
	%	**Maturity**	%	Maturity
RA corporate bonds	**11**	**2011**	11	2011

19 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Machinery and equipment	Vehicles	Fixtures and fittings	Assets under construc tion	Lease-hold improve-ments	Other fixed assets	Total
COST								
Cost at January 1, 2009	1,469,498	1,319,845	235,786	162,255	207,746	75,267	205,784	3,676,181
Additions	218,976	249,178	15,800	115,113	1,075,513	-	131,257	1,805,837
Disposals	-	(2,252)	(28,325)	(16,727)	-	-	(7,408)	(54,712)
At December 31, 2009	**1,688,474**	**1,566,771**	**223,261**	**260,641**	**1,283,259**	**75,267**	**329,633**	**5,427,306**
Additions	**3,086,156**	**145,862**	**35,679**	**39,286**	**275,301**	**12,571**	**118,258**	**3,713,113**
Disposals	**-**	**(13,751)**	**-**	**(5,252)**	**-**	**(64,336)**	**(28,273)**	**(111,612)**
Reclassifications	**1,469,914**	**-**	**-**	**-**	**(1,469,914)**	**-**	**-**	**-**
At December 31, 2010	**6,244,544**	**1,698,882**	**258,940**	**294,675**	**88,646**	**23,502**	**419,618**	**9,028,807**
DEPRECIATION								
At January 1, 2009	70,557	197,912	48,766	27,365	-	30,801	28,224	403,625
Depreciation charge	46,836	236,193	53,256	31,356	-	11,037	48,381	427,059
Disposals	-	(1,990)	(12,865)	(16,640)	-	-	(7,407)	(38,902)
At December 31, 2009	**117,393**	**432,115**	**89,157**	**42,081**	**-**	**41,838**	**69,198**	**791,782**
Depreciation charge	**122,016**	**307,293**	**54,103**	**56,700**	**-**	**30,132**	**66,825**	**637,069**
Disposals	**-**	**(7,841)**	**-**	**(1,220)**	**-**	**(63,640)**	**(4,106)**	**(76,807)**
At December 31, 2010	**239,409**	**731,567**	**143,260**	**97,561**	**-**	**8,330**	**131,917**	**1,352,044**
CARRYING VALUE								
At December 31, 2010	**6,005,135**	**967,315**	**115,680**	**197,114**	**88,646**	**15,172**	**287,701**	**7,676,763**
At December 31, 2009	1,571,081	1,134,656	134,104	218,560	1,283,259	33,429	260,435	4,635,524
At December 31, 2008	1,398,941	1,121,933	187,020	134,890	207,746	44,466	177,560	3,272,556

Assets under construction

As at the reporting period the Bank's assets under construction are the following.

- In 2009 the Bank acquired land with the purpose of opening a branch in Agarak city, for AMD 130 thousand, and the building located on the land is under construction. The costs to complete the building for its use are estimated to be AMD 165,000 thousand with renovations expected to be completed by 01.03.2011.

- In 2008 the Bank acquired land on Sarkavag Street, in Yerevan with the purpose of opening a branch, for AMD 17,920 thousand and the building on the land is under construction. The costs to complete the building for its use are estimated to be AMD 200,000 thousand with renovations expected to be completed by 30.11.2011.

- In 2010 the Bank acquired office building under construction at 1/20 Rossia Street in Abovyan city, for AMD 133,200 thousand. The costs to complete the building for its use are estimated to be AMD 43,000 thousand with renovations expected to be completed by 30.04.2011.

- In 2010 the Bank has acquired office building at 24/1 Qochar Street in Yerevan in the amount of AMD 236,000 thousand and it is incomplete. The costs to complete the building for its use are estimated to be AMD 19,000 thousand with renovations expected to be completed by 30.04.2011.

Fully depreciated items

As at 31 December 2010 fixed assets included fully depreciated and amortized assets at cost in the amount of AMD 52,166 thousand (2009: AMD 44,606 thousand).

Fixed assets in the phase of installation

As at 31 December 2010 fixed assets included assets in the phase of installation in the amount of AMD 90,996 thousand (2009: AMD 430,436 thousand), which are not amortized and are classified in accordance with their type.

20 Intangible assets

In thousand Armenian drams	Licenses	Acquired software licenses	Other	Total
COST				
At January 1, 2009	11,296	61,639	41,554	114,489
Additions	106,344	10,677	20,403	137,424
Reclassifications	21,265	(21,265)	-	-
At December 31, 2009	**138,905**	**51,051**	**61,957**	**251,913**
Additions	**50,305**	**3,708**	**-**	**54,013**
Disposals	**-**	**(60)**	**-**	**(60)**
At December 31, 2010	**189,210**	**54,699**	**61,957**	**305,866**
AMORTISATION				
At January 1, 2009	1,123	7,789	6,178	15,090
Amortisation charge	27,749	6,196	5,927	39,872
At December 31, 2009	**28,872**	**13,985**	**12,105**	**54,962**
Amortisation charge	**25,195**	**6,720**	**5,968**	37,883
Disposals	**-**	**(60)**	**-**	**(60)**
At December 31, 2010	**54,067**	**20,645**	**18,073**	**92,785**
CARRYING VALUE				
At December 31, 2010	**135,143**	**34,054**	**43,884**	**213,081**
At December 31, 2009	110,033	37,066	49,852	196,951
At December 31, 2008	10,173	53,850	35,376	99,399

21 Other assets

In thousand Armenian drams	2010	2009
Amounts receivable from disposal of securities	**9,388,000**	9,673,734
Prepayments and other debtors	**609,435**	117,947
Amounts receivable	**363,541**	11,055
Other assets	**61,794**	62,256
	10,422,770	9,864,992
Less allowance for impairment	**(132,208)**	(104,433)
	10,290,562	9,760,559
Prepaid income taxes	**17,758**	-
Materials	**33,546**	56,882
Other	**434**	434
Total other assets	**10,342,300**	9,817,875

Amounts receivable from disposal of securities was formed as a result of disposal of securities by the Bank with deferred payment terms to several non-resident Companies during 2009. The accounts receivable was recognized at the time of disposal measured at fair value of securities. The difference between the fair value and nominal value of cash flow receivable by the contract amounted to AMD 692,339 thousand, of which AMD 242,077 thousand was recognized as interest income in 2010 and is included in Note "Interest and similar income" (Note 6).

Reconciliation of allowance account for losses on other assets is as follows:

In thousand Armenian drams	Total
At January 1, 2009	5,160
Charge for the year	131,286
Amounts written off	(32,035)
Recoveries	22
At December 31, 2009	**104,433**
Charge for the year	**86,862**
Amounts written off	**(60,644)**
Recoveries	**1,557**
At December 31, 2010	**132,208**

22 Amounts due to the CBA

In thousand Armenian drams	2010	2009
Loans	**1,466,723**	1,323,826
Subordinate debt	**8,479,517**	8,450,000
Total amounts due to financial institutions	**9,946,240**	9,773,826

Obligations of CBA include loans received within the scope of "Housing finance" loan project of German-Armenian fund.

Subordinate debt was received from the CBA during 2009 with a maturity term of 5 years and 7.5% of annual interest rate.

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

23 Amounts due to other financial institutions

In thousand Armenian drams	**2010**	2009
Correspondent accounts of other banks	**804,321**	411
Current accounts of other financial institutions	**218,274**	107,348
Loans and deposits from financial institutions	**8,780,861**	12,351,013
Loans from other financial institutions	**9,673,221**	1,212,019
Loans under repurchase agreements	**2,396,256**	-
Total amounts due to financial institutions	**21,872,933**	13,670,791

All deposits from financial institutions have fixed interest rates.

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

24 Amounts due to customers

In thousand Armenian drams	**2010**	2009
Government of the RA		
Current/Settlement accounts	**67,674**	181,690
Loans received from the RA government	**6,405,143**	3,165,983
	6,472,817	3,347,673
Corporate customers		
Current/Settlement accounts	**15,643,444**	17,046,652
Time deposits	**6,894,469**	4,429,052
	22,537,913	21,475,704
Retail customers		
Current/Demand accounts	**2,483,706**	1,297,428
Time deposits	**28,581,463**	17,848,056
	31,065,169	19,145,484
Total amounts due to customers	**60,075,899**	43,968,861

All customer deposits carry fixed interest rates.

Loans received from the RA Government include loans received from "Millennium Challenge Account - Armenia", "Rural finance facility-Project Implementation Unit State Institution" and within the scope of "Small and medium business loan project"and "Housing Finance Loan program" of German-Armenian Fund in the amount of AMD 6,405,143 (2009: AMD 3,165,983 thousand), as well as time deposits placed by the Ministry of Finance of the Republic of Nagorno Karabagh in the amount of AMD 800,131 thousand (2009: AMD 222 thousand).

As at 31 December 2010 included in current accounts of corporate customers are deposits amounting to AMD 24,517 thousand (2009: AMD 16,776 thousand), and AMD 21,996 thousand (2009: AMD 478,546 thousand) held as security against letters of credit issued and guarantees issued. The fair value of those deposits approximates the carrying amount.

At 31 December 2010 the aggregate balance of top ten customers of the Bank (including relating parties, see Note 31) amounts to AMD 17,940,643 thousand (2009: AMD 16,272,569 thousand) or 30% of total customer accounts (2009: 38.5%). Deposits in respect of the Bank's shareholders and organizations collaborating with them amount to AMD 5,902,259 thousand (2009: AMD 9,298,321 thousand) or 10% (2009: 22%) of total customer accounts.

25 Financial liabilities held for trading

In thousand Armenian drams	2010	2009
Securities received from other non-resident institutions (Note 17)	**7,362,308**	8,794,803
Total financial liabilities held for trading	**7,362,308**	8,794,803

26 Other liabilities

In thousand Armenian drams	2010	2009
Accounts payables	**38,715**	75,576
Tax payable, other than income tax	**138,461**	10,516
Revenues of future periods	**6,191**	-
Grants related to assets	**2,283**	2,365
Due to personnel	**54,020**	33,160
Other	**14,275**	12,175
Total other liabilities	**253,945**	133,792

Grants related to assets

In thousand Armenian drams	2010	2009
At January 1	**2,365**	2,447
Recognised as income (Note 9)	**(82)**	(82)
At December 31	**2,283**	2,365

27 Other provisions

The movement in other provisions was as follows:

In thousand Armenian drams	2010	2009
At January 1	**-**	53,454
Reversal during the year	**-**	(53,454)
At December 31	**-**	-

Other provisions were created with regard to guarantees issued to the Bank's customers.

28 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	2010	2009	**2010**	2009
Investment securities (Note 18, 23)	**2,431,251**	-	**2,396,256**	-
	2,431,251	-	**2,396,256**	-

29 Equity

As at 31 December 2010 the Bank's registered and paid-in share capital was AMD 13,450,000 thousand. In accordance with the Bank's statues, the share capital consists of 26,900 shares, all of which have a par value of AMD 500 thousand each.

The respective shareholdings as at 31 December 2010 and 2009 may be specified as follows:

In thousand Armenian drams	**2010**		2009	
	Paid-in share capital	**% of total paid-in capital**	Paid-in share capital	% of total paid-in capital
"Ukrprombank" LLC	**1,750,000**	**13**	1,750,000	13
"Christy Management" Inc.	**11,700,000**	**87**	11,700,000	87
	13,450,000	**100**	13,450,000	100

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

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank.

Distributable among shareholders reserves equal the amount of retained earnings calculated in accordance with the RA 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 5% of the Bank's net profit of the previous year reported in statutory books.

30 Contingent liabilities and commitments

Tax and legal matters

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

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

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

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Bank, will not have a material adverse impact on the financial condition or results of future operations of the Bank.

Loan commitment, guarantee and other financial facilities

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	**2010**	2009
Undrawn loan commitments	**4,775,052**	2,608,078
Guarantees	**21,650,979**	9,427,909
Letters of credit	**21,966**	478,546
Total commitments and contingent liabilities	**26,447,997**	12,514,533

Operating lease commitments – Bank as a lessee

In the normal course of business the Bank enters into commercial lease agreements for buildings and premises.

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

In thousand Armenian drams	**2010**	2009
Not later than 1 year	**24,036**	41,790
Later than 1 year and not later than 5 years	**59,667**	142,580
Total operating lease commitments	**83,703**	184,370

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection 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.

31 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 resident of the Russian Federation Vitaly Grigoriyants.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions.

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

In thousand Armenian drams	2010		2009	
	Shareholders	**Key management personnel**	Shareholders	Key management personnel
Loans and advances to customers				
Loans outstanding at January 1, gross	**230,342**	**1,321,736**	64,496	219,415
Loans issued during the year	**213,027**	**4,998,033**	322,230	3,329,226
Loan repayments during the year	**(411,144)**	**(3,781,562)**	(156,384)	(2,226,905)
Loans outstanding at December 31, gross	**32,225**	**2,538,207**	230,342	1,321,736
Less: allowance for loan impairment	**(322)**	**(25,382)**	(2,303)	(22,524)
Loans outstanding at December 31	**31,903**	**2,512,825**	228,039	1,299,212
Interest income on loans	**38,852**	**176,983**	75,008	85,651
Impairment charge/ (reversal)	**(1,981)**	**2,858**	1,658	20,333
Amounts due to customers				
Deposits at January 1	**9,844**	**6,838,699**	19,994	1,515,455
Deposits received during the year	**1,732,203**	**82,825,815**	27,456,949	103,779,935
Deposits repaid during the year	**(1,719,692)**	**(83,465,987)**	(27,467,099)	(98,456,691)
Deposits at December 31	**22,355**	**6,198,527**	9,844	6,838,699
Interest expense on deposits	**623**	**401,727**	704	207,131
Amounts due from other financial institutions				
Balance at January 1	**1,105**	**-**	96	-
Increase	**39,409**	**-**	24,943,407	-
Decrease	**(22,494)**	**-**	(24,942,398)	-
Balance at December 31	**18,020**	**-**	1,105	-
Amounts due to financial institutions				
At January 1	**466,934**	**1,973**	1,000,046	11,027
Increase	**3,702,229**	**208**	7,827,716	255,198
Decrease	**(3,987,885)**	**(2,181)**	(8,360,828)	(264,252)
At December 31	**181,278**	**-**	466,934	1,973
Interest expenses	**16,763**	**208**	32,392	4,729

Income statement items				
Commission income	**14**	**437**	627	6,448
Other income	**2,701**	**29,806**	32,839	7,330
Other operating expenses	**-**	**-**	3	112

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2010	2009
Salaries and other short-term benefits	**171,918**	171,738
Social security costs	**15,893**	7,971
Total key management compensation	**187,811**	179,709

The loans issued to directors and other key management personnel (and close family members) during the year are repayable over fifteen years and have interest rates of 11% (2009: 12.73%). The loans advanced to the directors during the year are collateralised by loan guarantees in the amount of AMD 134,327 thousand, real estate in the amount of AMD 1,184,270 thousand and salary (2009: loan guarantees in the amount of AMD 75,225 thousand, real estate in the amount of AMD 339,960 thousand and salary).

32 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	**13,046,849**	**13,046,849**	12,475,646	12,475,646
Amounts due from other financial institutions	**1,688,133**	**1,688,133**	3,665,570	3,665,570
Loans and advances to customers	**77,205,248**	**77,205,248**	59,688,133	59,688,133
Investments held to maturity	**51,805**	**51,775**	103,611	103,549
Other assets	**9,388,000**	**9,388,000**	9,673,734	9,673,734
FINANCIAL LIABILITIES				
Amounts due to the CBA	**9,946,240**	**9,946,240**	9,773,826	9,773,826
Amounts due to financial institutions	**21,872,933**	**21,872,933**	13,670,791	13,670,791
Amounts due to customers	**60,075,899**	**60,075,899**	43,968,861	43,968,861

Amounts due from and to financial institutions and the CBA

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 9% to 26% per annum and usually approximate current interest rates.

Investment securities held to maturity
Market values have been used to determine the fair value of investment securities held-to-maturity traded on an active market. For securities that are not traded on an active market, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

Other assets, liabilities and 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.

32.1 Fair value hierarchy

The Bank adopted the amendment to IFRS 7 Improving Disclosures about Financial Instruments effective from 1 January 2009. These amendments require the Bank to present certain information about financial instruments measured at fair value in the statement of financial position.

Financial assets and liabilities measured at fair value in the statement of financial position are presented in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

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

In thousand Armenian drams				2010				2009
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS								
Unquoted securities issued by the Ministry of Finance of Armenia	-	**4,434,315**	-	**4,434,315**	-	1,329,134	-	1,329,134
Derivative financial assets	-	**870,584**	-	**870,584**	-	488,018	-	488,018
Total	-	**5,304,899**	-	**5,304,899**	-	1,817,152	-	1,817,152
FINANCIAL LIABILITIES								
Financial liabilities held for trading	-	**7,362,308**	-	**7,362,308**	-	8,794,803	-	8,794,803
Derivative financial liabilities	-	**30,425**	-	**30,425**	-	23,442	-	23,442
Total	-	**7,392,733**	-	**7,392,733**	-	8,818,245	-	8,818,245
NET FAIR VALUE	-	**(2,087,834)**	-	**(2,087,834)**	-	(7,001,093)	-	(7,001,093)

The methods of fair value measurement and valuation technique have not been changed compared with prior reporting period.

Unquoted equity investments
The fair value of Bank's investment unquoted equity investments cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 18 for further information about this equity investment.

Derivatives
Where derivatives are traded either on exchanges or liquid over-the-counter market the Bank uses the closing price at the reporting date.

Normally, the derivatives entered into by the Bank are not traded in active markets. The fair values of these contracts are estimated using valuation techniques that maximises the use of observable market inputs, eg market exchange rates (Level 2). Most derivatives entered into by the Bank are included in Level 2 and consist of foreign currency swap contracts.

33 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 34.3 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	**13,046,849**	**-**	**-**	***13,046,849***	**-**	**-**	**-**	**13,046,849**
Amounts due from other financial institutions	**1,666,387**	**21,746**	**-**	***1,688,133***	**-**	**-**	**-**	**1,688,133**
Derivative financial instruments	**-**	**870,584**	**-**	***870,584***	**-**	**-**	**-**	**870,584**
Loans and advances to customers	**4,942,636**	**5,540,126**	**28,878,855**	***39,361,617***	**25,221,212**	**12,622,419**	***37,843,631***	**77,205,248**
Investments available for sale	**-**	**-**	**697,318**	***697,318***	**1,229,304**	**88,487**	***1,317,791***	**2,015,109**
Investments held to maturity	**-**	**-**	**51,805**	***51,805***	**-**	**-**	**-**	**51,805**
Securities pledged under repurchase agreements	**-**	**-**	**-**	***-***	**478,342**	**1,952,909**	***2,431,251***	**2,431,251**
Other assets	**-**	**914,121**	**8,473,879**	***9,388,000***	**-**	**-**	**-**	**9,388,000**
	19,655,872	**7,346,577**	**38,101,857**	***65,104,306***	**26,928,858**	**14,663,815**	***41,592,673***	**106,696,979**
LIABILITIES								
Amounts due to the CBA	**36,480**	**3,180**	**25,265**	***64,925***	**9,881,315**	**-**	***9,881,315***	**9,946,240**
Amounts due to financial institutions	**7,069,728**	**3,174,306**	**2,116,552**	***12,360,586***	**4,260,639**	**5,251,708**	***9,512,347***	**21,872,933**
Derivative financial liabilities	**-**	**30,425**	**-**	***30,425***	**-**	**-**	**-**	**30,425**
Amounts due to customers	**18,165,201**	**18,898,095**	**17,589,033**	***54,652,329***	**2,878,066**	**2,545,504**	***5,423,570***	**60,075,899**
Financial liabilities held for trading	**-**	**7,362,308**	**-**	***7,362,308***	**-**	**-**	**-**	**7,362,308**
	25,271,409	**29,468,314**	**19,730,850**	***74,470,573***	**17,020,020**	**7,797,212**	***24,817,232***	**99,287,805**
Net position	**(5,615,537)**	**(22,121,737)**	**18,371,007**	***(9,366,267)***	**9,908,838**	**6,866,603**	***16,775,441***	**7,409,174**
Accumulated gap	**(5,615,537)**	**(27,737,274)**	**(9,366,267)**		**542,571**	**7,409,174**		

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	12,140,218	-	-	*12,140,218*	-	335,428	*335,428*	12,475,646
Amounts due from other financial institutions	3,170,227	473,761	-	*3,643,988*	-	21,582	*21,582*	3,665,570
Derivative financial assets	-	488,018	-	*488,018*	-	-	-	488,018
Loans and advances to customers	3,128,866	22,806,791	12,705,267	*38,640,924*	18,007,445	3,039,764	*21,047,209*	59,688,133
Investments available for sale	-	432,917	33,043	*465,960*	863,174	12,340	*875,514*	1,341,474
Investments held to maturity	-	103,611	-	*103,611*	-	-	-	103,611
Other assets	-	-	3,918,744	*3,918,744*	5,653,870	-	*5,653,870*	9,572,614
	18,439,311	24,305,098	16,657,054	*59,401,463*	24,524,489	3,409,114	*27,933,603*	87,335,066
LIABILITIES								
Amounts due to the CBA	40,550	-	28,863	*69,413*	9,704,413		*9,704,413*	9,773,826
Amounts due to financial institutions	7,620,880	4,727,689	150,414	*12,498,983*	1,149,926	21,882	*1,171,808*	13,670,791
Derivative financial liabilities	-	23,442	-	*23,442*	-	-	-	23,442
Amounts due to customers	21,603,803	10,268,388	8,847,916	*40,720,107*	3,245,127	3,627	*3,248,754*	43,968,861
Financial liabilities held for trading	8,522,892	271,911	-	*8,794,803*	-	-	-	8,794,803
	37,788,125	15,291,430	9,027,193	*62,106,748*	14,099,466	25,509	*14,124,975*	76,231,723
Net position	(19,348,814)	9,013,668	7,629,861	*(2,705,285)*	10,425,023	3,383,605	*13,808,628*	11,103,343
Accumulated gap	(19,348,814)	(10,335,146)	(2,705,285)		7,719,738	11,103,343		

34 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 and Planning Department and Risk Management Committee under policies approved by the Board of Directors. The Risk Management and Planning 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.

34.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a 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 Risk Management and Planning Department and Risk Management Committee and reported to the Board of Directors/Executive Board and head of each business unit regularly.

34.1.1 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	14	**9,456,745**	10,076,527
Amounts due from other financial institutions	15	**1,688,133**	3,665,570
Derivative financial assets	16	**870,584**	488,018
Loans and advances to customers	17	**77,205,248**	59,688,133
Investments available for sale	18	**2,015,109**	1,341,474
Investments held to maturity	18	**51,805**	103,611
Securities pledged under repurchase agreements	28	**2,431,251**	-
Other assets	21	**9,388,000**	9,572,614
Total		**103,106,875**	84,935,947
Commitments and contingent liabilities	30	**26,447,997**	12,514,533
Total credit risk exposure		**129,554,872**	97,450,480

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.

34.1.2 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	OECD countries	Other non-OECD countries	Total
Balances with CBA	**9,456,745**	**-**	**-**	**9,456,745**
Amounts due from other financial institutions	**82,772**	**1,158,758**	**446,603**	**1,688,133**
Derivative financial assets	**28,525**	**-**	**842,059**	**870,584**
Loans and advances to customers	**63,795,176**	**-**	**13,410,072**	**77,205,248**
Investments available for sale	**2,015,109**	**-**	**-**	**2,015,109**
Investments held to maturity	**51,805**	**-**	**-**	**51,805**
Securities pledged under repurchase agreements	**2,431,251**	**-**	**-**	**2,431,251**
Other assets	**-**	**-**	**9,388,000**	**9,388,000**
As at 31 December 2010	**77,861,383**	**1,158,758**	**24,086,734**	**103,106,875**
As at 31 December 2009	57,980,465	2,851,610	24,103,872	84,935,947

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 2009.

In thousand Armenian drams	Financial institutions	Manufac-turing	Construction	Trading	Consumer	Agricul ture	Mortgage	Other	Total
Balances with CBA	**9,456,745**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,456,745**
Amounts due from other financial institutions	**1,688,133**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,688,133**
Derivative financial assets	**28,525**	**-**	**-**	**-**	**-**	**-**	**-**	**842,059**	**870,584**
Loans and advances to customers	**-**	**8,973,206**	**15,871,386**	**10,186,326**	**5,045,604**	**2,604,042**	**8,923,783**	**25,600,901**	**77,205,248**
Investments available for sale	**2,015,109**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,015,109**
Investments held to maturity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**51,805**	**51,805**
Securities pledged under repurchase agreements	**2,431,251**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,431,251**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,388,000**	**9,388,000**
As at 31 December 2010	**15,619,763**	**8,973,206**	**15,871,386**	**10,186,326**	**5,045,604**	**2,604,042**	**8,923,783**	**35,882,765**	**103,106,875**
As at 31 December 2009	15,083,571	3,659,862	12,403,806	7,970,937	4,566,527	1,443,768	5,000,095	34,807,381	84,935,947

34.1.3 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, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved, in line with changes in Bank’s operating environment, not less than annually, by the Board of Directors.

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

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

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

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

In thousand Armenian drams	**2010**	2009
Loans collateralized by real estate	**51,990,015**	39,004,340
Loans collateralized by guarantees of enterprises	**5,585,968**	1,886,650
Loans collateralized by materials	**4,169,122**	4,233,691
Loans collateralized by state securities	**9,135,448**	9,689,678
Loans collateralized by cash or guarantees of the Government	**2,876,046**	4,790,332
Other collateral	**5,104,672**	1,161,429
Total loans and advances to customers (gross)	**78,861,271**	60,766,120

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.

34.1.4 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		
Manufacturing	**0.1**	-
Agriculture	**1.8**	0.3
Construction	**0.2**	0.4
Trading	**0.6**	0.1
Consumer	**2.6**	1.1
Mortgage	**1.3**	0.3
Other	**0.2**	**-**

As of 31.12.2010 and as of 31.12.2009 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					
Manufacturing	**-**	**-**	**30,000**	**127,688**	**157,688**
Construction	**548,547**	**-**	**-**	**22,282**	**570,829**
Trading	**976,776**	**9,941**	**-**	**-**	**986,717**
Consumer	**35,069**	**19,269**	**10,089**	**100,012**	**164,439**
Agriculture	**30,975**	**-**	**5,326**	**26,179**	**62,480**
Mortgage	**81,596**	**11,336**	**9,977**	**31,372**	**134,281**
Other	**183,839**	**7,730**	**55**	**100,976**	**292,600**
Total	**1,856,802**	**48,276**	**55,447**	**408,509**	**2,369,034**

In thousand Armenian drams					2009
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Manufacturing	145,806	-	-	-	145,806
Construction	83,295	-	4,464	-	87,759
Trading	849,350	3,057	1,257	128	853,792
Consumer	253,121	126,668	-	23,741	403,530
Agriculture	33,089	-	-	-	33,089
Mortgage	68,627	-	-	-	68,627
Other	10,742	557	7,003	4,238	22,540
Total	1,444,030	130,282	12,724	28,107	1,615,143

The fair value of collateral that the Bank holds relating to past due loans at 31 December 2010 amounts to AMD 3,110,074 thousand (2009: AMD 1,714,827 thousand). The collateral consists of cash, securities, guarantee letters and property.

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 2,369,034 thousand (2009: AMD 2,688,111 thousand). The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2010 amounts to AMD 3,110,074 thousand (2009: AMD 4,996,729 thousand). The collateral consists of cash, securities, guarantee letters and property.

Renegotiated loans

The carrying amount for renegotiated financial assets by class is presented below:

In thousand Armenian drams	**2010**	2009
Loans and advances to customers		
Manufacturing	**134,208**	300,339
Construction	**1,652,481**	2,187,024
Trading	**208,307**	355,222
Consumer	**-**	36,684
Other	**257,747**	1,446,283
Total renegotiated loans	**2,252,743**	4,325,552

34.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

34.2.1 Market risk – Non-trading

Interest rate risk

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

The following table demonstrates the sensitivity of the income statement 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 revaluating fixed rate available-for-sale financial assets, 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**
		Sensitivity of equity				
Currency	**Change in basis points**	**Up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
AMD	**+1**	**(110)**	**(4,423)**	**(79,062)**	**(40,925)**	**(124,520)**
AMD	**-1**	**111**	**4,491**	**89,405**	**45,685**	**139,692**

In thousand Armenian drams						2009
		Sensitivity of equity				
Currency	Change in basis points	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	+1	(370)	(209)	(19,760)	(7,000)	(27,339)
AMD	-1	370	212	20,680	7,400	28,662

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of Directors 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). 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		**2010**		2009
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	**(10)**	**1,079,300**	(10)	1,108
Euro	**(10)**	(12)	(10)	11,496
RR	**(10)**	**(4,212)**	(10)	(5,015)
USD	**10**	**(1,079,300)**	10	(1,108)
Euro	**10**	**12**	10	(11,496)
RR	**10**	**4,212**	10	5,015

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
ASSETS				
Cash and balances with the CBA	**3,830,968**	**9,110,241**	**105,640**	**13,046,849**
Derivative financial assets	**-**	**870,584**	**-**	**870,584**
Amounts due from other financial institutions	**45**	**1,379,736**	**308,352**	**1,688,133**
Loans and advances to customers	**45,916,073**	**31,110,174**	**179,001**	**77,205,248**
Investments available for sale	**2,015,109**	**-**	**-**	**2,015,109**
Investments held to maturity	**51,805**	**-**	**-**	**51,805**
Securities pledged under repurchase agreements	**2,431,251**	**-**	**-**	**2,431,251**
Other assets	**9,387,772**	**228**	**-**	**9,388,000**
	63,633,023	**42,470,963**	**592,993**	**106,696,979**
LIABILITIES				
Amounts due to the CBA	**9,946,240**	**-**	**-**	**9,946,240**
Amounts due to financial institutions	**9,173,164**	**12,520,831**	**178,938**	**21,872,933**
Amounts due to customers	**16,478,078**	**43,291,526**	**306,295**	**60,075,899**
Derivative financial liabilities	**30,425**	**-**	**-**	**30,425**
Financial liabilities held for trading	**7,362,308**	**-**	**-**	**7,362,308**
	42,990,215	**55,812,357**	**485,233**	**99,287,805**
Net position as at 31 December 2010	**20,642,808**	**(13,341,394)**	**107,760**	**7,409,174**
Commitments and contingent liabilities as at 31 December 2010	**17,357,958**	**9,089,963**	**76**	**26,447,997**
Total financial assets	48,681,386	37,266,623	1,387,057	87,335,066
Total financial liabilities	31,812,997	43,074,184	1,344,542	76,231,723
Net position as at 31 December 2009	16,868,389	(5,807,561)	42,515	11,103,343
Commitments and contingent liabilities as at 31 December 2009	9,364,004	3,139,385	11,144	12,514,533

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.

34.3 Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 8% of certain obligations of the Bank denominated in Armenian drams and 12% on certain obligations of the Bank denominated in foreign currency. See note 14. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

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

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 33 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	**101,480**	**133,180**	**610,265**	**11,181,315**	**-**	**12,026,240**
Amounts due to financial institutions	**13,154,107**	**3,213,985**	**2,235,608**	**4,260,639**	**5,251,708**	**28,116,047**
Amounts due to customers	**18,507,116**	**19,465,038**	**18,644,375**	**3,450,750**	**2,698,234**	**62,765,513**
Financial liabilities held for trading	**-**	**7,489,260**	**-**	**-**	**-**	**7,489,260**
Total undiscounted non-derivative financial liabilities	**31,762,703**	**30,301,463**	**21,490,248**	**18,892,704**	**7,949,942**	**110,397,060**
Derivative financial liabilities						
Currency swap contracts						
Inflow	**-**	**14,003,412**	**-**	**-**	**-**	**14,003,412**
Outflow	**-**	**(13,275,336)**	**-**	**-**	**-**	**(13,275,336)**
Commitments and contingent liabilities	**5,781,045**	**3,834,132**	**8,958,289**	**7,874,531**	**-**	**26,447,997**

In thousand Armenian drams	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	2009 Total
FINANCIAL LIABILITIES						
Amounts due to the CBA	156,102	123,255	585,588	12,291,719	-	13,156,664
Amounts due to financial institutions	7,658,462	5,027,527	207,322	3,148,489	42,889	16,084,689
Amounts due to customers	21,716,598	10,465,063	9,104,979	4,918,650	3,216,987	49,422,277
Financial liabilities held for trading	8,674,696	271,929	-	-	-	8,946,625
Total undiscounted non-derivative financial liabilities	38,205,858	15,887,774	9,897,889	20,358,858	3,259,876	87,610,255
Derivative financial liabilities						
Currency swap contracts						
Inflow	-	13,845,050	-	-	-	13,845,050
Outflow	-	(13,371,182)	-	-	-	(13,371,182)
Commitments and contingent liabilities	2,607,837	2,325,520	3,167,597	4,413,579	-	12,514,533

35 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, polices 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 reserves.

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	**14,812,717**	14,659,153
Tier 2 capital	**5,082,868**	6,762,346
Total regulatory capital	**19,895,585**	21,421,499
Risk-weighted assets	**116,103,446**	71,201,540
Capital adequacy ratio	**17.13%**	30.08%

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.