Grant Thornton
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Financial Statements and Independent Auditor's Report

"Prometey Bank" limited liability company

31 December 2011

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Independent auditor's report

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To the Participants and Board of Directors of "Prometey Bank" LLC:

We have audited the accompanying financial statements of "Prometey Bank" LLC (the "Bank"), which comprise the statement of financial position as of December 31, 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of "Prometey Bank" LLC as of December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gagik Gyulbudaghyan	Armen Vanyan
Managing Partner	Head of Audit

Grant Thornton CJSC
14 April, 2012
Yerevan

Statement of comprehensive income

In thousand Armenian drams	Notes	**Year ended December 31, 2011**	Year ended December 31, 2010
Interest and similar income	6	**3,432,633**	2,410,487
Interest and similar expense	6	**(984,748)**	(819,514)
Net interest income		**2,447,885**	1,590,973
Fee and commission income	7	**162,694**	173,609
Fee and commission expense	7	**(177,752)**	(130,769)
Net fee and commission income		**(15,058)**	42,840
Net trading income	8	**488,318**	284,625
Gains less losses on investments available for sale		**5,447**	-
Other income	9	**82,235**	65,510
Impairment charge for credit losses	10	**(262,657)**	(57,849)
Staff costs	11	**(687,718)**	(543,387)
Depreciation of property and equipment	20	**(129,974)**	(116,625)
Amortization of intangible assets	21	**(7,989)**	(7,928)
Other expenses	12	**(456,027)**	(360,443)
Profit before income tax		**1,464,462**	897,716
Income tax expense	13	**(307,298)**	(212,065)
Profit for the year		**1,157,164**	685,651
Other comprehensive income:			
Net unrealized gains from changes in fair value		**125,669**	22,377
Net gains realized to net profit on disposal of available-for-sale instruments		**(7,401)**	-
Income tax relating to components of other comprehensive income		**(23,653)**	(4,476)
Other comprehensive income for the year, net of tax		**94,615**	17,901
Total comprehensive income for the year		**1,251,779**	703,552

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, 2011	As of December 31, 2010
ASSETS			
Cash and balances with CBA	14	**6,470,118**	4,509,322
Trading securities	15	**759,718**	-
Amounts due from other financial institutions	16	**1,885,764**	3,183,422
Derivative financial assets	17	**1,627**	-
Loans and advances to customers	18	**25,544,487**	15,972,495
Investments available for sale	19	**2,142,147**	1,116,902
Investments held to maturity	19	**487,199**	438,130
Securities pledged under repurchase agreements	28	**1,453,378**	462,981
Property, plant and equipment	20	**1,714,530**	1,583,026
Intangible assets	21	**41,375**	47,492
Assets held for sale		**153,127**	145,163
Other assets	22	**176,467**	61,514
TOTAL ASSETS		**40,829,937**	27,520,447
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the CBA	23	**4,647,273**	-
Derivative financial liabilities	17	**642**	-
Amounts due to financial institutions	24	**770,693**	733,439
Amounts due to customers	25	**11,411,425**	7,850,093
Securities issued	26	**4,849,906**	8,390,495
Current income tax liabilities		**198,131**	82,608
Deferred income tax liabilities	13	**27,928**	19,372
Other liabilities	27	**155,075**	127,355
Total liabilities		**22,061,073**	17,203,362
Equity			
Charter capital	29	**14,400,000**	7,200,000
Statutory general reserve		**52,075**	52,075
Other reserves		**110,256**	15,641
Retained earnings		**4,206,533**	3,049,369
Total equity		**18,768,864**	10,317,085
TOTAL LIABILITIES AND EQUITY		**40,829,937**	27,520,447

The financial statements from pages 3 to 53 were signed by the Bank's Chairman of the Executive Board and Chief Accountant on 14 April 2012. The accompanying notes on pages 7 to 53 are an integral part of these financial statements.

Emil Soghomonyan
Chairman of the Executive Board

Alvard Mkrtumyan
Chief accountant

Statement of changes in equity

In thousand Armenian drams	Charter capital	Statutory general reserve	Revaluation reserve of securities available for sale	Retained earnings	Total
Balance as of January 1, 2010	7,200,000	52,075	(2,260)	2,433,718	9,683,533
Dividends to shareholders	-	-	-	(70,000)	(70,000)
Transactions with owners	-	-	-	(70,000)	(70,000)
Profit for the year	-	-	-	685,651	685,651
Other comprehensive income					
Net unrealized gain from changes in fair value	-	-	22,377	-	22,377
Income tax relating to components of other comprehensive income	-	-	(4,476)	-	(4,476)
Total comprehensive income for the year	-	-	17,901	685,651	703,552
Balance as of December 31, 2010	**7,200,000**	**52,075**	**15,641**	**3,049,369**	**10,317,085**
Increase in charter capital	**7,200,000**	**-**	**-**	**-**	**7,200,000**
Transactions with owners	**7,200,000**	**-**	**-**	**-**	**7,200,000**
Profit for the year	**-**	**-**	**-**	**1,157,164**	**1,157,164**
Other comprehensive income:					
Net unrealized gains from changes in fair value	**-**	**-**	**125,669**	**-**	**125,669**
Net gains realized to net profit on available for sale investments	**-**	**-**	**(7,401)**	**-**	**(7,401)**
Income tax relating to components of other comprehensive income	**-**	**-**	**(23,653)**	**-**	**(23,653)**
Total comprehensive income for the year	**-**	**-**	**94,615**	**1,157,164**	**1,251,779**
Balance as of December 31, 2011	**14,400,000**	**52,075**	**110,256**	**4,206,533**	**18,768,864**

Statement of cash flows

In thousand Armenian drams	**Year ended December 31, 2011**	Year ended December 31, 2010
Cash flows from operating activities		
Profit before tax	**1,464,462**	897,716
Adjustments for		
Increase in provision for impairment	**262,657**	57,849
Amortization and depreciation allowances	**137,963**	124,553
Income from sale of fixed assets	**-**	(1,142)
Recovery of loans previously written off	**50**	190
Interest receivable	**(339,831)**	(81,011)
Interest payable	**313,040**	229,288
Net gain from change in fair value of trading instruments	**(38,216)**	-
Gains from currency translation of non-trading assets and liabilities	**(450)**	(3,339)
Net gain from change in fair value of derivative financial instruments	**(985)**	-
Cash flows from operating activities before changes in operating assets and liabilities	**1,798,690**	1,224,104
(Increase)/decrease in operating assets		
Amounts due from other financial institutions	**58,247**	653,423
Acquisition of trading securities	**(721,502)**	-
Loans and advances to customers	**(10,092,908)**	(5,996,488)
Securities pledged under repurchase agreements	**(990,397)**	(462,981)
Securities available for sale	**(906,977)**	(784,602)
Other assets	**(161,954)**	179,500
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	**87,932**	(576,390)
Repurchase agreements with CBA	**1,033,406**	-
Amounts due to customers	**3,851,422**	1,739,542
Other liabilities	**91,880**	(121,795)
Net cash flow used in operating activities before income tax	**(5,952,161)**	(4,145,687)
Income tax paid	**(206,872)**	(88,006)
Net cash used in operating activities	**(6,159,033)**	(4,233,693)
Cash flows from investing activities		
Purchase/(sale) of investment securities	**65,802**	(426,475)
Purchase of property and equipment	**(261,887)**	(105,503)
Proceeds from sale of property and equipment	**409**	5,374
Purchase of intangible assets	**(1,872)**	(21,931)
Net cash used in investing activities	**(197,548)**	(548,535)
Cash flow from financing activities		
Issue of charter capital	**7,200,000**	-
Issue of debt securities	**-**	3,879,260
Repayment of debt securities	**(3,483,511)**	-
Loans received/ (redeemed) from financial institutions	**(40,901)**	612,917
Loans received from the CBA	**3,600,000**	-
Dividends paid to shareholders	**-**	(70,000)
Net cash from financing activities	**7,275,588**	4,422,177
Net increase/(decrease) in cash and cash equivalents	**919,007**	(360,051)
Cash and cash equivalents at the beginning of the year	**5,671,737**	6,034,849
Exchange differences on cash and cash equivalents	**(94,608)**	(3,061)
Cash and cash equivalents at the end of the year (Note 14)	**6,496,136**	5,671,737
Supplementary information:		
Interest received	**3,170,600**	2,329,476
Interest paid	**(900,996)**	(590,226)

Accompanying notes to the financial statements

1 Principal activities

"Prometey Bank" LLC (the "Bank") is a limited liability company, which was incorporated in the Republic of Armenia on 01.06.1990. The Bank is regulated by the legislation of RA and conducts its business under license number 27, granted on 02.10.1991 by the Central Bank of Armenia (the "CBA").

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

The head office of the Bank and its 5 branches are located in Yerevan; one branch is located in Gyumri.

The registered office of the Bank is located at: 44/2 Hanrapetutyan str. Yerevan 0010, Republic of Armenia.

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.

There are still uncertainties about the economic situation of countries, collaborating with the RA, due to the forecasted slowdown in the world economy, which may lead to the shortage of money transfers from abroad, as well as to the decline in the prices of mining products, upon which the economy of Armenia is significantly dependant. 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 of the Republic of Armenia. These financial statements are based on the Bank's books and records as adjusted and reclassified in order to comply with IFRS. The financial statements are presented in thousands of AMD, which is not convertible outside Armenia.

3.4 Reclassifications

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

3.5 Changes in accounting policies

In the current year the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2011. The standards and interpretations which have had effect on the financial statements are presented below:

IFRS 7 (Amendment) *Financial Instruments: Disclosures*

The amendment clarifies the disclosure requirements of the standard to remove inconsistencies, duplicative disclosure requirements. Namely, it 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.

IFRS 7 (Amendment) is applied for annual periods beginning on or after 1 January 2011.

IAS 1 (Amendment) *Presentation of Financial Statements*

Clarifies that entities may present the required reconciliations for each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The amendment is applied for annual periods beginning on or after 1 January 2011.

3.6 Standards, amendments 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 effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Bank's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Bank's financial statements.

IFRS 7 (Amendment) *Transfer of Financial Assets*

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

- To understand the relationship between transferred financial asset that are not derecognized in their 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, 2011.

IAS 32 (Amendment) *Offsetting Financial Assets and Financial Liabilities*

The amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- The meaning of 'currently has a legally enforceable right of set-off': the amendments clarify that a right of set-off is required to be legally enforceable in the normal course of business, the event of default and the event of insolvency or bankruptcy of the entity and all of the counterparties, and that the right must also exist for all counterparties.

- Since there was diversity in practice related to the interpretation of 'simultaneous settlement' in IAS 32, the IASB has therefore clarified the principle behind net settlement and included an example of a gross settlement system with characteristics that would satisfy the IAS 32 criterion for net settlement.

The amendments are effective for annual reporting periods beginning on or after 1 January 2014 and are required to be applied retrospectively.

IFRS 7 (Amendment) *Offsetting Financial Assets and Financial Liabilities*

The amendment adds qualitative and quantitative disclosures to IFRS 7 relating to gross and net amounts of recognized financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position.

The amendments are effective for annual reporting periods beginning on or after 1 January 2013, and are required to be applied retrospectively.

IFRS 9 *Financial Instruments*

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. 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. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

The IASB has issued an amendment to IFRS 9 which deferred the mandatory effective date of IFRS from 1 January 2013 to 1 January 2015. This means that all the phases of the project to replace IAS 39 will now have the same mandatory effective date. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Additional transition disclosures will now be required to help understand the initial application of the Standard.

Management has yet to assess the impact of this new standard on the Bank's financial statements.

IFRS 13 *Fair Value Measurement*

IFRS 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Bank's management have yet to assess the impact of this new standard on the financial statements.

IAS 1 *Presentation of Financial Statements*

The IAS 1 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Bank's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

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 and expenses

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.

Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases and is recorded in the income statement in "Other income".

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 comprehensive 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 other comprehensive income.

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, 2011	December 31, 2010
AMD/1 US Dollar	**385.77**	363.44
AMD/1 Euro	**498.72**	481.16

4.3 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the comprehensive 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 comprehensive 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 recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of income as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a 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 comprehensive 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 other comprehensive income 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 comprehensive statement of income. However, interest calculated using the effective interest method is recognised in the comprehensive 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 comprehensive statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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

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

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

Renegotiated loans

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

Available-for-sale financial assets

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

4.8 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 in the statement of financial position 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 in the statement of financial position, 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.

Operating - Bank as leaser

The Bank presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognised in statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

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	40	2.5
Computers	3	33.3
Vehicles	5	20
Other fixed assets	5	20

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 comprehensive 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 incurred and when it satisfies the criteria for asset recognition. 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 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

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 their 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 the Central Bank and Government, amounts due to financial institutions, amounts due to customers, debt securities issued and subordinated debt are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the comprehensive 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. Following initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required 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

Charter capital

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

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 financial statements sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

5 Critical accounting estimates and judgements

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

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

Classification of investment securities

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

Related party transactions

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

Allowance for impairment of loans and receivables

The Bank reviews its problem loans and advances at each reporting date to assess whether there are objective criteria of depreciation. 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	2011	2010
Loans and advances to customers	**2,787,920**	2,200,844
Debt investment securities available-for-sale	**418,008**	76,427
Amounts due from other financial institutions	**6,903**	22,080
Reverse repurchase transactions	**216,330**	109,780
Other interest income	**3,472**	1,356
Total interest and similar income	**3,432,633**	2,410,487
Amounts due to customers	**275,757**	171,451
Debt securities issued	**192,886**	17,752
Amounts due to financial institutions	**435,317**	627,656
Repurchase transactions	**77,881**	315
Other interest expenses	**2,907**	2,340
Total interest and similar expense	**984,748**	819,514

7 Fee and commission income and expense

In thousand Armenian drams	2011	2010
Cash collection	**16,584**	19,449
Wire transfer fees	**77,245**	74,861
Plastic cards operations	**34,076**	34,295
Other fees and commissions	**34,789**	45,004
Total fee and commission income	**162,694**	173,609
Wire transfer fees	**24,830**	41,551
Cash operations	**108,739**	54,292
Other expenses	**44,183**	34,926
Total fee and commission expense	**177,752**	130,769

8 Net trading income

In thousand Armenian drams	2011	2010
Gains less losses from trading in foreign currencies	**382,863**	284,625
Gains less losses from change in fair value of trading assets	**38,216**	-
Gains less losses on derivative instruments	**3,856**	
Interest income from trading bonds	**63,383**	-
Total net trading income	**488,318**	284,625

9 Other income

In thousand Armenian drams	2011	2010
Income from sale of fixed assets	**-**	1,142
Fines and penalties received	**32,384**	29,493
Income from operating lease	**16,211**	15,375
Income from issue of warranties and letters of credit	**12,166**	13,730
Gains less losses from grants relating to assets	**2,074**	2,075
Foreign currency translation net gains of non-trading assets and liabilities	**450**	3,339
Gain on sale of confiscated property held for sale	**18,794**	-
Other income	**156**	356
Total other income	**82,235**	65,510

10 Impairment charge of impairment for credit losses

In thousand Armenian drams	2011	2010
Loans and advances to customers (Note 18)	**262,657**	57,849
Total impairment charge of impairment for credit losses	**262,657**	57,849

11 Staff costs

In thousand Armenian drams	2011	2010
Wages and salaries	**632,959**	498,658
Social security contributions	**54,759**	44,729
Total staff costs	**687,718**	543,387

12 Other expenses

In thousand Armenian drams	2011	2010
Repair and maintenance expenses of tangible assets	**48,066**	36,495
Advertising costs	**50,981**	18,356
Business trip expenses	**3,025**	4,679
Communications	**63,506**	57,532
Operating lease	**71,872**	57,054
Taxes, other than income tax, duties	**25,400**	20,035
Consulting and other services	**16,164**	12,559
Security	**33,368**	25,752
Representative expenses	**71,700**	55,431
Office supplies	**26,249**	30,553
Penalties paid	**2,788**	3,791
Other expenses	**42,908**	38,206
Total other expense	**456,027**	360,443

13 Income tax expense

In thousand Armenian drams	2011	2010
Current tax expense	322,395	197,669
Deferred tax	(15,097)	14,396
Total income tax expense	307,298	212,065

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2010: 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	2011	Effective rate (%)	2010	Effective rate (%)
Profit before tax	1,464,462		897,716	
Income tax at the rate of 20%	292,892	20	179,543	20
Non-deductible expenses	14,496	1	33,190	4
Foreign exchange gains	(90)	-	(668)	-
Income tax expense	307,298	21	212,065	24

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2010	Recognized in comprehensive income statement	Recognized in equity	2011
Other liabilities	2,089	1,803	-	3,892
Capital investments in leased fixed assets	3,902	2,323	-	6,225
Gross deferred tax asset	5,991	4,126	-	10,117
Loans and advances to customers	(18,028)	15,819	-	(2,209)
Trading securities	-	(5,875)	-	(5,875)
Other assets	(3,424)	1,027	-	(2,397)
Available for sale investments	(3,911)	-	(23,653)	(27,564)
Total deferred tax assets	(25,363)	10,971	(23,653)	(38,045)
Net deferred tax liability	(19,372)	15,097	(23,653)	(27,928)

In thousand Armenian drams	2009	Recognized in comprehensive income statement	Recognized in equity	**2010**
Other liabilities	2,773	(684)	-	2,089
Capital investments in leased fixed assets	1,018	2,884	-	3,902
Investment securities available for sale	565	-	(565)	-
Gross deferred tax asset	4,356	2,200	(565)	5,991
Loans and advances to customers	(2,327)	(15,701)	-	(18,028)
Other assets	(2,529)	(895)	-	(3,424)
Investment securities available for sale	-	-	(3,911)	(3,911)
Total deferred tax liability	(4,856)	(16,596)	(3,911)	(25,363)
Net deferred tax liability	(500)	(14,396)	(4,476)	(19,372)

14 Cash, cash equivalents and balances with CBA

In thousand Armenian drams	**2011**	2010
Cash on hand	**2,269,215**	1,494,182
Correspondent account with the CBA	**3,833,905**	2,649,768
Included in cash and cash equivalents	**6,103,120**	4,143,950
Deposits with the CBA	**366,998**	365,372
Total cash and balances with the CBA	**6,470,118**	4,509,322
Cash and balances with the CBA, included in cash flow	**6,103,120**	4,143,950
Placements with other banks (Note 16)	**393,016**	1,527,787
Total cash and cash equivalents	**6,496,136**	5,671,737

As at 31 December 2011 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 8% of certain obligations of the Bank denominated in Armenian drams and 12% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 1,931,202 thousand (2010: AMD 1,658,475 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, other money market placements, 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.

15 Trading securities

In thousand Armenian drams	**2011**	2010
Securities issued by the Ministry of Finance	**759,718**	-
Trading securities	**759,718**	-

Nominal interest rates and maturities of these securities are as follows:

In thousand Armenian drams	**2011**		2010	
	%	**Maturity**	%	Maturity
Securities issued by the Ministry of Finance	**11-13.5%**	**2015-2028**	-	-

As at 31 December 2011 accrued interest income on debt securities amounts to AMD 28,594 thousand.

16 Amounts due from other financial institutions

In thousand Armenian drams	**2011**	2010
Correspondent accounts with financial institutions	**393,016**	1,527,787
Included in cash and cash equivalents	**393,016**	1,527,787
Deposits	**71,490**	38,505
Reverse repurchase agreements	**1,369,374**	1,520,275
Other amounts	**-**	47,974
Other accounts	**51,884**	48,881
	1,492,748	1,655,635
Total amounts due from other financial institutions	**1,885,764**	3,183,422

As at 31 December 2011 the amounts of correspondent accounts with financial institutions in the amount of AMD 232,517 thousand (59%) (2010: AMD 956,634 thousand (63%)) were due from one commercial bank, which represent significant concentration.

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December 2011 are presented as follows:

In thousand Armenian drams	**2011**		2010	
	Fair value of collateral	**Carrying value of loans**	Fair value of collateral	Carrying value of loans
Securities issued by the RA Ministry of Finance and Economy	**1,418,647**	**1,369,374**	1,598,508	1,520,275
Total assets pledged and loans under reverse repurchase agreements	**1,418,647**	**1,369,374**	1,598,508	1,520,275

Deposits in financial institutions represent deposits with regard to Migom payment system and Kompania BKS system for carrying out operations for the Bank's clients in the securities' market.

Other amounts as at 31 December 2011 represent guarantee amounts issued by the Bank in the amount of AMD 51,884 thousand for carrying out transactions via Master Card payment system (2010: AMD 48,881 thousand).

17 Derivative financial instruments

In thousand Armenian drams	2011			2010		
	Notional amount	**Fair value of assets**	**Fair value of liabilities**	Notional amount	Fair value of assets	Fair value of liabilities
Derivatives held for trading						
Spot transactions-currency	**520,452**	**1,627**	**642**	-	-	-
Total derivative financial instruments	**520,452**	**1,627**	**642**	-	-	-

18 Loans and advances to customers

In thousand Armenian drams	2011	2010
Loans	**25,497,451**	15,955,120
Overdrafts	**51,558**	32,070
Other	**253,673**	145,065
	25,802,682	16,132,255
Less allowance for loan impairment	**(258,195)**	(159,760)
Total loans and advances to customers	**25,544,487**	15,972,495

As of 31 December 2011 accrued interest income included in loans and advances to customers amounted to AMD 204,879 thousand (2010: AMD 156,279 thousand).

As of 31 December 2011 the effective interest rates on loans and advances to customers ranged from 10 to 24 % for loans in AMD (2010: from 4 to 27 %) and from 11 to 22 % for loans in USD, EUR and other freely convertible currencies (2010: from 10 to 22 %).

As of December 31, 2011, the Bank had a concentration of loans represented by AMD 11,769,046 thousand due from the ten largest third party entities and parties related with them (46% of gross loan portfolio) (2010: AMD 7,390,326 thousand or 46% extended to 10 borrowers and parties related with them). An allowance of AMD 117,690 thousand (2010: AMD 72,964 thousand) was made against these loans.

Reconciliation of loans and advances by industry sectors is as follows:

In thousand Armenian drams	**Industry**	**Construction**	**Trading**	**Consumer**	**Agri-culture**	**Mortgage**	**Other**	**2011 Total**
Loans	**6,605,572**	**5,160,973**	**6,501,370**	**1,926,624**	**87,611**	**1,112,556**	**4,407,976**	**25,802,682**
Less allowance for loan impairment	**(66,090)**	**(51,611)**	**(65,017)**	**(19,366)**	**(878)**	**(11,146)**	**(44,087)**	**(258,195)**
Net loans	**6,539,482**	**5,109,362**	**6,436,353**	**1,907,258**	**86,733**	**1,101,410**	**4,363,889**	**25,544,487**

In thousand Armenian drams	Industry	Construction	Trading	Consumer	Agri-culture	Mortgage	Other	2010 Total
Loans	4,020,110	4,547,712	2,921,434	1,945,664	76,399	1,102,187	1,518,749	16,132,255
Less allowance for loan impairment	(39,812)	(45,037)	(28,931)	(19,268)	(757)	(10,915)	(15,040)	(159,760)
Net loans	3,980,298	4,502,675	2,892,503	1,926,396	75,642	1,091,272	1,503,709	15,972,495

Reconciliation of allowance account for losses on loans and advances by industry sectors and the collective impairment is as follows:

In thousand Armenian drams	**Industry**	**Construction**	**Trading**	**Consumer**	**Agri-culture**	**Mortgage**	**Other**	**2011 Total**
At 1 January 2011	**39,812**	**45,037**	**28,931**	**19,268**	**757**	**10,915**	**15,040**	**159,760**
Charge for the year	**26,278**	**169,851**	**36,086**	**1,043**	**121**	**231**	**29,047**	**262,657**
Amounts written off	**-**	**(163,277)**	**-**	**(995)**	**-**	**-**	**-**	**(164,272)**
Recoveries	**-**	**-**	**-**	**50**	**-**	**-**	**-**	**50**
At 31 December 2011	**66,090**	**51,611**	**65,017**	**19,366**	**878**	**11,146**	**44,087**	**258,195**

In thousand Armenian drams	Industry	Construction	Trading	Consumer	Agri-culture	Mortgage	Other	2010 Total
At 1 January 2010	10,799	21,812	23,842	19,858	1,099	11,270	15,665	104,345
Charge/(Reversal) for the year	29,013	23,225	5,089	1,844	(342)	(355)	(625)	57,849
Amounts written off	-	-	-	(2,624)	-	-	-	(2,624)
Recoveries	-	-	-	190	-	-	-	190
At 31 December 2010	39,812	45,037	28,931	19,268	757	10,915	15,040	159,760

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

In thousand Armenian drams	**2011**	2010
Privately held companies	**20,454,545**	12,257,276
Individuals	**3,039,493**	3,035,558
Sole proprietors	**2,306,543**	676,856
Non-commercial institutions	**2,101**	162,565
	25,802,682	16,132,255
Less allowance for loan impairment	**(258,195)**	(159,760)
Total loans and advances to customers	**25,544,487**	15,972,495

Loans to individuals comprise the following products:

In thousand Armenian drams	2011	2010
Mortgage loans	**1,112,556**	1,108,743
Consumer loans	**845,293**	158,943
Car loans	**823,736**	1,227,382
Other	**257,908**	540,490
Total loans and advances to individuals (gross)	**3,039,493**	3,035,558

At 31 December 2011 and 2010 the estimated fair value of loans and advances to customers approximates it carrying value. Refer to Note 32.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in Note 34. Information on related parties is disclosed in Note 31.

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

19 Investment securities

In thousand Armenian drams	Available-for-sale	Held-to-maturity	2011 Total	Available-for-sale	Held-to-maturity	2010 Total
Unquoted investments						
Shares of Armenian companies	**42,825**	**-**	**42,825**	42,768	-	42,768
Securities issued by the RA Ministry of Finance	**2,036,570**	**463,674**	**2,500,244**	1,074,134	197,549	1,271,683
Securities issued by the government of other country	**-**	**-**	**-**	-	240,581	240,581
Accrued interest	**62,752**	**23,525**	**86,277**	-	-	-
Total investments	**2,142,147**	**487,199**	**2,629,346**	1,116,902	438,130	1,555,032

All debt securities have fixed coupons.

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

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

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

In thousand Armenian drams	2011 %	2011 Maturity	2010 %	2010 Maturity
Securities issued the RA Ministry of Finance	**12.08-13.06%**	**2013-2018**	7.9-12.8%	2011-2013

Debt securities available for sale at fair value of AMD 1,453,378 thousand (2010: AMD 462,981 thousand) were pledged to third parties in sale and repurchase agreements for periods not exceeding one months. These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet (Note 28).

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

In thousand Armenian drams	2011		2010	
	%	**Maturity**	%	Maturity
Securities issued by the RA Ministry of Finance	**15.41%**	**2021**	4.6-9.7	2011
Securities issued by government of other country	**-**	**-**	8.1	2011

Held-to-maturity securities

In thousand Armenian drams	2011	2010
Nominal value	**550,000**	435,287
Discount	**(86,326)**	(4,885)
Accrued interest	**23,525**	7,708
Total investments held to maturity	**487,199**	438,130

20 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Capital expenditures	Machinery and equipment	Vehicles	Office equipment	Assets under construc-tion	Total
COST							
At January 1, 2010	1,738,750	47,453	174,785	88,863	285,745	4,485	2,340,081
Additions	-	-	20,351	11,260	30,211	43,681	105,503
Disposals	-	-	(10,729)	(9,004)	(3,186)	-	(22,919)
Reclassification	48,166	-	-	-	-	(48,166)	-
At December 31, 2010	**1,786,916**	**47,453**	**184,407**	**91,119**	**312,770**	**-**	**2,422,665**
Additions	**-**	**68,421**	**59,012**	**4,423**	**47,798**	**82,233**	**261,887**
Disposals	**-**	**-**	**(23,614)**	**-**	**-**	**-**	**(23,614)**
At December 31, 2011	**1,786,916**	**115,874**	**219,805**	**95,542**	**360,568**	**82,233**	**2,660,938**
DEPRECIATION							
At January 1, 2010	331,407	15,456	120,361	47,859	226,618	-	741,701
Charge for the year	42,443	7,464	23,279	16,843	26,596	-	116,625
Disposals	-	-	(9,721)	(7,485)	(1,481)	-	(18,687)
At December 31, 2010	**373,850**	**22,920**	**133,919**	**57,217**	**251,733**	**-**	**839,639**
Charge for the year	**43,207**	**9,609**	**26,828**	**18,336**	**31,994**	**-**	**129,974**
Disposals	**-**	**-**	**(23,205)**	**-**	**-**	**-**	**(23,205)**
At December 31, 2011	**417,057**	**32,529**	**137,542**	**75,553**	**283,727**	**-**	**946,408**
CARRYING VALUE							
At December 31, 2011	**1,369,859**	**83,345**	**82,263**	**19,989**	**76,841**	**82,233**	**1,714,530**
At December 31, 2010	**1,413,066**	**24,533**	**50,488**	**33,902**	**61,037**	**-**	**1,583,026**
At December 31, 2009	**1,407,343**	**31,997**	**54,424**	**41,004**	**59,127**	**4,485**	**1,598,380**

The management believes that at 31 December 2011 the fair value of the buildings approximates their carrying amounts.

As at 31 December 2011 and 2010, the Bank does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

Assets under construction

In January 2011 the Bank acquired semi-constructed building and land in the amount of AMD 37,054 thousand, which is under construction, and occupies 78.1 square meters. The costs to complete the building for its use are estimated to be AMD 96,670 thousand with renovations expected to be completed by April 2012.

Fully depreciated items

As at 31 December 2011 fixed assets included fully depreciated assets in amount of AMD 361,137 thousand (2010: AMD 174,702 thousand).

Fixed assets in the phase of installation

As at 31 December 2011 fixed assets included assets in the phase of installation in amount of AMD 229 thousand (2010: AMD 198 thousand), which are not amortized and are classified in accordance with their type.

21 Intangible assets

In thousand Armenian drams	Trademarks, licenses and patents	Acquired software licenses	Other	Total
At January 1, 2010	-	29,420	49,981	79,401
Additions	16,088	2,747	3,096	21,931
At December 31, 2010	**16,088**	**32,167**	**53,077**	**101,332**
Additions	**972**	**900**	**-**	**1,872**
At December 31, 2011	**17,060**	**33,067**	**53,077**	**103,204**
AMORTISATION				
At January 1, 2010	-	23,709	22,203	45,912
Amortisation charge	520	2,160	5,248	7,928
At December 31, 2010	**520**	**25,869**	**27,451**	**53,840**
Amortisation charge	**1,646**	**1,044**	**5,299**	**7,989**
At December 31, 2011	**2,166**	**26,913**	**32,750**	**61,829**
CARRYING VALUE				
At December 31, 2011	**14,894**	**6,154**	**20,327**	**41,375**
At December 31, 2010	15,568	6,298	25,626	47,492
At December 31, 2009	-	5,711	27,778	33,489

As at 31 December 2011 and 2010, the Bank does not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

22 Other assets

In thousand Armenian drams	2011	2010
Prepayments and other debtors	**51,908**	20,326
Other receivables	**110,822**	-
Accounts receivable	**-**	29,154
Other prepaid taxes	**195**	10
Materials	**10,110**	9,416
Other	**3,432**	2,608
Total other assets	**176,467**	61,514

Included in prepayments in the amount of AMD 29,071 thousand if the prepayment to the contractor for the construction of Davitashen branch.

Other amounts receivable represent amounts receivable for transactions through payment systems.

23 Amounts due to the CBA

In thousand Armenian drams	2011	2010
Subordinated loan	**3,613,414**	-
Loans under repurchase agreements	**1,033,859**	-
Total amounts due to financial institutions	**4,647,273**	-

The subordinated loan was issued within April-September 2011 with a maturity period up to 31.12.2016. The interest rate is 8%.

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

24 Amounts due to financial institutions

In thousand Armenian drams	2011	2010
Correspondent accounts of other banks	**1,444**	1,444
Current accounts of other financial institutions	**10,815**	14,462
Loans and deposits from financial institutions	**354,850**	257,198
Loans under repurchase agreements	**403,584**	460,335
Total amounts due to financial institutions	**770,693**	733,439

All deposits from financial institutions have fixed interest rates.

As of 31 December 2011 the effective interest rates on amounts due to financial institutions were 8% for borrowings in AMD (2010: 8%) and from 7 to 7.5 % for borrowings in USD, EUR and other freely convertible currencies (2010: from 6 to 8 %).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2010: nil).

25 Amounts due to customers

In thousand Armenian drams	2011	2010
Government of the RA		
Received loans	**109,391**	110,464
	109,391	110,464
Corporate customers		
Current/Settlement accounts	**4,460,977**	3,340,423
Time deposits	**427,434**	721,845
	4,888,411	4,062,268
Retail customers		
Current/Demand accounts	**1,404,276**	1,701,158
Time deposits	**5,009,347**	1,976,203
	6,413,623	3,677,361
Total amounts due to customers	**11,411,425**	7,850,093

Loans from the Government of the RA include loans received within the scope of "Small and medium business loan project" of German-Armenian fund.

At 31 December 2011 the aggregate balance of top ten customers of the Bank (including related parties, see Note 31) amounts to AMD 6,023,754 thousand (2010: AMD 5,661,211 thousand) or 53% of total customer accounts (2010: 72%).

As of 31 December 2011 the effective interest rates on amounts due to customers ranged from 8% to 10% for borrowings in AMD (2010: from 5% to 9%) and from 3.5% to 9 % for borrowings in USD, EUR and other freely convertible currencies (2010: from 3 to 10 %).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2010: nil).

26 Debt securities issued

In thousand Armenian drams	2011	2010
Interest bearing securities	**4,618,550**	7,978,344
Accrued interests	**231,356**	412,151
Total debt securities issued	**4,849,906**	8,390,495

During 2010 the Bank issued interest-bearing bonds having an aggregate nominal value of 10,000 thousand US dollars to its related party Prometey City (2010: an aggregate nominal value of 10,000 thousand US dollars) maturing in 3 years (2010: 3 years) and bearing annual interest rate of 7% (2010: 7%).

The Bank redeemed its interest-bearing bonds issued to Prometey City having an aggregate nominal value of 10,000 thousand US dollars. The redemption was made before its due date. (In 2010 the Bank did not redeem its interest bearing bonds).

The Bank's issued interest-bearing bonds are not intended for circulation in secondary market.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2010: nil).

27 Other liabilities

In thousand Armenian drams	2011	2010
Accounts payables	**11,375**	13,162
Tax payable, other than income tax	**63,351**	36,669
Grants related to assets (Note 9)	**62,224**	64,298
Due to personnel	**14,631**	9,587
Other	**3,494**	3,639
Total other liabilities	**155,075**	127,355

Grants related to assets

In thousand Armenian drams	2011	2010
At January 1	**64,298**	66,373
Recognition of income	**(2,074)**	(2,075)
At December 31	**62,224**	64,298

28 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	2011	2010	**2011**	2010
Investment securities (Note 19,23, 24)	**1,453,378**	462,981	**1,437,443**	460,335
	1,453,378	462,981	**1,437,443**	460,335

The pledged securities are those financial assets pledged under repurchase agreements with other banks, with the right to sell or re-pledge by the counterparty.

29 Equity

As at 31 December 2011 the Bank’s registered and paid-in charter capital was AMD 14,400,000 thousand.

The respective participants as at 31 December 2011 and 2010 may be specified as follows:

In thousand Armenian drams	2011		2010	
	Paid-in share capital	**% of total paid-in capital**	Paid-in share capital	% of total paid-in capital
“ZakNefteGazStroy Prometey” OJSC	**6,642,000**	**46.125**	6,642,000	92.25
Vazgen Gevorgyan	**561,600**	**3.9**	558,000	7.75
“Prometey City” LLC	**7,196,400**	**49.975**	-	-
	14,400,000	**100**	7,200,000	100

In 2011 the participants of the Bank have increased their charter capital by AMD 7,200,000 (2010: nil).

The charter capital of the Bank was contributed by the participants in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams.

As at 31 December 2011, the Bank did not possess any of its own shares.

At the Participants’ meeting on 27 April 2011, the Bank made a decision not to distribute earnings for the year ended 31 December 2010.

Distributable among participants reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank’s statutes that provide for the creation of a reserve for these purposes of not less than 5 % of the Bank’s charter capital 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 statement of financial position.

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	**2011**	2010
Undrawn loan commitments	**560,731**	398,805
Guarantees	**533,372**	407,932
Total commitments and contingent liabilities	**1,094,103**	806,737

The maximum exposure to credit risk of Loan commitments, guarantee and other financial facilities is best represented by the total amount of these commitments and contingent liabilities.

Operating lease commitments – Bank as a lessee

In the normal course of business the Bank enters into commercial lease agreements for office equipment, central office and branch facilities.

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

In thousand Armenian drams	**2011**	2010
Not later than 1 year	**74,581**	58,110
Later than 1 year and not later than 5 years	**117,674**	116,486
Later than 5 years	**15,530**	-
Total operating lease commitments	**207,785**	174,596

Capital commitments

The Bank has capital commitment with regard to the construction of its Davitashen branch. To complete the mentioned construction the Bank needs AMD 67,599 thousand. The Bank has already allocated the necessary resources in order to complete the construction.

Insurance

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

Starting 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 participants, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively.

The ultimate participant of the Bank is Vazgen Gevorgyan, who is related with other shareholders of the Bank.

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

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

In thousand Armenian drams	2011		2010	
	Participants and parties related with them	**Key management personnel and parties related with them**	Participants and parties related with them	Key management personnel and parties related with them
Loans and advances to customers				
Loans outstanding at January 1, gross	**1,024,625**	**63,004**	545,571	29,337
Loans issued during the year	**1,689,304**	**151,853**	842,441	137,997
Loan repayments during the year	**(999,209)**	**(168,041)**	(363,387)	(104,330)
Loans outstanding at December 31, gross	**1,714,720**	**46,816**	1,024,625	63,004
Less: allowance for loan impairment	**(17,147)**	**(468)**	(10,246)	(630)
Loans outstanding at December 31	**1,697,573**	**46,348**	1,014,379	62,374
Interest income on loans	**250,859**	**7,759**	112,472	8,285
Impairment charge for credit losses/(reversal)	**6,901**	**(162)**	4,790	337
Amounts due to customers				
Deposits at January 1	**689,179**	**39,798**	692,994	68,746
Deposits received during the year	**5,214,974**	**1,084,162**	8,921,560	738,130
Deposits repaid during the year	**(5,104,830)**	**(874,341)**	(8,925,375)	(767,078)
Deposits at December 31	**799,323**	**249,619**	689,179	39,798
Interest expense on deposits	**50,345**	**5,280**	39,656	5,069
Debt securities issued				
Issued at January 1	**3,634,400**	**-**	-	-
Issued during the year	**-**	**-**	3,634,400	-
Redeemed during the year	**(3,634,400)**	**-**	-	-
Issued at December 31	**-**	**-**	3,634,400	-
Interest expense on debt securities issued	**201**	**-**	194	-
Income statement items				
Fee and commission income	**591**	**479**	-	-
Commission income	**-**	**-**	895	535
Other income	**3,358**	**293**	2,572	72
Commission expenses	**4**	**12**	-	-
Other operating expenses	**150**	**10**	-	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	**2011**	2010
Salaries and other short-term benefits	**363,685**	196,974
Social security costs	**23,326**	11,864
Total key management compensation	**387,011**	208,838

The loans issued to directors and other key management personnel (and close family members) are repayable monthly over 12 years and have interest rates of 10-20% (2010: 10-20%). The loans advanced to the directors during the year are collateralised by real estates. The fair value of those collaterals was AMD 157,058 thousand (2010: AMD 188,890 thousand).

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	2011		2010	
	Carrying value	**Fair value**	Carrying value	Fair value
FINANCIAL ASSETS				
Cash and balances with CBA	**6,470,118**	**6,470,118**	4,509,322	4,509,322
Amounts due from other financial institutions	**1,885,764**	**1,885,764**	3,183,422	3,183,422
Loans and advances to customers	**25,544,487**	**25,544,487**	15,972,495	15,972,495
Investments held to maturity	**487,199**	**486,918**	438,130	436,286
Other assets	**110,822**	**110,822**	-	-
FINANCIAL LIABILITIES				
Amounts due to the CBA	**4,647,273**	**4,647,273**	-	-
Amounts due to financial institutions	**770,693**	**770,693**	733,439	733,439
Amounts due to customers	**11,411,425**	**11,411,425**	7,850,093	7,850,093
Issued debt securities	**4,849,906**	**4,849,906**	8,390,495	8,390,495

Amounts due from and to financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 10.47% to 24.36% per annum.

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 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

Financial assets and liabilities measured at fair value in the statement of financial position are presented below. 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				**2011**
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Unquoted securities and bonds	**-**	**2,859,040**	**-**	**2,859,040**
Securities pledged under repurchase agreements	**-**	**1,453,378**		**1,453,378**
Derivative financial assets	**-**	**1,627**	**-**	**1,627**
Total	**-**	**4,314,045**	**-**	**4,314,045**
FINANCIAL LIABILITIES				
Derivative financial liabilities	**-**	**642**	**-**	**642**
Total	**-**	**642**	**-**	**642**
NET FAIR VALUE	**-**	**4,313,403**	**-**	**4,313,403**

				2010
In thousand Armenian drams	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Unquoted securities and bonds	-	1,074,134	-	1,074,134
Security pledged under repurchase agreements	-	462,981	-	462,981
Total		1,537,115		1,537,115
NET FAIR VALUE	-	1,537,115	-	1,537,115

Unlisted equity investments.

The fair value of Bank's investment in "ArCa" and "ACRA" unlisted equity investments cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 19 for further information about this equity investment.

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

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	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
								2011
ASSETS								
Cash and balances with CBA	6,470,118	-	-	6,470,118	-	-	-	6,470,118
Trading securities	-	-	-	-	-	759,718	759,718	759,718
Amounts due from other financial institutions	1,885,764	-	-	1,885,764	-	-	-	1,885,764
Derivative financial assets	1,627	-	-	1,627	-	-	-	1,627
Loans and advances to customers	35,653	1,045,700	1,420,040	2,501,393	20,119,123	2,923,971	23,043,094	25,544,487
Investments available for sale	-	-	-	-	-	2,142,147	2,142,147	2,142,147
Investments held to maturity	-	-	-	-	487,199	-	487,199	487,199
Securities pledged under repurchase agreements	1,453,378	-	-	1,453,378	-	-	-	1,453,378
Other assets	110,822	-	-	110,822	-	-	-	110,822
	9,957,362	1,045,700	1,420,040	12,423,102	20,606,322	5,825,836	26,432,158	38,855,260
LIABILITIES								
Amounts due to the CBA	1,047,273	-	-	1,047,273	-	3,600,000	3,600,000	4,647,273
Derivative financial instruments	642	-	-	642	-	-	-	642
Amounts due to financial institutions	12,259	731,430	27,004	770,693	-	-	-	770,693
Amounts due to customers	5,612,951	1,228,495	4,428,788	11,270,234	141,191	-	141,191	11,411,425
Debt securities issued	-	-	992,206	992,206	3,857,700	-	3,857,700	4,849,906
	6,673,125	1,959,925	5,447,998	14,081,048	3,998,891	3,600,000	7,598,891	21,679,939
Net position	3,284,237	(914,225)	(4,027,958)	(1,657,946)	16,607,431	2,225,836	18,833,267	17,175,321
Accumulated gap	3,284,237	2,370,012	(1,657,946)		14,949,485	17,175,321		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
								2010
ASSETS								
Cash and balances with the CBA	4,509,322	-	-	4,509,322	-	-	-	4,509,322
Amounts due from other financial institutions	3,134,541	-	-	3,134,541	-	48,881	48,881	3,183,422
Loans and advances to customers	527,710	734,170	3,110,869	4,372,749	10,940,634	659,112	11,599,746	15,972,495
Investments available for sale	-	198,181	677,732	875,913	198,221	42,768	240,989	1,116,902
Investments held to maturity	-	98,803	339,327	438,130	-	-	-	438,130
Securities pledged under repurchase agreements	462,981	-	-	462,981	-	-	-	462,981
	8,634,554	1,031,154	4,127,928	13,793,636	11,138,855	750,761	11,889,616	25,683,252
LIABILITIES								
Amounts due to financial institutions	576,284	121,691	35,464	733,439	-	-	-	733,439
Amounts due to customers	5,056,673	391,529	2,303,525	7,751,727	97,920	446	98,366	7,850,093
Debt securities issued	3,828,586	125,601	286,551	4,240,738	515,357	3,634,400	4,149,757	8,390,495
	9,461,543	638,821	2,625,540	12,725,904	613,277	3,634,846	4,248,123	16,974,027
Net position	(826,989)	392,333	1,502,388	1,067,732	10,525,578	(2,884,085)	7,641,493	8,709,225
Accumulated gap	(826,989)	(434,656)	1,067,732		11,593,310	8,709,225		

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.

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

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

Risk management structure

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

Board of Directors

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

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Risk Management

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Risk Controlling

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank’s compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of the Bank and the Management Board.

Risk measurement and reporting systems

The Bank’s risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of market limits, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank’s performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

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 credit risk management team of Bank's Risk Management Department and reported to the Board of Directors.

The carrying amounts of the Bank's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

34.1.1 Risk concentrations

Geographical sectors

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

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Cash and balances with CBA	**6,470,118**	**-**	**-**	**6,470,118**
Trading securities	**759,718**	**-**	**-**	**759,718**
Amounts due from other financial institutions	**1,429,695**	**143,690**	**312,379**	**1,885,764**
Derivative financial assets	**-**	**-**	**1,627**	**1,627**
Loans and advances to customers	**25,544,487**	**-**	**-**	**25,544,487**
Investments available for sale	**2,142,147**	**-**	**-**	**2,142,147**
Investments held to maturity	**487,199**	**-**	**-**	**487,199**
Securities pledged under repurchase agreements	**1,453,378**	**-**	**-**	**1,453,378**
Other assets	**104,620**	**2,707**	**3,495**	**110,822**
As at 31 December 2011	**38,391,362**	**146,397**	**317,501**	**38,855,260**
As at 31 December 2010	23,848,897	338,912	1,495,443	25,683,252

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

Industry sectors

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

In thousand Armenian drams	**Financial institutions**	**Manufacturing**	**Agriculture**	**Construction**	**Trading**	**Consumer sector**	**Mortgage**	**Other**	**Total**
Cash and balances with CBA	**6,470,118**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,470,118**
Trading securities	**759,718**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**759,718**
Amounts due from other financial institutions	**1,885,764**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,885,764**
Derivative financial assets	**1,627**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,627**
Loans and advances to customers	**-**	**6,539,482**	**86,733**	**5,109,362**	**6,436,353**	**1,907,258**	**1,101,410**	**4,363,889**	**25,544,487**
Investments available for sale	**2,142,147**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,142,147**
Investments held to maturity	**487,199**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**487,199**
Securities pledged under repurchase agreements	**1,453,378**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,453,378**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**110,822**	**110,822**
As at 31 December 2011	**13,199,951**	**6,539,482**	**86,733**	**5,109,362**	**6,436,353**	**1,907,258**	**1,101,410**	**4,474,711**	**38,855,260**
As at 31 December 2010	9,710,757	3,980,298	75,643	4,502,675	2,892,503	1,926,396	1,091,272	1,503,708	25,683,252

34.1.2 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 quarterly by the Board of the Bank.

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	2011	2010
Loans collateralized by real estate	**21,334,068**	12,510,183
Loans collateralized by movable property	**1,476,611**	1,647,500
Loans collateralized by guarantees of enterprises	**1,183**	-
Loans collateralized by inventories	**1,893,202**	-
Loans collateralized by shares of other companies	**159,459**	170,754
Loans collateralized by gold and precious metals	**472,204**	286,526
Loans collateralized by cash or guarantees of the government	**-**	1,137,656
Other collateral	**465,955**	379,636
Total loans and advances to customers (gross)	**25,802,682**	16,132,255

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.

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.

34.1.3 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.

As at 31.12.2011 and 31.12.2010 there were no individually impaired loans.

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	**2011**	2010
Loans and advances to customers		
Industry	**1.0%**	1.0%
Construction	**1.0%**	1.0%
Trade	**1.0%**	1.0%
Consumer	**1.0%**	1.0%
Agriculture	**1.0%**	1.0%
Mortgage	**1.0%**	1.0%
Other		

As of 31 December 2011 and 2010 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	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
					2011
Loans and advances to customers					
Consumer	**1,931**	**6,799**	**-**	**3,300**	**12,030**
Total	**1,931**	**6,799**	**-**	**3,300**	**12,030**

In thousand Armenian drams	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
					2010
Loans and advances to customers					
Construction	-	-	-	168,077	168,077
Other	-	-	-	9,558	9,558
Total	-	-	-	177,635	177,635

Renegotiated loans

The carrying amount of renegotiated loans by class is as follows:

In thousand Armenian drams	**2011**	2010
Loans and advances to customers		
Other sectors	**-**	29,799

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 (*Executive Board*) 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 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 2011, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, at 31 December 2011 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 **2011**

			Sensitivity of equity				
Currency	**Change in basis points**	**Sensitivity of net interest income**	**Up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
AMD	**+1%**	**(117,511)**	**-**	**-**	**(71,969)**	**(45,542)**	**(117,511)**
AMD	**-1%**	**123,273**	**-**	**-**	**74,724**	**48,549**	**123,273**

In thousand Armenian drams 2010

			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	+1%	-	(984)	(2,237)	(12,214)	-	(15,435)
AMD	-1%	-	990	2,264	12,582	-	15,836

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 2011 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges, and equity instruments). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams		**2011**				2010
Currency	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	+5%	6,398	6,398	5%	4,627	4,627
EUR	+5%	124	124	5%	327	327
RUB	+1	6	6	1%	5	5
USD	-5%	(6,398)	(6,398)	-5%	(4,627)	(4,627)
EUR	-5%	(124)	(124)	-5%	(327)	(327)
RUB	-1	(50)	(50)	-1%	(5)	(5)

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

In thousand Armenian drams	**Armenian Dram**	**Freely convertible currencies**	**Non-freely convertible currencies**	**Total**
ASSETS				
Cash and balances with the CBA	**2,661,376**	**3,509,260**	**299,482**	**6,470,118**
Trading securities	**759,718**	**-**	**-**	**759,718**
Amounts due from other financial institutions	**1,364,126**	**264,608**	**257,030**	**1,885,764**
Derivative financial assets	**-**	**1,627**	**-**	**1,627**
Loans and advances to customers	**15,190,022**	**10,354,465**	**-**	**25,544,487**
Investments available for sale	**2,142,147**	**-**	**-**	**2,142,147**
Investments held to maturity	**487,199**	**-**	**-**	**487,199**
Securities pledged under repurchase agreements	**1,453,378**	**-**	**-**	**1,453,378**
Other assets	**27,525**	**81,654**	**1,643**	**110,822**
	24,085,491	**14,211,614**	**558,155**	**38,855,260**
LIABILITIES				
Amounts due to the CBA	**4,647,273**	**-**	**-**	**4,647,273**
Amounts due to financial institutions	**453,463**	**317,230**	**-**	**770,693**
Derivative financial liabilities	**-**	**632**	**10**	**642**
Amounts due to customers	**1,965,656**	**9,409,844**	**35,825**	**11,411,425**
Debt securities issued	**-**	**4,849,906**	**-**	**4,849,906**
	7,066,392	**14,577,612**	**35,935**	**21,679,939**
Net position as at 31 December 2011	**17,019,099**	**(365,998)**	**522,220**	**17,175,321**
Commitments and contingent liabilities as at 31 December 2011	879,810	214,294	-	1,094,104
Total financial assets	12,442,485	13,177,849	62,918	25,683,252
Total financial liabilities	3,717,741	13,193,041	63,245	16,974,027
Net position as at 31 December 2010	8,724,744	(15,192)	(327)	8,709,225
Commitments and contingent liabilities as at 31 December 2010	628,018	178,719	-	806,737

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.

	Not audited	
As at 31 December, these ratios were as follows:	**2011, %**	**2010, %**
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	**27.14**	**30.28**
H22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	**197.23**	**185.91**

Analysis of financial liabilities by remaining contractual maturities.

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2011 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						**2011**
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
NON-DERIVATIVE FINANCIAL LIABILITIES						
Amounts due to the CBA	**1,059,227**	**-**	**-**	**-**	**5,040,000**	**6,099,227**
Amounts due to financial institutions	**12,259**	**1,245,355**	**28,190**	**-**	**-**	**1,285,804**
Amounts due to customers	**5,807,235**	**938,237**	**4,624,431**	**144,172**	**1,844**	**11,515,919**
Debt securities issued	**-**	**-**	**935,920**	**5,734,043**	**-**	**6,669,963**
Total undiscounted non-derivative financial liabilities	**6,878,721**	**2,183,592**	**5,588,541**	**5,878,215**	**5,041,844**	**25,570,913**
DERIVATIVE FINANCIAL LIABILITIES						
Foreign exchange spot transactions						
Inflow	520,512	-	-	-	-	520,512
Outflow	519,507	-	-	-	-	519,507
Commitments and contingent liabilities	946,198	11,109	210,075	114,328	-	1,281,710

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 financial institutions	583,566	117,039	36,128	-	-	736,733
Amounts due to customers	5,038,241	403,737	2,399,427	117,518	-	7,958,923
Debt securities issued	4,423,302	152,460	512,450	1,642,512	4,728,354	11,459,078
Total undiscounted non-derivative financial liabilities	10,045,109	673,236	2,948,005	1,760,330	4,728,354	20,154,734
Commitments and contingent liabilities	613,472	8,507	238,452	196,306	-	1,056,737

34.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Risk Management department, Board and Executive Management. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank of Armenia on internal control system;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the Bank to which they relate, with summaries submitted to the Board.

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 in 1988 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 charter capital, retained earnings including current year profit, and general reserve. Regulatory capital is calculated in accordance with the requirements of the Central Bank of Armenia and accounting standards of the Republic of Armenia. 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 2011 and 2010 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.

	Not audited	
In thousand Armenian drams	**2011**	2010
Tier 1 capital	18,960,320	10,102,521
Tier 2 capital	2,960,320	11,874
Total regulatory capital	21,414,088	10,114,395
Risk-weighted assets	40,274,756	25,673,185
Capital adequacy ratio	53.17%	39%

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

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

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