Financial Statements and Independent Auditor's Report

Prometey Bank limited liability company

31 December 2010

Contents

Independent auditor's report

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To the Participants and Board of Limited Liability Company Prometey Bank:

We have audited the accompanying financial statements of "Prometey Bank" LLC (the "Bank"), which comprise the statement of financial position as at December 31, 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gagik Gyulbudaghyan
Managing partner

Aren Aghajanyan
Head of audit

Grant Thornton CJSC
4 February 2011
Yerevan

Statement of comprehensive income

In thousand Armenian drams	Notes	**Year ended December 31, 2010 (audited)**	Year ended December 31, 2009 (audited)
Interest and similar income	6	**2,410,487**	1,489,468
Interest and similar expense	6	**(819,514)**	(453,458)
Net interest income		**1,590,973**	1,036,010
Fee and commission income	7	**173,609**	140,206
Fee and commission expense	7	**(130,769)**	(91,271)
Net fee and commission income		**42,840**	48,935
Net trading income	8	**284,625**	384,930
Gains less losses on investments available for sale		**-**	248
Other income	9	**65,510**	204,107
Impairment charge for credit losses	10	**(57,849)**	(4,837)
Staff costs	11	**(543,387)**	(443,858)
Depreciation of property and equipment	18	**(116,625)**	(112,507)
Amortization of intangible assets	19	**(7,928)**	(7,931)
Other expenses	12	**(360,443)**	(296,414)
Profit before income tax		**897,716**	808,683
Income tax expense	13	**(212,065)**	(158,097)
Profit for the year		**685,651**	650,586
Other comprehensive income:			
Net unrealized gains from changes in fair value		**22,377**	4,361
Net gains realized to net profit on disposal of available-for-sale instruments		**-**	(582)
Income tax relating to components of other comprehensive income		**(4,476)**	(756)
Other comprehensive income for the year, net of tax		**17,901**	3,023
Total comprehensive income for the year		**703,552**	653,609

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

Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2010 (audited)	As of December 31, 2009 (audited)
ASSETS			
Cash and balances with CBA	14	**4,509,322**	5,758,227
Amounts due from other financial institutions	15	**3,183,422**	2,991,286
Loans and advances to customers	16	**15,972,495**	10,413,767
Investments available for sale	17	**1,116,902**	309,923
Investments held to maturity	17	**438,130**	-
Securities pledged under repurchase agreements	26	**462,981**	-
Prepaid income taxes		**-**	27,055
Property, plant and equipment	18	**1,583,026**	1,598,380
Intangible assets	19	**47,492**	33,489
Assets held for sale	20	**145,163**	145,163
Other assets	21	**61,514**	240,903
TOTAL ASSETS		**27,520,447**	21,518,193
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to financial institutions	22	**733,439**	792,315
Amounts due to customers	23	**7,850,093**	6,056,947
Debt securities issued	24	**8,390,495**	4,735,732
Current income tax liabilities		**82,608**	-
Deferred income tax liabilities	13	**19,372**	500
Other liabilities	25	**127,355**	249,166
Total liabilities		**17,203,362**	11,834,660
Equity			
Charter capital	27	**7,200,000**	7,200,000
Statutory general reserve		**52,075**	52,075
Other reserves		**15,641**	(2,260)
Retained earnings		**3,049,369**	2,433,718
Total equity		**10,317,085**	9,683,533
TOTAL LIABILITIES AND EQUITY		**27,520,447**	21,518,193

The financial statements from pages 3 to 50 were signed by the Bank's Chairman of the Executive Board and Chief Accountant on 4 February 2011. The accompanying notes on pages 7 to 50 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, 2009 (audited)	7,200,000	52,075	(5,283)	1,783,132	9,029,924
Profit for the year	-	-	-	650,586	650,586
Net unrealized gains from changes in fair value	-	-	4,361	-	4,361
Net gains realized to net profit on disposal of available-for-sale instruments	-	-	(582)	-	(582)
Income tax relating to components of other comprehensive income	-	-	(756)	-	(756)
Total comprehensive income for the year	-	-	3,023	650,586	653,609
Balance as of December 31, 2009 (audited)	**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 gains 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 (audited)	**7,200,000**	**52,075**	**15,641**	**3,049,369**	**10,317,085**

Statement of cash flows

In thousand Armenian drams	**Year ended December 31, 2010 (audited)**	Year ended December 31, 2009 (audited)
Cash flows from operating activities		
Profit before tax	**897,716**	808,683
Adjustments for		
Increase in provision for impairment	**57,849**	4,837
Amortization and depreciation allowances	**124,553**	120,438
Income from sale of fixed assets	**(1,142)**	-
Interest receivable	**(81,011)**	(18,651)
Interest payable	**229,288**	4,211
Recoveries on loans previously written off	**190**	6,473
Gains from currency translation of non-trading assets	**(3,339)**	(86,447)
Cash flows from operating activities before changes in operating assets and liabilities	**1,224,104**	839,544
(Increase)/decrease in operating assets		
Amounts due from other financial institutions	**653,423**	(2,464,287)
Loans and advances to customers	**(5,996,488)**	(785,633)
Other assets	**179,500**	(195,963)
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	**(576,390)**	500,133
Amounts due to customers	**1,739,542**	553,705
Other liabilities	**(121,795)**	(80,430)
Net cash flow used in operating activities before income tax	**(2,898,104)**	(1,632,931)
Income tax paid	**(88,006)**	(327,153)
Net cash used in operating activities	**(2,986,110)**	(1,960,084)
Cash flows from investing activities		
Purchase of investment securities	**(1,674,058)**	(146)
Purchase of property and equipment	**(105,503)**	(30,262)
Proceeds from sale of property and equipment	**5,374**	91
Purchase of intangible assets	**(21,931)**	-
Net cash used in investing activities	**(1,796,118)**	(30,317)
Cash flow from financing activities		
Proceeds from debt securities issued	**3,879,260**	1,980,922
Loans received from financial institutions	**612,917**	64,625
Dividends paid to shareholders	**(70,000)**	-
Net cash flow from financing activities	**4,422,177**	2,045,547
Net increase/(decrease) in cash and cash equivalents	**(360,051)**	55,146
Cash and cash equivalents at the beginning of the year	**6,034,849**	4,730,731
Exchange differences on cash and cash equivalents	**(3,061)**	1,248,972
Cash and cash equivalents at the end of the year (Note 14)	**5,671,737**	6,034,849

Supplementary information:		
Interest received	**2,329,476**	1,466,631
Interest paid	**(590,226)**	(279,155)

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 in 02.10.1991. 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. Its main office and its 4 branches are in Yerevan.

The registered office of the Bank is located at: 44/2 Hanrapetutyan str. Yerevan 375010, The 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, regional instability and international economic crisis.

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

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

3 Basis of preparation

3.1 Statement of compliance

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Reclassifications

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

3.5 Standards and Interpretations not yet applied by the Bank

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

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

New standards, Amendments and Interpretations to the existing Standards that are not yet effective and are not expected to be relevant to the Bank's financial statements

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

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

IFRIC 19: *Extinguishing financial liabilities with equity instruments*

The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Bank will apply the interpretation from 1 July 2010.

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

The amendment to IFRS 1 enables first-time adopters to benefit from the same relief from comparatives available to those already using IFRSs when applying Improving Disclosures about

Financial Instruments (Amendments to IFRS 7) for the first time. Effective for annual periods beginning on or after 1 July 2010.

IFRS 7 (Amendment) *Transfer of Financial Assets*

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

- To understand the relationship between transferred financial asset that are not derecognized in their entirely and the associated liabilities

- To evaluate the nature of and risks associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirely.

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

IAS 24 (revised), 'Related party disclosures'

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

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

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

IAS 12 (Amendment) *Recovery of underlying assets*

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

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

The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011.

Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented.

New standards, amendments and interpretations to the existing Standards that are not yet effective but are expected to be relevant to the Bank's financial statements in the future

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

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

- the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated,

- maximum exposure to credit risk for financial instruments whose carrying amount best represents the maximum exposure to credit risk,

- description and estimate of fair value of collateral held for past due or impaired financial assets.

IFRS 9 *Financial Instruments*

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

Management has yet to assess the full impact that this amendment is likely to have on the financial statements of the Bank. However, initial indications are that it may affect the Bank's accounting for its debt available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognized directly in profit or loss. In the current reporting period, the Bank recognized 22,377AMD of such gains in other comprehensive income. Also there will be only two categories of financial assets: measures only at amortized cost and fair value.

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Interest income and expense

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

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

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

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

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

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

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

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

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

4.3 Taxation

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

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

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

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

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

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

4.4 Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost.

4.5 Amounts due from other financial institutions

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

4.6 Financial instruments

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

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

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

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

Financial assets at fair value through profit or loss

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

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

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

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

Held-to-maturity investments

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

Loans and receivables

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

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

Available-for-sale financial instruments

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

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

4.7 Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

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

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

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

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

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

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

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

Available-for-sale financial assets

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

4.8 Derecognition of financial assets and liabilities

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

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

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

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

Financial liabilities

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

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

4.9 Repurchase and reverse repurchase agreements

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

4.10 Securities lending and borrowing

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

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

4.11 Leases

Operating - Bank as leasee

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

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

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

4.13 Intangible assets

Intangible assets include computer software, licences and other.

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

The current software development costs are recognised as an expense as incurred.

4.14 Assets held for sale

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

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

4.15 Grants

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

4.16 Borrowings

Borrowings, which include amounts due to 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 statement of income when the liabilities are derecognised as well as through the amortisation process.

4.17 Pensions

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

4.18 Financial guarantees

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

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

4.19 Provisions

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

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

5 Critical accounting estimates and judgements

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

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

Classification of investment securities

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

Related party transactions

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

Allowance for impairment of loans and receivables

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

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

Tax legislation

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

Impairment of available-for-sale equity investments

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

6 Interest and similar income and expense

In thousand Armenian drams	2010	2009
Loans and advances to customers	**2,200,844**	1,432,825
Debt investment securities available-for-sale	**76,427**	13,458
Amounts due from other financial institutions	**22,080**	3,894
Reverse repurchase transactions	**109,780**	35,854
Other interest income	**1,356**	3,437
Total interest and similar income	**2,410,487**	1,489,468

Amounts due to customers	**171,451**	132,481
Debt securities issued	**17,752**	311,206
Amounts due to financial institutions	**627,656**	8,108
Repurchase transactions	**315**	-
Other interest expenses	**2,340**	1,663
Total interest and similar expense	**819,514**	453,458

7 Fee and commission income and expense

In thousand Armenian drams	2010	2009
Cash collection	**19,449**	14,115
Wire transfer fees	**74,861**	83,350
Plastic cards operations	**34,295**	30,687
Other fees and commissions	**45,004**	12,054
Total fee and commission income	**173,609**	140,206

Wire transfer fees	**41,551**	18,498
Cash operations	**54,292**	57,764
Other expenses	**34,926**	15,009
Total fee and commission expense	**130,769**	91,271

8 Net trading income

In thousand Armenian drams	2010	2009
Gains less losses from trading in foreign currencies	**284,625**	385,957
Gains less losses on trading of equity instruments	**-**	(1,027)
Total net trading income	**284,625**	384,930

9 Other income

In thousand Armenian drams	2010	2009
Income from sale of fixed assets	**1,142**	-
Fines and penalties received	**29,493**	42,276
Income from operating lease	**15,375**	13,313
Income from letters of credit and guarantees issued	**13,730**	9,150
Gains less losses from assets related to grants	**2,075**	2,074
Foreign currency translation net gains of non-trading assets and liabilities	**3,339**	86,448
Other income	**356**	50,846
Total other income	**65,510**	204,107

Other income for the year 2009 includes payments of AMD 46,660 thousand according to the debt payment agreement signed between the Bank and “Vanadzor Khimprom” CJSC (see Note 21).

10 Impairment charge for credit losses

In thousand Armenian drams	2010	2009
Loans and advances to customers (Note 16)	**57,849**	4,837
Total impairment charge for credit losses	**57,849**	4,837

11 Staff costs

In thousand Armenian drams	2010	2009
Wages and salaries	**498,658**	404,731
Social security contributions	**44,729**	39,127
Total staff costs	**543,387**	443,858

12 Other expenses

In thousand Armenian drams	2010	2009
Fixed assets maintenance	**36,495**	27,077
Advertising costs	**18,356**	9,294
Business trip expenses	**4,679**	4,015
Communications	**57,532**	51,304
Operating lease	**57,054**	54,030
Taxes, other than income tax, duties	**20,035**	18,186
Consulting and other services	**12,559**	11,410
Security	**25,752**	25,656
Representative expenses	**55,431**	28,198
Office supplies	**30,553**	15,000
Penalties paid	**3,791**	3,794
Other expenses	**38,206**	48,450
Total other expense	**360,443**	296,414

13 Income tax expense

In thousand Armenian drams	2010	2009
Current tax expense	197,669	156,851
Deferred tax	14,396	1,246
Total income tax expense	212,065	158,097

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2009: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

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

In thousand Armenian drams	2010	Effective rate (%)	2009	Effective rate (%)
Profit before tax	897,716		808,683	
Income tax at the rate of 20%	179,543	20	161,737	20
Non-taxable income	-	-	(415)	-
Non-deductible expenses	33,190	4	4,905	1
Foreign exchange gains	(668)	-	(8,130)	-1
Income tax expense	212,065	24	158,097	20

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2009	Recognized in comprehensive income statement	Recognized in equity	2010
Other liabilities	2,773	(684)	-	2,089
Capital expenditures in leased fixed assets	1,018	2,884	-	3,902
Investment securities available for sale	565	-	(565)	-
Total deferred tax assets	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 asset/(liability)	(500)	(14,396)	(4,476)	(19,372)

In thousand Armenian drams	2008	Recognized in comprehensive income statement	Recognized in equity	2009
Accrued expenses and other liabilities	3,285	(512)	-	2,773
Capital expenditures in leased fixed assets	848	170	-	1,018
Investment securities available for sale	1,321	-	(756)	565
Total deferred tax assets	5,454	(342)	(756)	4,356
Loans and advances	-	(2,327)	-	(2,327)
Other assets	-	(2,529)	-	(2,529)
Revenues of future periods	(3,952)	3,952	-	-
Total deferred tax liability	(3,952)	(904)	-	4,856
Net deferred tax asset/(liability)	1,502	(1,246)	(756)	(500)

14 Cash, cash equivalents and balances with CBA

In thousand Armenian drams	**2010**	2009
Cash on hand	**1,494,182**	1,859,986
Correspondent account with the CBA	**2,649,768**	3,831,398
Included in cash and cash equivalents	**4,143,950**	5,691,384
Deposits with the CBA	**365,372**	66,843
Total cash and balances with the CBA	**4,509,322**	5,758,227
Cash and balances with the CBA, included in cash flow	**4,143,950**	5,691,384
Placements with other banks (note 15)	**1,527,787**	343,465
Total cash and cash equivalents	**5,671,737**	6,034,849

As at 31 December 2010 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 8% of certain obligations of the Bank denominated in Armenian drams and 12% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 1,658,475 thousand (2009: AMD 1,295,267 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 Amounts due from other financial institutions

In thousand Armenian drams	2010	2009
Correspondent accounts with financial institutions	**1,527,787**	343,465
Included in cash and cash equivalents	**1,527,787**	343,465
Deposits	**38,505**	55,411
Reverse repurchase agreements	**1,520,275**	1,978,508
Other amounts	**47,974**	566,835
Other accounts	**48,881**	47,067
	1,655,635	2,647,821
Total amounts due from other financial institutions	**3,183,422**	2,991,286

Deposits to financial institutions represent deposit placed with Migom payment system and Kompania BKS for operations in security market for the Bank's customers.

As at 31 December 2010 the amounts due from other financial institutions in amounts of AMD 956,634 thousand (63%) (2009: AMD 266,309 thousand (78%)) were due from one bank, which represents a significant concentration.

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

In thousand Armenian drams	2010		2009	
	Fair value of collateral	**Carrying value of loans**	Fair value of collateral	Carrying value of loans
State obligations of the RA Ministry of Finance	**1,598,508**	**1,520,275**	2,049,515	1,978,508
Total assets pledged and loans under reverse repurchase agreements	**1,598,508**	**1,520,275**	2,049,515	1,978,508

As at 31 December 2010 other amounts represent receivables from non resident bank related to currency exchange transaction.

During 2009, the Bank placed with and simultaneously received short-term funds from banks in various currencies (these amounts are included in other amounts). As of December 31, 2009, the Bank placed an equivalent of USD 1,500 thousand as deposits in Russian Roubles, which were related to deposits received from the same banks (See Note 22).

As of 31 December 2010 included in other accounts are guarantee deposits placed by the Bank for its operations Master Card payment system in the amount of AMD 48,881 thousand (2009: AMD 47,067 thousand).

16 Loans and advances to customers

In thousand Armenian drams	2010	2009
Loans to customers	**15,955,120**	10,406,058
Overdrafts	**32,070**	17,017
Other	**145,065**	95,037
	16,132,255	10,518,112
Less allowance for loan impairment	**(159,760)**	(104,345)
Total loans and advances to customers	**15,972,495**	10,413,767

As of 31 December 2010 accrued interest income included in loans and advances to customers amounted to AMD 156,279 thousand (2009: AMD 84,042 thousand).

As of December 31, 2010, the Bank had a concentration of loans represented by AMD 7,390,326 thousand due from the ten largest third party entities and parties related with them (46% of gross loan portfolio) (2009: AMD 4,563,185 thousand or 43 %). An allowance of AMD 72,964 thousand (2009: AMD 45,632 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	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**

In thousand Armenian drams	Industry	Construction	Trading	Consumer	Agri-culture	Mortgage	Other	2009 Total
Loans	1,086,852	2,862,252	2,396,317	1,994,388	110,661	1,130,809	936,833	10,518,112
Less allowance for loan impairment	(10,799)	(28,211)	(23,842)	(19,858)	(1,099)	(11,270)	(9,266)	(104,345)
Net loans	1,076,053	2,834,041	2,372,475	1,974,530	109,562	1,119,539	927,567	10,413,767

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	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**

In thousand Armenian drams	Industry	Construction	Trading	Consumer	Agri-culture	Mortgage	Other	2009 Total
At 1 January 2009	3,956	10,236	13,542	28,923	614	14,010	22,366	93,647
Charge/(Reversal) for the year	6,843	5,177	10,300	(9,065)	485	(2,740)	(6,163)	4,837
Amounts written off	-	-	-	-	-	-	(612)	(612)
Recoveries	-	6,399	-	-	-	-	74	6,473
At 31 December 2009	10,799	21,812	23,842	19,858	1,099	11,270	15,665	104,345

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

In thousand Armenian drams	2010	2009
State owned enterprises	**-**	66
Privately held companies	**12,257,276**	5,971,116
Individuals	**3,035,558**	3,740,489
Sole proprietors	**676,856**	612,802
Non-commercial institutions	**162,565**	193,639
	16,132,255	10,518,112
Less allowance for loan impairment	**(159,760)**	(104,345)
Total loans and advances to customers	**15,972,495**	10,413,767

Loans to individuals comprise the following products:

In thousand Armenian drams	2010	2009
Mortgage loans	**1,091,511**	1,127,067
Consumer loans	**158,943**	324,554
Car loans	**1,227,382**	1,661,171
Other	**540,490**	583,927
Total loans and advances to individuals (gross)	**3,018,326**	3,696,719

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

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

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

17 Investment securities

In thousand Armenian drams	**Available-for-sale**	**Held-to-maturity**	**2010 Total**	Available-for-sale	Held-to-maturity	2009 Total
Unquoted investments						
Shares of Armenian companies	**42,768**	**-**	**42,768**	42,577	-	42,577
Securities issued by the Ministry of Finance of Armenia	**1,074,134**	**197,549**	**1,271,683**	267,346	-	267,346
Securities issued by the Government of other country	**-**	**240,581**	**240,581**	-	-	-
Total investments	**1,116,902**	**438,130**	**1,555,032**	309,923	-	309,923

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 effective interest rates and maturity date comprise:

In thousand Armenian drams	**2010**		2009	
	%	**Maturity**	%	Maturity
Securities issued the Ministry of Finance of Armenia	**7.9-12.8**	**2011-2013**	6.8-13.9%	2010-2018

Debt securities available for sale at fair value of AMD 462,981 thousand (2009: nil) 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 26).

Held-to-maturity investments

In thousand Armenian drams	2010	2009
Nominal value	**435,287**	-
Discount	**(4,865)**	-
Accrued interest	**7,708**	-
		-
Total investments held to maturity	**438,130**	-

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

In thousand Armenian drams	2010		2009	
	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance of the RA	**4.6-9.7**	**2011**	-	-
Securities issued by the Government of other country	**8.1**	**2011**	-	-

18 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Capital expenditures	Machinery and equipment	Vehicles	Other fixed assets	Assets under construction	Total
COST							
Cost/Revalued amount at January 1, 2009	1,730,807	47,453	168,165	88,623	283,849	-	2,318,897
Additions	7,943	-	15,149	240	2,445	4,485	30,262
Disposals	-	-	(8,529)	-	(549)	-	(9,078)
At December 31, 2009	**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)**
Reclassifications	**48,166**	**-**	**-**	**-**	**-**	**(48,166)**	**-**
At December 31, 2010	**1,786,916**	**47,453**	**184,407**	**91,119**	**312,770**	**-**	**2,422,665**
DEPRECIATION							
At January 1, 2009	289,756	7,992	106,438	31,196	202,799	-	638,181
Depreciation charge	41,651	7,464	22,452	16,663	24,277	-	112,507
Disposals	-	-	(8,529)	-	(458)	-	(8,988)
At December 31, 2009	**331,407**	**15,456**	**120,361**	**47,859**	**226,618**	**-**	**741,701**
Depreciation charge	**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**
CARRYING VALUE							
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
At December 31, 2008	1,441,051	39,461	61,727	57,427	81,050	-	1,680,716

Fully depreciated items

As at 31 December 2010 fixed assets included fully depreciated assets in amount of AMD 174,702 thousand (2009: AMD 152,729 thousand).

Fixed assets in the phase of installation

As at 31 December 2010 fixed assets included assets in the phase of installation in amount of AMD 198 thousand (2009: AMD 3,291 thousand), which are not amortized and are classified in accordance with their type.

19 Intangible assets

In thousand Armenian drams	Licenses and patents	Acquired software licenses	Other	Total
COST				
At January 1, 2009	-	29,420	49,981	79,401
Additions	-	-	-	-
At December 31, 2009	-	**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**
AMORTISATION				
At January 1, 2009	-	20,768	17,213	37,981
Amortisation charge	-	2,941	4,990	7,931
At December 31, 2009	**-**	**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**
CARRYING VALUE				
At December 31, 2010	**15,568**	**6,298**	**25,626**	**47,492**
At December 31, 2009	-	5,711	27,778	33,489
At December 31, 2008	-	8,652	32,768	41,420

20 Assets held for sale

As of December 31, 2010 the assets held for sale include assets in the amount of AMD 145,163 thousand owned in the result of pledge possession (2009: 145,163). As at the reporting date, the Management was actively negotiating with the buyers on the disposal of assets.

21 Other assets

In thousand Armenian drams	2010	2009
Prepayments and other debtors	**20,326**	34,178
Accounts receivable	**29,154**	184,813
Other prepaid taxes	**10**	12,503
Materials	**9,416**	6,667
Other	**2,608**	2,742
Total other assets	**61,514**	240,903

As of December 31, 2009 included in accounts receivable is AMD 146,210 thousand, which is a discounted amount of 714,253 USD receivable over three year period according to the debt payment agreement signed between the Bank and “Vanadzor Khimprom” CJSC. Discount rate used is 12% annually, which represents market discount rate for similar instruments. Discounted amount of 714,253 USD is not recognized as income immediately but deferred and included in other liabilities. Refer to Note 25.

During 2010 management derecognised receivable from “Vanadzor Khimprom” CJSC as the contractual rights to the cash flows from the asset have terminated.

22 Amounts due to financial institutions

In thousand Armenian drams	2010	2009
Loans from CBA	**-**	110,464
Correspondent accounts of other banks	**1,444**	1,444
Current accounts of other financial institutions	**14,462**	14,791
Loans and deposits from financial institutions	**257,198**	103,316
Loans under repurchase agreements	**460,335**	-
Other amounts	**-**	562,300
Total amounts due to financial institutions	**733,439**	792,315

During 2009, the Bank placed with and received short-term funds from banks in various currencies (these amounts are included in other amounts). As of December 31, 2009, the Bank received an amount of Russian Roubles 44,984 thousand as a deposit, which relate to deposits in USD granted to the same bank (See Note 15).

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

23 Amounts due to customers

In thousand Armenian drams	2010	2009
Government of the RA		
Loans received	**110,464**	-
Corporate customers		
Current/Settlement accounts	**3,340,423**	3,328,244
Time deposits	**721,845**	499,041
	4,062,268	3,827,285
Retail customers		
Current/Demand accounts	**1,701,158**	925,599
Time deposits	**1,976,203**	1,304,063
	3,677,361	2,229,662
Total amounts due to customers	**7,850,093**	6,056,947

All customer deposits carry fixed interest rates.

Loans from the Government of the RA include loans received within the scope of "Small and medium business loan project" of German-Armenian fund. As at 31.12.2009 these loans have been accounted as payable to the RA Central Bank. Refer to note 22. All deposits from financial institutions have fixed interest rates.

As at 31 December 2010 included in amounts due to customers are deposits amounting to AMD 375,353 thousand (2009: AMD 13,398 thousand), held as security, guarantees issued. The fair value of those deposits approximates the carrying amount.

At 31 December 2010 the aggregate balance of top ten customers of the Bank (including related parties, see Note 29) amounts to AMD 5,661,211 thousand (2009: AMD 1,281,026 thousand) or 72% of total customer accounts (2009: 68%).

24 Debt securities issued

In thousand Armenian drams	2010	2009
Interest bearing securities	**7,978,344**	4,509,101
Accrued interests	**412,151**	226,631
Total debt securities issued	**8,390,495**	4,735,732

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 (see Note 29). (2009: an aggregate nominal value of 10,000 thousand US dollars) maturing in 3 years (2009: 7 years) and bearing annual interest rate of 7% (2009: 10.1%).

During the year the Bank did not redeem any of its issued interest-bearing bonds (2009: the Bank redeemed its issued interest-bearing bonds having an aggregate nominal value of 4,500 thousand US dollars). During January 2011 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.

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 (2009: nil).

25 Other liabilities

In thousand Armenian drams	2010	2009
Accounts payables	**13,162**	10,511
Tax payable, other than income tax	**36,669**	9,488
Revenues of future periods	**-**	152,585
Grants related to assets	**64,298**	66,373
Due to personnel	**9,587**	10,209
Other	**3,639**	-
Total other liabilities	**127,355**	249,166

Grants related to assets

In thousand Armenian drams	2010	2009
At January 1	**66,373**	68,447
Recognition of income	**(2,075)**	(2,074)
At December 31	**64,298**	66,373

As of December 31, 2009 included in revenues of future periods is amount equal to AMD 146,210 thousand, which is deferred income from discounted cash flows according to debt payment agreement signed between the Bank and "Vanadzor Khimprom" CJSC. During 2010 management derecognised receivable from "Vanadzor Khimprom" CJSC as the contractual rights to the cash flows from the asset have terminated. (See Note 21)

26 Securities pledged under repurchase agreements

In thousand Armenian drams	**Asset**		Liability	
	2010	2009	**2010**	2009
Investment securities (Note 17, 22)	**462,981**	-	**460,335**	-
	462,981	-	**460,335**	-

27 Equity

As at 31 December 2010 the Bank's registered charter capital was AMD 7,200,000 thousand. In accordance with the Bank's statues, the charter capital consists of 7,200 shares, all of which have a par value of AMD 1,000,000 each.

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

In thousand Armenian drams

	Paid-in share capital	% of total paid-in capital
"ZakNefteGazStroy Prometey" OJSC	**6,642,000**	**92.25**
Vazgen Gevorgyan	**558,000**	**7.75**
	7,200,000	**100**

During January 2011 a prospective new shareholder of the Bank "Prometey City" LLC contributed AMD 3,600,000 thousand for the replenishment of the Bank's share capital. (See note 35)

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

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

In 2010 and 2009 the participants of the Bank have not increased their charter capital.

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.

At the Shareholders' Meeting in May 2010, the Bank declared dividends in respect of the year ended December 31, 2009, totaling AMD 70,000 thousand on ordinary shares.

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.

28 Contingent liabilities and commitments

Tax and legal matters

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

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

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

Loan commitment, guarantee and other financial facilities

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	**2010**	2009
Undrawn loan commitments	**398,805**	267,576
Guarantees	**407,932**	501,473
Total commitments and contingent liabilities	**806,737**	769,049

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	**2010**	2009
Not later than 1 year	**58,110**	55,710
Later than 1 year and not later than 5 years	**116,486**	168,168
Total operating lease commitments	**174,596**	223,878

Insurance

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

Starting from 2005 the Bank is member of the obligatory deposit insurance system. The system operates under the Armenian laws and regulations and is governed by Law "On Guarantees of Bank Deposits to individual depositors" for the amount up to AMD 4,000 thousand (up to AMD 2,000 thousand for deposits in foreign currency) for each individual in case of business failure and revocation of the banking license.

29 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include 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 together with parties related to him controls the Bank's parent organization, "ZakNefteGazStroy Prometey" OJSC.

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

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

In thousand Armenian drams	2010		2009	
	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	**545,571**	**29,337**	17,924	67,254
Loans issued during the year	**842,441**	**137,997**	657,046	8,640
Loan repayments during the year	**(363,387)**	**(104,330)**	(129,399)	(46,557)
Loans outstanding at December 31, gross	**1,024,625**	**63,004**	545,571	29,337
Less: allowance for loan impairment	**(10,246)**	**(630)**	(5,456)	(293)
Loans outstanding at December 31	**1,014,379**	**62,374**	540,115	29,044
Interest income on loans	**112,472**	**8,285**	40,232	3,517
Impairment charge for credit losses/(reversal)	**4,790**	**337**	5,277	(380)
Amounts due to customers				
Deposits at January 1	**692,994**	**68,746**	316,266	208,929
Deposits received during the year	**8,921,560**	**738,130**	3,778,465	227,872
Deposits repaid during the year	**(8,925,375)**	**(767,078)**	(3,401,737)	(368,055)
Deposits at December 31	**689,179**	**39,798**	692,994	68,746
Interest expense on deposits	**39,656**	**5,069**	49,031	1,620
Debt securities issued				
Issued at January 1	**-**	**-**	-	-
Issued during the year	**3,634,400**	**-**	-	-
Redeemed during the year	**-**	**-**	-	-
Issued at December 31	**3,634,400**	**-**	-	-
Interest expense on debt securities issued	**194**	**-**	-	-
Income statement items				
Fee and commission income	**895**	**535**	945	345
Other income	**2,572**	**72**	2,605	187

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	**2010**	2009
Salaries and other short-term benefits	**196,974**	166,128
Social security costs	**11,864**	9,748
Total key management compensation	**208,838**	175,876

The loans issued to directors and other key management personnel (and close family members) are repayable monthly over ten years and have interest rates of 10-20% (2009: 13-16%). The loans advanced to the directors during the year are collateralised by real estates. The fair value of those collaterals was AMD 188,890 thousand (2009: AMD 860,832 thousand).

30 Fair value of financial instruments

Financial instruments not measured at fair value

The fair value of financial assets and liabilities, not presented on the Bank's balance sheet at their fair value, does not differ significantly from their carrying values.

In thousand Armenian drams	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS				
Cash and balances with CBA	**4,509,322**	**4,509,322**	5,758,227	5,758,227
Amounts due from financial institutions	**3,183,422**	**3,183,422**	2,991,286	2,991,286
Loans and advances to customers	**15,972,495**	**15,972,495**	10,413,767	10,413,767
Investments held to maturity	**438,130**	**436,286**	-	-
Other assets	**-**	**-**	146,210	146,210
FINANCIAL LIABILITIES				
Amounts due to financial institutions	**733,439**	**733,439**	792,315	792,315
Amounts due to customers	**7,850,093**	**7,850,093**	6,056,947	6,056,947
Debt securities issued	**8,390,495**	**8,390,495**	4,735,732	4,735,732

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. The carrying values approximate the fair values.

Investments 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. The carrying values approximate the fair values.

31 Fair Value Hierarchy

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

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

In thousand Armenian drams				**2010**				2009
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS								
Unquoted securities and debentures	**-**	**1,074,134**	**-**	**1,074,134**	-	267,346	-	267,346
Securities pledged under repurchase agreements		**462,981**		**462,981**				

Unquoted equity investments

The fair value of Bank's investment in "ArCa" and "ACRA" unquoted equity investments cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 17 for further information about this equity investment.

32 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 33.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams	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 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**		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
								2009
ASSETS								
Cash and balances with CBA	5,758,227	-	-	5,758,227	-	-	-	5,758,227
Amounts due from other financial institutions	2,991,286	-	-	2,991,286	-	-	-	2,991,286
Loans and advances to customers	393,033	398,702	1,668,257	2,459,992	7,318,164	635,611	7,953,775	10,413,767
Investments available for sale	44,249	-	218,826	263,075	46,848	-	46,848	309,923
Other assets	-	12,828	40,738	53,566	92,644	-	92,644	146,210
	9,186,795	411,530	1,927,821	11,526,146	7,457,656	635,611	8,093,267	19,619,413
LIABILITIES								
Amounts due to financial institutions	585,008	97,307	-	682,315	110,000	-	110,000	792,315
Amounts due to customers	4,252,338	395,092	1,409,517	6,056,947	-	-	-	6,056,947
Debt securities issued	-	-	-	-	4,735,732	-	4,735,732	4,735,732
	4,837,346	492,399	1,409,517	6,739,262	4,845,732	-	4,845,732	11,584,994
Net position	4,349,449	(80,869)	518,304	4,786,884	2,611,924	635,611	3,247,535	8,034,419
Accumulated gap	4,349,449	4,268,580	4,786,884		7,398,808	8,034,419		

33 Risk management

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

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

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

33.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that 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 and head of each business unit regularly.

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

The table below represents a worst case scenario of credit risk exposure to the Bank at 31 December 2010 and 2009, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

In thousand Armenian drams	Notes	**Gross maximum exposure as of December 31, 2010**	Gross maximum exposure as of December 31, 2009
Balances with CBA	14	**3,015,140**	3,898,241
Amounts due from other financial institutions	15	**3,183,422**	2,991,286
Loans and advances to customers	16	**15,972,495**	10,413,767
Investments available for sale	17	**1,116,902**	309,923
Investments held to maturity	17	**438,130**	-
Securities pledged under repurchase agreements	26	**462,981**	-
Other assets	21	**-**	146,210
Total		**24,189,070**	17,759,427
Commitments and contingent liabilities	28	**806,737**	769,049
Total credit risk exposure		**24,995,807**	18,528,476

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

33.1.2 Risk concentrations of the maximum exposure to credit risk

Geographical sectors

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

In thousand Armenian drams	**Armenia**	**OECD countries**	**Non-OECD countries**	**Total**
Balances with CBA	**3,015,140**	**-**	**-**	**3,015,140**
Amounts due from other financial institutions	**1,589,741**	**98,331**	**1,495,350**	**3,183,422**
Loans and advances to customers	**15,972,402**	**-**	**93**	**15,972,495**
Investments available for sale	**1,116,902**	**-**	**-**	**1,116,902**
Investments held to maturity	**197,549**	**240,581**	**-**	**438,130**
Securities pledged under repurchase agreements	**462,981**	**-**	**-**	**462,981**
As at 31 December 2010	**22,354,715**	**338,912**	**1,495,443**	**24,189,070**
As at 31 December 2009	16,797,446	898,487	63,494	17,759,427

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	Manufac-turing	Constru-ction	Trading	Consumer sector	Agriculture	Mortgage	Other	Total
Balances with CBA	**3,015,140**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,015,140**
Amounts due from other financial institutions	**3,183,422**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,183,422**
Loans and advances to customers		**3,980,298**	**4,502,675**	**2,892,503**	**1,926,396**	**75,643**	**1,091,272**	**1,503,708**	**15,972,495**
Investments available for sale	**1,116,902**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,116,902**
Investments held to maturity	**438,130**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**438,130**
Securities pledged under repurchase agreements	**462,981**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**462,981**
As at 31 December 2010	**8,216,575**	**3,980,298**	**4,502,675**	**2,892,503**	**1,926,396**	**75,643**	**1,091,272**	**1,503,708**	**24,189,070**
As at 31 December 2009	7,199,450	1,215,295	2,792,895	2,360,416	1,965,868	108,783	1,115,797	1,000,923	17,759,427

33.1.3 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

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 Directors.

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

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

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

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

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

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

In thousand Armenian drams	**2010**	2009
Loans collateralized by real estate	**12,510,183**	6,529,733
Loans collateralized by movable property	**1,647,500**	2,458,898
Loans collateralized by guarantees of financial institutions	**-**	47,731
Loans collateralized by shares of other companies	**170,754**	-
Loans collateralized by gold and precious metals	**286,526**	157,651
Loans collateralized by cash	**1,137,656**	1,198,233
Other collateral	**379,636**	125,866
Total loans and advances to customers	**16,132,255**	10,518,112

Credit-related commitments

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

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

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

33.1.4 Impairment and provisioning policies

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

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. As at 31.12.2010 and 31.12.2009 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	**2010**	2009
Loans and advances to customers		
Manufacturing	**1.0%**	1.0%
Construction	**1.0%**	1.0%
Trading	**1.0%**	1.0%
Consumer	**1.0%**	1.0%
Agriculture	**1.0%**	1.0%
Mortgage	**1.0%**	1.1%
Other	**1.0%**	1.1%

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

Past due but not impaired loans

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

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

In thousand Armenian drams					2009
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Construction	6,930	-	-	-	6,930
Consumer	113	1,905	-	583	2,601
Total	7,043	1,905	-	583	9,531

The fair value of collateral that the Bank holds relating to past due loans at 31 December 2010 amounts to AMD 38,587 thousand. (2009: AMD 263,653 thousand). The collateral consists of cash, securities, letters of credit and properties.

Renegotiated loans

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

In thousand Armenian drams	**2010**	2009
Loans and advances to customers		
Other sectors	**29,799**	235,975

33.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The 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.

33.2.1 Market risk – Non-trading

Interest rate risk

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

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2010, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, at 31 December 2010 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

In thousand Armenian drams **2010**

			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**

In thousand Armenian drams 2009

			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	+1%	-	(292)	(1,076)	(1,155)	-	(2,523)
AMD	-1%	-	294	1,095	1,197	-	2,586

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 and hedging strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2010 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

In thousand Armenian drams

Currency	Change in currency rate in % (2010)	Effect on profit before tax (2010)	Change in currency rate in % (2009)	Effect on profit before tax (2009)
USD	**5%**	**4,627**	3%	17,418
EUR	**5%**	**327**	11%	328
RUR	**1%**	**5**	6%	1,242
USD	**-5%**	**(4,627)**	-1%	(6,967)
EUR	**-5%**	**(327)**	-4%	(131)
RUR	**-1%**	**(5)**	-5%	(931)

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

In thousand Armenian drams

	Armenian Dram	Freely convertible currencies/ Precious metals	Non-freely convertible currencies	Total
ASSETS				
Cash and balances with the CBA	**1,874,049**	**2,628,831**	**6,442**	**4,509,322**
Amounts due from other financial institutions	**1,521,295**	**1,605,651**	**56,476**	**3,183,422**
Loans and advances to customers	**7,269,709**	**8,702,786**	**-**	**15,972,495**
Investments available for sale	**1,116,902**	**-**	**-**	**1,116,902**
Investments held to maturity	**197,549**	**240,581**		**438,130**
Securities pledged under repurchase agreements	**462,981**	**-**	**-**	**462,981**
	12,442,485	**13,177,849**	**62,918**	**25,683,252**
LIABILITIES				
Amounts due to financial institutions	**576,274**	**157,165**	**-**	**733,439**
Amounts due to customers	**3,141,467**	**4,645,381**	**63,245**	**7,850,093**
Debt securities issued	**-**	**8,390,495**	**-**	**8,390,495**
	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**
Total financial assets	8,825,897	10,196,260	597,256	19,619,413
Total financial liabilities	1,455,170	9,513,402	616,422	11,584,994
Net position as at 31 December 2009	7,370,727	682,858	(19,166)	8,034,419
Commitments and contingent liabilities as at 31 December 2009	652,723	116,326	-	769,049

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

33.3 Liquidity risk

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

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

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

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2010 based on contractual undiscounted repayment obligations. See note 32 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousand Armenian drams **2010**

	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
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	**-**	**152,460**	**512,450**	**6,065,814**	**4,728,354**	**11,459,078**
Total undiscounted financial liabilities	**5,621,807**	**673,236**	**2,948,005**	**6,183,332**	**4,728,354**	**20,154,734**
Commitments and contingent liabilities	**413,472**	**8,507**	**188,452**	**196,306**	**-**	**806,737**

In thousand Armenian drams **2009**

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
FINANCIAL LIABILITIES						
Amounts due to financial institutions	585,008	98,109	7,700	129,119	-	819,936
Amounts due to customers	4,262,496	401,492	1,460,562	-	-	6,124,550
Debt securities issued	-	-	741,389	6,886,774	-	7,628,163
Total undiscounted financial liabilities	4,847,504	499,601	2,209,651	7,015,893	-	14,572,649
Commitments and contingent liabilities	267,575	81,500	4,000	415,974	-	769,049

34 Capital adequacy

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

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to participants, return capital to participants 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 reserve.

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

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

In thousand Armenian drams	**2010**	2009
Tier 1 capital	**10,102,521**	9,226,535
Tier 2 capital	**11,874**	(4,416)
Total regulatory capital	**10,114,395**	9,222,119
Risk-weighted assets	**25,673,185**	14,951,323
Capital adequacy ratio	**39%**	62%

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

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

35 Subsequent events

During January 2011 a prospective new shareholder of the Bank “Prometey City” LLC contributed AMD 3,600,000 thousand for the replenishment of the Bank’s share capital. As of 4 February 2011 the Bank was in the process of registering the additional share capital with CBA.

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