Grant Thornton
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Financial Statements and Independent Auditor's Report

UNIBANK closed joint stock company

31 December 2011

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Independent auditor's report

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To the Shareholders and Board of Directors of Closed Joint Stock Company "UNIBANK":

We have audited the accompanying financial statements of "UNIBANK" closed joint stock company (the "Bank"), which comprise the statement of financial position as at December 31, 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 "UNIBANK" closed joint stock company as of December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gagik Gyulbudaghyan	Daniel Hilaire
Managing partner	Engagement Partner

Grant Thornton CJSC
5 April, 2012
Yerevan

Statement of comprehensive income

In thousand Armenian drams	Notes	Year ended December 31, 2011	Year ended December 31, 2010
Interest and similar income	6	**12,095,282**	11,005,110
Interest and similar expense	6	**(6,598,394)**	(6,535,065)
Net interest income		**5,496,888**	4,470,045
Fee and commission income	7	**1,656,657**	1,313,159
Fee and commission expense	7	**(209,109)**	(176,705)
Net fee and commission income		**1,447,548**	1,136,454
Net trading income	8	**1,667,001**	1,491,603
Other income	9	**498,931**	371,234
Impairment charge for asset losses	10	**(1,854,916)**	(1,759,343)
Staff costs	11	**(2,557,262)**	(2,128,132)
Depreciation of property and equipment	20	**(312,442)**	(372,121)
Amortization of intangible assets	21	**(44,906)**	(23,379)
Other expenses	12	**(2,016,053)**	(1,880,765)
Profit before income tax		**2,324,789**	1,305,596
Income tax expense	13	**(518,258)**	(301,104)
Profit for the year		**1,806,531**	1,004,492
Other comprehensive income:			
Net unrealized loss from changes in fair value of investments available for sale		**(176,249)**	(75,249)
Income tax relating to components of other comprehensive income		**35,249**	15,050
Other comprehensive income for the year, net of tax		**(141,000)**	(60,199)
Total comprehensive income for the year		**1,665,531**	944,293

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, 2011**	As of December 31, 2010
ASSETS			
Cash and balances with CBA	14	**16,228,746**	15,196,726
Precious metals	15	**86,493**	77,078
Amounts due from other financial institutions	16	**3,526,993**	3,568,292
Derivative financial assets	17	**79,047**	306,822
Loans and advances to customers	18	**84,204,130**	76,358,958
Investments available for sale	19	**4,094,516**	5,481,909
Securities pledged under repurchase agreements	26	**917,393**	-
Property, plant and equipment	20	**2,756,701**	2,590,922
Intangible assets	21	**400,175**	412,878
Prepaid income taxes		**68,344**	-
Other assets	22	**2,180,122**	1,204,832
TOTAL ASSETS		**114,542,660**	105,198,417
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to financial institutions	23	**6,476,828**	6,947,757
Amounts due to customers	24	**90,590,088**	82,239,921
Derivative financial liabilities	17	**-**	6,510
Current income tax liabilities		**-**	336,904
Deferred income tax liabilities	13	**287,967**	75,438
Other liabilities	25	**519,173**	392,744
Total liabilities		**97,874,056**	89,999,274
Equity			
Share capital	27	**11,400,700**	11,400,700
Statutory general reserve		**207,783**	132,932
Other reserves		**(524,536)**	(383,536)
Retained earnings		**5,584,657**	4,049,047
Total equity		**16,668,604**	15,199,143
TOTAL LIABILITIES AND EQUITY		**114,542,660**	105,198,417

The financial statements from pages 3 to 50 were signed by the Bank's Chairman of Executive Board and Chief Accountant on 5 April, 2012.

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

V. ATAYAN
Chairman of Executive Board

G. GRIGORYAN
Chief accountant

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Balance as of January 1, 2010	8,599,700	132,932	(395,692)	72,355	3,196,576	11,605,871
Increase in share capital	2,801,000	-	-	-	-	2,801,000
Dividends to shareholders	-	-	-	-	(152,021)	(152,021)
Transactions with owners	2,801,000	-	-	-	(152,021)	2,648,979
Profit for the year	-	-	-	-	1,004,492	1,004,492
Other comprehensive income:						
Net unrealized loss from changes in fair value	-	-	(75,249)	-	-	(75,249)
Income tax relating to components of other comprehensive income	-	-	15,050	-	-	15,050
Total comprehensive income for the year	-	-	(60,199)	-	1,004,492	944,293
Balance as of December 31, 2010	**11,400,700**	**132,932**	**(455,891)**	**72,355**	**4,049,047**	**15,199,143**
Distribution to reserve	**-**	**74,851**	**-**	**-**	**(74,851)**	**-**
Dividends to shareholders	**-**	**-**	**-**	**-**	**(196,070)**	**(196,070)**
Transactions with owners	**-**	**74,851**	**-**	**-**	**(270,921)**	**(196,070)**
Profit for the year	**-**	**-**	**-**	**-**	**1,806,531**	**1,806,531**
Other comprehensive income:						
Net unrealized loss from changes in fair value	**-**	**-**	**(176,249)**	**-**	**-**	**(176,249)**
Income tax relating to components of other comprehensive income	**-**	**-**	**35,249**	**-**	**-**	**35,249**
Total comprehensive income for the year	**-**	**-**	**(141,000)**	**-**	**1,806,531**	**1,665,531**
Balance as of December 31, 2011	**11,400,700**	**207,783**	**(596,891)**	**72,355**	**5,584,657**	**16,668,604**

Statement of cash flows

In thousand Armenian drams

	Year ended December 31, 2011	Year ended December 31, 2010
Cash flows from operating activities		
Profit before tax	**2,324,789**	1,305,596
Adjustments for		
Impairment charge for asset losses	**1,854,916**	1,759,343
Amortization and depreciation allowances	**357,348**	395,500
Loss from sale of PPE	**-**	3,057
Interest receivable	**(281,846)**	(1,565,556)
Interest payable	**(96,261)**	113,528
Loss from changes in fair value of derivative instruments	**37,372**	-
Foreign currency translation net (gain)/loss of non-trading assets and liabilities	**(50,751)**	30,382
Cash flows from operating activities before changes in operating assets and liabilities	**4,145,567**	2,041,850
(Increase)/decrease in operating assets		
Derivative instruments	**183,893**	(300,312)
Deposited funds with CBA	**95,043**	49,478
Amounts due from other financial institutions	**(479,048)**	303,882
Loans and advances to customers	**(7,746,012)**	(11,494,385)
Other assets	**3,383**	941,705
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	**1,141,587**	771,907
Amounts due to customers	**9,188,936**	(2,904,007)
Other liabilities	**82,380**	8,563
Net cash flow from operating activities before income tax	**6,615,729**	(10,581,319)
Income tax paid	**(675,727)**	(67,481)
Net cash from operating activities	**5,940,002**	(10,648,800)
Cash flows from investing activities		
Redemption of investment securities	**255,318**	398,501
Purchase of property and equipment	**(503,970)**	(871,865)
Proceeds from sale of property and equipment	**25,749**	-
Purchase of intangible assets	**(32,203)**	(333,785)
Net cash from investing activities	**(255,106)**	(807,149)
Cash flow from financing activities		
Proceeds from issue of share capital	**-**	2,801,000
Payment of dividends	**(152,021)**	-
Loans received from CBA	-	2,801,000
Loans received from financial institutions	**(1,809,940)**	(6,420,853)
Other long-term loans	**(3,346,723)**	1,503,170
Net cash flow from financing activities	**(5,308,684)**	684,317
Net increase/(decrease) in cash and cash equivalents	**376,212**	(10,771,632)
Cash and cash equivalents at the beginning of the year	**18,069,852**	30,992,275
Exchange differences on cash and cash equivalents	**203,466**	(2,150,791)
Cash and cash equivalents at the end of the year (Note 14)	**18,649,530**	18,069,852

Supplementary information:

Interest received	**11,813,436**	9,785,449
Interest paid	**(6,694,655)**	(6,421,537)

Accompanying notes to the financial statements

1 Principal activities

"Unibank" CJSC (the "Bank") is a closed joint-stock bank, which was incorporated in the Republic of Armenia on 9 October 2001. The Bank is regulated by the legislation of RA and conducts its business under license number N81, granted on 10 October 2001, by the Central Bank of Armenia (the "CBA").

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

Its main office is in Yerevan and it has 17 branches in Yerevan, 18 branches in different regions of RA, 2 branches in the Republic of Nagorno Karabakh and one representative office in Moscow, the Russian Federation. The registered office of the Bank is located at: 12/53 Charents street, #1-5, Yerevan.

The international rating agency Moody's Investors Service issued "Unibank" financial stability rating E+ in 2011.

2 Armenian business environment

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

There are still uncertainties about the economic situation of countries, collaborating with the RA, due to the forecasted slowdown in the world economy, which may lead to the shortage of money transfers from abroad, as well as to the decline in the prices of mining products, upon which the economy of Armenia is significantly dependant. In times of more severe market stress the situation of Armenian economy and of the Bank may be exposed to deterioration. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Bank may be affected.

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

3 Basis of preparation

3.1 Statement of compliance

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Reclassifications

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

3.5 Changes in accounting policies

In the current year the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2011.

The only amendment that had an effect on the financial statements was the adoption of amendment to IFRS 7 from Improvements to IFRS 2010, which is described below.

IFRS 7 (Amendment) *Financial Instruments: Disclosures*

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

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

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

3.6 Standards, amendments and interpretations not yet applied by the Bank

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

Management anticipates that all of the pronouncements will be adopted in the Bank's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Bank's financial statements is provided below.

IFRS 7 (Amendment) *Transfer of Financial Assets*

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

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

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

This amendment is effective for annual periods beginning on or after July 1, 2011.

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

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

- The meaning of 'currently has a legally enforceable right of set-off': the amendments clarify that a right of set-off is required to be legally enforceable in the normal course of business, the event of default and the event of insolvency or bankruptcy of the entity and all of the counterparties, and that the right must also exist for all counterparties.
- Since there was diversity in practice related to the interpretation of 'simultaneous settlement' in IAS 32, the IASB has therefore clarified the principle behind net settlement and included an example of a gross settlement system with characteristics that would satisfy the IAS 32 criterion for net settlement.

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

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

The amendment adds qualitative and quantitative disclosures to IFRS 7 relating to gross and net amounts of recognized financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position.
The amendments are effective for annual reporting periods beginning on or after 1 January 2013, and are required to be applied retrospectively.

IFRS 9 *Financial Instruments*

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

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

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

IFRS 13 *Fair Value Measurement*

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

IAS 1 *Presentation of Financial Statements*

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

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Interest income and expense

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

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

Fee and commission income

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

Dividend income

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

Net trading income

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

4.2 Foreign currency translation

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

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

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

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

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

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

4.3 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the 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.

4.5 Precious metals

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

4.6 Amounts due from other financial institutions

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

4.7 Financial instruments

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

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

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

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

Financial assets at fair value through profit or loss

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

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

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

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

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

Loans and receivables

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

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

Available-for-sale financial instruments

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

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

4.8 Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

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

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

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

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

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

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

Renegotiated loans

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

Available-for-sale financial assets

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

4.9 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

4.10 Repurchase and reverse repurchase agreements

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

4.11 Securities lending and borrowing

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

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

4.12 Leases

Operating - Bank as leasee

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

4.13 Property, plant and equipment

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

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

	Useful life (years)	Rate (%)
Buildings	20	5
Computers	3	33,33
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.

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 incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

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

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

When revalued assets are sold, the amounts attributed to disposed item of assets and included in the revaluation reserve are transferred to retained earnings.

4.14 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 3 to 20 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.

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

4.15 Assets held for sale

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

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

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

4.19 Share capital

Share capital

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

Dividends

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

4.20 Offsetting

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

5 Critical accounting estimates and judgements

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

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

Classification of investment securities

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

Related party transactions

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

Allowance for impairment of loans and receivables

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

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

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 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	**2011**	2010
Loans and advances to customers	**10,051,053**	10,073,501
Debt investment securities available-for-sale	**670,753**	499,496
Amounts due to financial institutions	**157,702**	49,319
Factoring	**1,660**	193
Reverse repurchase transactions	**49,633**	15,372
Interest accrued on impaired financial assets	**1,164,481**	367,211
Other interest income	**-**	18
Total interest and similar income	**12,095,282**	11,005,110

Amounts due to customers	**4,972,137**	4,743,536
Amounts due to financial institutions	**379,325**	513,176
Government loans	**1,234,280**	1,278,353
Repurchase transactions	**12,652**	-
Total interest and similar expense	**6,598,394**	6,535,065

7 Fee and commission income and expense

In thousand Armenian drams	2011	2010
Cash collection	**161,663**	155,492
Wire transfer fees	**955,311**	771,750
Plastic cards operations	**273,253**	262,287
Service fee for account maintenance of Municipal and State budgets	**1,554**	1,797
Guarantees and letters of credit	**19,482**	10,511
Foreign currency translation operations	**182,193**	47,422
Other fees and commissions	**63,201**	63,900
Total fee and commission income	**1,656,657**	1,313,159

Wire transfer fees	**61,026**	48,626
Plastic cards operations	**133,482**	121,555
Foreign currency translation operations	**12,402**	3,324
Stock exchange services	**1,917**	-
Other expenses	**282**	3,200
Total fee and commission expense	**209,109**	176,705

8 Net trading income

In thousand Armenian drams	2011	2010
Gains less losses from derivatives	**19,089**	56,914
Gains less losses from transactions in foreign currencies	**1,647,912**	1,434,689
Total net trading income	**1,667,001**	1,491,603

9 Other income

In thousand Armenian drams	2011	2010
Fines and penalties received	**414,814**	346,065
Income from sale of fixed assets	**9,040**	-
Gains from operations of precious metals	**12,494**	14,533
Foreign currency translation net gains of non-trading assets and liabilities	**50,751**	-
Other income	**11,832**	10,636
Total other income	**498,931**	371,234

10 Impairment charge of impairment for credit losses

In thousand Armenian drams	2011	2010
Loans and advances to customers (Note 18)	**1,837,675**	1,751,239
Other assets (Note 22)	**17,241**	8,104
Total impairment charge of impairment for credit losses	**1,854,916**	1,759,343

11 Staff costs

In thousand Armenian drams	2011	2010
Salaries	**2,328,652**	1,947,555
Social security contributions	**228,610**	180,577
Total staff costs	**2,557,262**	2,128,132

12 Other expenses

In thousand Armenian drams	2011	2010
Fixed assets maintenance	**106,978**	79,765
Advertising costs	**70,988**	185,547
Business trip expenses	**14,628**	14,414
Communications	**112,938**	110,334
Operating lease	**877,529**	787,903
Taxes, other than income tax, duties	**171,296**	164,940
Consulting and other services	**23,922**	42,042
Security	**96,137**	88,196
Loss on disposal of PPE	**-**	3,057
Representative expenses	**57,900**	49,698
Office supplies	**43,801**	32,678
Penalties paid	**2,715**	2,610
Deposit insurance	**106,170**	94,547
Foreign currency translation net losses of non-trading assets and liabilities	**-**	30,382
Computer software maintenance	**53,832**	51,658
Cash collection services	**56,067**	60,740
Loss on disposal of foreclosed assets	**118,483**	15,818
Other expenses	**102,669**	66,436
Total other expense	**2,016,053**	1,880,765

13 Income tax expense

In thousand Armenian drams	2011	2010
Current tax expense	**268,569**	452,578
Deferred tax	**247,778**	(161,968)
Adjustments of current income tax of previous years	**1,911**	10,494
Total income tax expense	**518,258**	301,104

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2010: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

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

In thousand Armenian drams	2011	Effective rate (%)	2010	Effective rate (%)
Profit before tax	**2,324,789**		1,305,596	
Income tax at the rate of 20%	**464,958**	**20**	261,119	20
Non-taxable income	**(2,569)**		-	-
Non-deductible expenses	**56,634**	**2**	23,415	2
Loss from changes in fair value of derivative instruments	**7,474**	**-**	-	-
Foreign exchange (gains)/losses	**(10,150)**	**-**	6,076	-
Adjustments of current income tax of previous year	**1,911**	**-**	10,494	1
Income tax expense	**518,258**	**22**	301,104	23

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	As of December 31, 2010	Recognized in comprehensive income statement	Recognized in equity	As of December 31, 2011
Accrued expenses and other liabilities	**29,816**	**(553)**	**-**	**29,263**
Securities available for sale	**114,516**	**(40,041)**	**35,249**	**109,724**
Total deferred tax assets	**144,332**	**(40,594)**	**35,249**	**138,987**
Contingent liabilities	**(21,280)**	**(9,329)**	**-**	**(30,609)**
Amounts due from other financial institutions	**(10,660)**	**3,888**	**-**	**(6,772)**
Loans and advances to customers	**(187,830)**	**(201,743)**	**-**	**(389,573)**
Total deferred tax liability	**(219,770)**	**(207,184)**	**-**	**(426,954)**
Net deferred tax liability	**(75,438)**	**(247,778)**	**35,249**	**(287,967)**

In thousand Armenian drams	As of December 31, 2009	Recognized in comprehensive income statement	Recognized in equity	As of December 31, 2010
Accrued expenses and other liabilities	26,970	2,846	-	29,816
Securities available for sale	99,854	(388)	15,050	114,516
Total deferred tax assets	126,824	2,458	15,050	144,332
Contingent liabilities	(14,083)	(7,197)	-	(21,280)
Amounts due from other financial institutions	(9,479)	(1,181)		(10,660)
Loans and advances to customers	(355,718)	167,888	-	(187,830)
Total deferred tax liability	(379,280)	159,510	-	(219,770)
Net deferred tax liability	(252,456)	161,968	15,050	(75,438)

14 Cash, cash equivalents and balances with CBA

In thousand Armenian drams	As of December 31, 2011	As of December 31, 2010
Cash on hand	**7,637,429**	6,075,828
Correspondent account with the CBA	**8,422,878**	8,857,416
Included in cash and cash equivalents	**16,060,307**	14,933,244
Deposits with the CBA	**168,439**	263,482
Total cash and balances with the CBA	**16,228,746**	15,196,726
Cash and balances with the CBA, included in cash flow	**16,060,307**	14,933,244
Placements with other banks (note 16)	**2,589,223**	3,136,608
Total cash and cash equivalents	**18,649,530**	18,069,852

As at 31 December 2011 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 8% of certain obligations of the Bank denominated in Armenian drams and 12% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 8,238,019 thousand (2010: AMD 7,414,086 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.

Non-cash transactions performed by the Bank during 2011 are represented by:

- repayment of AMD 1,005,732 thousand loan by transfer of property rights on pledge (2010: AMD 91,377 thousand).

15 Precious metals

In thousand Armenian drams	As of December 31, 2011	As of December 31, 2010
Gold in vault	**86,493**	77,078
Total precious metals	**86,493**	77,078

16 Amounts due from other financial institutions

In thousand Armenian drams	As of December 31, 2011	As of December 31, 2010
Correspondent accounts	**2,589,223**	3,136,608
Included in cash and cash equivalents	**2,589,223**	3,136,608
Deposits to financial institutions	**800,746**	376,160
Other amounts	**137,024**	55,524
Total amounts due from other financial institutions	**3,526,993**	3,568,292

As at 31 December 2011 the amounts due from other financial institutions in amounts of AMD 1,471,868 thousand (57%) (2010: AMD 2,436,340 thousand (78%)) were due from 2 banks.

The deposited funds with financial institutions represent guarantee deposits in amount of AMD 496,801 thousand (2010: AMD 376,160 thousand) placed by the Bank for its settlement payments operations through VISA payment system.

17 Derivative financial instruments

In thousand Armenian drams	**As of December 31, 2011**			As of December 31, 2010		
	Notional amount	**Fair value of assets**	**Fair value of liabilities**	Notional amount	Fair value of assets	Fair value of liabilities
Derivatives held for trading						
Currency swaps	**4,488,480**	**79,047**	**-**	7,432,794	306,822	6,510
Total derivative financial instruments	**4,488,480**	**79,047**	**-**	7,432,794	306,822	6,510

In 2011 the Bank has signed 2 swap contracts with a bank of Non-OECD country. According to one of the contracts the Bank acquires USD 3,175 thousand paying EUR 2,500 thousand and obliges to sell USD 3,175 thousand paying interest rate of 0.31%. According to the next contract, the Bank acquires USD 8,255 thousand paying EUR 6,500 thousand and obliges to sell USD 8,255 thousand by paying interest rate of 0.29%.

In 2010 the Bank signed 2 swap contracts with a bank of Non-OECD country. According to one of the contracts the Bank acquires USD 7,710 thousand paying EUR 6,100 thousand and obliges to sell USD 7,710 thousand paying interest rate of 0.30%. According to the next contract, the Bank acquires USD 10,112 thousand paying EUR 8,000 thousand and obliges to sell USD 10,112 thousand paying interest rate of 0.30%.

In 2010 the Bank signed swap contract with an RA commercial bank, according to which it provides AMD 955,260 thousand acquiring EUR 2,000 thousand and obliges to sell EUR 2,000 thousand receiving interest rate of 7.0%.

18 Loans and advances to customers

In thousand Armenian drams	**As of December 31, 2011**	As of December 31, 2010
Loans to customers	**86,426,627**	77,776,205
Factoring	**-**	223
Overdraft	**232,765**	-
	86,659,392	77,776,428
Less allowances for impairment of loans and advances	**(2,455,262)**	(1,417,470)
Total loans and advances to customers	**84,204,130**	76,358,958

As of 31 December 2011 accrued interest included in loans and advances to customers amounted to AMD 2,459,063 thousand (2010: AMD 2,512,964 thousand).

As of 31 December 2011 the average effective interest rates on loans and advances to corporate customers were 14.7% for loans in AMD, 12.3% for loans in USD, 12% for loans in EUR. And the average effective interest rates on loans and advances to individuals were 19% for loans in AMD, 15.4% for loans in USD, 14.6% for loans in EUR (2010: on loans and advances to corporate customers 13.6% for loans in AMD, 13% for loans in USD, 13.8% for loans in EUR and to individuals 18.6% for loans in AMD, 18% for loans in USD, 14.3% for loans in EUR).

As of December 31, 2011, the Bank had a concentration of loans represented by AMD 27,583,957 thousand due from the 15 largest third party entities and parties related with them (32% of gross loan portfolio) (2010: AMD 30,857,111 thousand or 40% due from the 15 largest third party entities and parties related with them). An allowance of AMD 1,221,899 thousand (2010: AMD 467,269 thousand) was made against these loans.

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

In thousand Armenian drams	**As of December 31, 2011**	As of December 31, 2010
Manufacture	**16,582,230**	25,457,982
Agriculture	**594,489**	362,205
Construction	**5,310,767**	2,939,119
Transportation	**4,386,341**	764,810
Trade	**21,326,569**	15,102,871
Services	**4,498,725**	4,337,743
Consumer	**15,758,876**	12,360,083
Mortgage	**11,707,196**	11,105,730
Other	**6,494,199**	5,345,885
	86,659,392	77,776,428
Less allowances for impairment of loans and advances	**(2,455,262)**	(1,417,470)
Total loans and advances	**84,204,130**	76,358,958

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

In thousand Armenian drams	Manu-facture	Agri-culture	Const-ruction	Transport	Trading	Services	Con-sumer	Mort-gage	Other	**2011** Total
At 1 January 2011	**527,402**	**7,244**	**81,718**	**15,296**	**296,569**	**43,377**	**155,745**	**236,660**	**53,459**	**1,417,470**
Charge for the year	**614,836**	**5,324**	**96,219**	**198,058**	**304,649**	**276,035**	**112,935**	**219,186**	**10,433**	**1,837,675**
Amounts written off	**(508,282)**	**-**	**(82,099)**	**-**	**(501,836)**	**(88,381)**	**(445,031)**	**(338,335)**	**-**	**(1,963,964)**
Recoveries	**17,078**	**-**	**71,936**	**-**	**395,163**	**-**	**447,304**	**232,600**	**-**	**1,164,081**
At 31 December 2011	**651,034**	**12,568**	**167,774**	**213,354**	**494,545**	**231,031**	**270,953**	**350,111**	**63,892**	**2,455,262**
Individual impairment	**521,585**	**-**	**79,980**	**6,496**	**284,577**	**-**	**226,623**	**175,400**	**-**	**1,294,661**
Collective impairment	**129,449**	**12,568**	**87,794**	**206,858**	**209,968**	**231,031**	**44,330**	**174,711**	**63,892**	**1,160,601**
	651,034	**12,568**	**167,774**	**213,354**	**494,545**	**231,031**	**270,953**	**350,111**	**63,892**	**2,455,262**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**7,999,140**	**-**	**266,598**	**85,753**	**316,622**	**-**	**327,505**	**727,969**	**-**	**9,723,587**

2010

In thousand Armenian drams	Manu-facture	Agri-culture	Const-ruction	Trans-port	Trading	Services	Con-sumer	Mort-gage	Other	Total
At 1 January 2010	293,828	2,974	17,617	32,058	288,165	27,030	128,541	271,306	32,146	1,093,665
Charge for the year/(reversal)	355,941	(3,504)	73,101	93,600	317,023	16,347	402,694	431,712	64,325	1,751,239
Amounts written off	(126,871)	(46)	(9,000)	(110,362)	(1,238,372)	-	(696,481)	(923,048)	(43,012)	(3,147,192)
Recoveries	4,504	7,820	-	-	929,753	-	320,991	456,690	-	1,719,758
At 31 December 2010	527,402	7,244	81,718	15,296	296,569	43,377	155,745	236,660	53,459	1,417,470
Individual impairment	287,132	-	55,844	-	154,236	-	-	63,012	-	560,224
Collective impairment	240,270	7,244	25,874	15,296	142,333	43,377	155,745	173,648	53,459	857,246
	527,402	7,244	81,718	15,296	296,569	43,377	155,745	236,660	53,459	1,417,470
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	1,088,169	-	351,733	-	869,610	-	-	252,703	-	2,562,215

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

In thousand Armenian drams	**As of December 31, 2011**	As of December 31, 2010
State owned enterprises	**2,796,459**	2,622,177
Privately held companies	**47,676,781**	42,506,348
Individuals	**26,982,265**	26,552,360
Sole proprietors	**6,744,824**	3,582,579
Accrued interest	**2,459,063**	2,512,964
	86,659,392	77,776,428
Less allowance for impairment of loans and advances	**(2,455,262)**	(1,417,470)
Total loans and advances to customers	**84,204,130**	76,358,958

Loans to individuals comprise the following products:

In thousand Armenian drams	**As of December 31, 2011**	As of December 31, 2010
Mortgage loans	**11,182,005**	10,094,151
Consumer loans	**8,805,217**	6,280,640
Car loans	**4,083,934**	6,248,438
Trading	**2,038,648**	2,834,832
Other	**872,461**	1,094,299
Total loans and advances to individuals	**26,982,265**	26,552,360

At 31 December 2011 and 2010 the estimated fair value of loans and advances to customers approximates it carrying value. Refer to Note 30.

Maturity analysis of loan portfolio is disclosed in Note 31. Credit, currency, liquidity and interest rate analyses of loans and advances to customers are disclosed in Note 32. The information on related party balances is disclosed in Note 29.

19 Available-for-sale investments

In thousand Armenian drams	As of December 31, 2011	As of December 31, 2010
Unquoted investments		
Shares of Armenian companies	**12,690**	12,690
Securities issued by the Ministry of Finance of Armenia	**4,081,826**	5,469,219
Total investments	**4,094,516**	5,481,909

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.

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

In thousand Armenian drams	2011		2010	
	%	Maturity	%	Maturity
Securities issued the Ministry of Finance of Armenia	**9.0-15.41%**	**2012-2028**	6.93%-12%	2011-2028

Debt securities available for sale at fair value of AMD 917,393 thousand were pledged to third parties in sale and repurchase agreements (2010: nil). These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet, as a separate item (Note 26).

All unquoted available-for-sale debt securities are recorded at cost less impairment losses, as the fair value cannot be reliably estimated. There is no quoted market for these investments and the Bank intends to keep them for a long time.

20 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Leasehold improve-ments	Computer and communi-cation technologies	Vehicles	Fixtures and fittings	Assets under construc-tion	Total
COST							
At January 1, 2010	932,011	322,574	458,938	66,365	1,106,662	93,484	2,980,034
Additions	144,497	14,854	119,673	63,306	282,454	247,081	871,865
Reclassifications	5,292	-	-	-	-	(5,292)	-
Disposals	-	-	(33,782)	-	(3,629)	-	(37,411)
At December 31, 2010	**1,081,800**	**337,428**	**544,829**	**129,671**	**1,385,487**	**335,273**	**3,814,488**
Additions	**3,132**	**40,350**	**105,576**	**100,462**	**240,533**	**13,917**	**503,970**
Disposals	**-**	**(2,879)**	**(15,204)**	**(55,791)**	**(16,309)**	**-**	**(90,183)**
At December 31, 2011	**1,084,932**	**374,899**	**635,201**	**174,342**	**1,609,711**	**349,190**	**4,228,275**

In thousand Armenian drams	Land and buildings	Leasehold improve-ments	Computer and communi-cation technologies	Vehicles	Fixtures and fittings	Assets under construc-tion	Total
DEPRECIATION							
At January 1, 2010	86,792	28,637	242,278	50,517	477,575	-	885,799
Depreciation charge	42,881	24,121	90,483	15,193	199,443	-	372,121
Disposals	-	-	(31,490)	-	(2,864)	-	(34,354)
At December 31, 2010	**129,673**	**52,758**	**301,271**	**65,710**	**674,154**	**-**	**1,223,566**
Depreciation charge	**35,639**	**10,754**	**105,915**	**23,577**	**136,557**	**-**	**312,442**
Disposals	**-**	**(155)**	**(15,204)**	**(36,960)**	**(12,115)**	**-**	**(64,434)**
At December 31, 2011	**165,312**	**63,357**	**391,982**	**52,327**	**798,596**	**-**	**1,471,574**
CARRYING VALUE							
At December 31, 2011	**919,620**	**311,542**	**243,219**	**122,015**	**811,115**	**349,190**	**2,756,701**
At December 31, 2010	952,127	284,670	243,558	63,961	711,333	335,273	2,590,922
At December 31, 2009	845,219	293,937	216,660	15,848	629,087	93,484	2,094,235

Revaluation of assets

The buildings owned by the Bank were evaluated by an independent appraiser at in December 2006 using the comparative sales methods resulting in a revaluation of AMD 186,583 thousand. Management has based their estimate of the fair value of the buildings on the results of the independent appraisal.

The management believes that at 31 December 2011 the fair value of the buildings does not differ significantly from their revalued amounts.

The net book value of buildings that would have been recognized under the historic cost method is AMD 870,706 thousand, as at 31 December 2011 (2010: AMD 894,243 thousand).

Fully depreciated items

As at 31 December 2011 fixed assets included fully depreciated and amortized assets in amount of AMD 556,566 thousand (2010: AMD 413,479 thousand).

Fixed assets in the phase of installation

As at 31 December 2011 fixed assets included assets in the phase of installation amounting AMD 371,161 thousand, containing buildings in amount of AMD 45,438 thousand (2010: AMD 260,006 thousand, containing buildings in amount of AMD 20,400 thousand), which are not amortized and are classified in accordance with their type.

Restrictions on title of fixed assets

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

Contractual commitments

As at 31 December 2011, the Bank did not have contractual commitments in respect of investments in fixed assets.

21 Intangible assets

In thousand Armenian drams	Licenses	Acquired software licenses	Other	Total
COST				
At January 1, 2010	37,258	60,382	76,854	174,494
Additions	240,200	93,585	-	333,785
At December 31, 2010	**277,458**	**153,967**	**76,854**	**508,279**
Additions	**-**	**32,203**	**-**	**32,203**
At December 31, 2011	**277,458**	**186,170**	**76,854**	**540,482**
AMORTISATION				
At January 1, 2010	**8,604**	**24,834**	**38,584**	**72,022**
Amortisation charge	**6,601**	**9,117**	**7,661**	**23,379**
At December 31, 2010	**15,205**	**33,951**	**46,245**	**95,401**
Amortisation charge	**13,638**	**29,129**	**2,139**	**44,906**
At December 31, 2011	**28,843**	**63,080**	**48,384**	**140,307**
CARRYING VALUE				
At December 31, 2011	**248,615**	**123,090**	**28,470**	**400,175**
At December 31, 2010	262,253	120,016	30,609	412,878
At December 31, 2009	28,654	35,548	38,270	102,472

Contractual commitments

As at 31 December 2011, the Bank did not have contractual commitments in respect of investments in intangible assets.

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

As at 31 December 2011, the licenses included the software license for clearing operations with plastic cards at the carrying amount of AMD 217,865 thousand (2010: AMD 231,337 thousand).

22 Other assets

In thousand Armenian drams	**As of December 31, 2011**	As of December 31, 2010
Prepayments and other debtors	**180,255**	146,412
Settlements with employees	**1,280**	275
Deposit funds with other financial institutions	**500**	500
	182,035	147,187
Less allowance for impairment	**(3,962)**	(2,303)
	178,073	144,884
Confiscated pledges	**1,859,362**	977,868
Other prepaid taxes	**-**	59,626
Materials	**31,784**	22,454
Other assets	**110,903**	-
Total other assets	**2,180,122**	1,204,832

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

In thousand Armenian drams	Total
At January 1, 2010	5,729
Charge for the year	8,104
Amounts written off	(11,530)
At December 31, 2010	**2,303**
Charge for the year	**17,241**
Amounts written off	**(15,582)**
At December 31, 2011	**3,962**

23 Amounts due to financial institutions

In thousand Armenian drams	**As of December 31, 2011**	As of December 31, 2010
Subordinate debt from CBA	**2,810,209**	2,810,209
Repurchase agreements with CBA	**917,483**	-
Correspondent accounts of other banks	**787,429**	785,232
Current accounts of other financial institutions	**73,207**	133,200
Loans from financial institutions	**1,171,435**	2,922,625
Deposits from financial institutions	**717,065**	296,491
Total amounts due to financial institutions	**6,476,828**	6,947,757

The subordinate debt was provided by the Central Bank of RA on 06 April, 2010, the maturity term of which is determined till 06 April, 2015. The interest rate comprises 7.5%.

As of 31 December 2011 the average effective interest rates on amounts due to financial institutions was 10.2% for borrowings in AMD (2010: 11.4%) and 9% for borrowings in USD (2010: 5.1% for borrowings in EUR).

All deposits and loans from financial institutions have fixed interest rates.

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

24 Amounts due to customers

In thousand Armenian drams	**As of December 31, 2011**	As of December 31, 2010
Government of the RA		
Loans	**15,589,197**	18,940,519
	15,589,197	18,940,519
Corporate customers		
Current/Settlement accounts	**5,388,769**	8,649,164
Time deposits	**10,675,235**	6,535,352
	16,064,004	15,184,516
Retail customers		
Current/Demand accounts	**4,003,483**	3,635,759
Time deposits	**54,933,404**	44,479,127
	58,936,887	48,114,886
Total amounts due to customers	**90,590,088**	82,239,921

The amounts due to Government of the RA represent loans received from the International Fund for Agricultural Development within the scope of "Rural Areas Development Programme" and "Economy stabilization lending programme". Loans carry fixed interest rates.

Deposits from corporate and retail customers carry fixed interest rates.

As at 31 December 2011 included in current and time deposit accounts of retail and corporate customers are deposits amounting to AMD 5,127,209 thousand (2010: AMD 5,145,618 thousand), held as security against loans provided and guarantees issued. The fair value of those deposits approximates the carrying amount.

At 31 December 2011 the aggregate balance of top ten retail and corporate customers of the Bank amounts to AMD 8,240,641 thousand (2010: AMD 10,114,976 thousand) or 11% of total retail and corporate customer accounts (2010: 16%).

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

As of 31 December 2011 the average effective interest rate on amounts due to Government of the RA was 6.4% for liabilities in AMD, 4% for liabilities in USD (2010: also).

As of 31 December 2011 the average effective interest rates on amounts due to corporate customers were 8.6% for liabilities in AMD, 9.1% for liabilities in USD, 8.4% for liabilities in EUR. The average effective interest rates on amounts due to individuals were 12.4% for liabilities in AMD, 8.7% for liabilities in USD, 6.4% for liabilities in EUR (2010: for corporate customers 8.56% for liabilities in AMD, 8.3% for liabilities in USD, 9.3% for liabilities in EUR, and for individuals 12.4% for liabilities in AMD, 8.8% for liabilities in USD, 7.3% for liabilities in EUR).

25 Other liabilities

In thousand Armenian drams	**As of December 31, 2011**	As of December 31, 2010
Accounts payables	**84,285**	93,311
Dividends payable	**196,070**	152,021
Due to personnel	**62,031**	104,413
Total other financial liabilities	**342,386**	349,745
Tax payable, other than income tax	**166,993**	32,103
Revenues of future periods	**9,794**	10,896
	176,787	42,999
Total other liabilities	**519,173**	392,744

26 Securities pledged under repurchase agreements

In thousand Armenian drams	**Asset**		Liability	
	2011	2010	**2011**	2010
Pledged securities in CBA (Note 19, 23)	**917,393**	-	**917,483**	-
	917,393	-	**917,483**	-

27 Equity

As at 31 December 2011 the Bank's registered and paid-in share capital was AMD 11,400,700 thousand. In accordance with the Bank's statute, the share capital consists of 10,000 ordinary shares, all of which have a par value of AMD 859,970 each and 10 preference shares, all of which have a par value of AMD 280,100,000 each.

The respective shareholdings as at 31 December 2011 and 2010 may be specified as follow:

In thousand Armenian drams

	Paid-in share capital	% of total paid-in capital
Ripatonso Holdings Ltd	**8,599,700**	**75.4**
Gagik Zakaryan	**1,400,500**	**12.3**
George Piskov	**1,400,500**	**12.3**
	11,400,700	**100**

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

During the year 2010 the Bank increased its share capital by AMD 2,801,000 thousand.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank. The holders of preference shares are entitled to one vote only at reorganization and liquidation of the Bank and when decisions of the statute limit their rights, as well as they have guaranteed annual dividend.

As at 31 December 2011 the dividends for preference shareholders recognized in the financial statements amounted to AMD 196,070 thousand (2010: AMD 152,021 thousand).

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

28 Contingent liabilities and commitments

Tax and legal matters

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

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

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

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	**As of December 31, 2011**	As of December 31, 2010
Undrawn loan commitments	**9,216,530**	8,105,835
Guarantees	**942,904**	509,277
Total commitments and contingent liabilities	**10,159,434**	8,615,112

Operating lease commitments – Bank as a lessee

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

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

In thousand Armenian drams	**As of December 31, 2011**	As of December 31, 2010
Not later than 1 year	**855,364**	742,413
Later than 1 year and not later than 5 years	**1,912,693**	1,860,212
Total operating lease commitments	**2,768,057**	2,602,625

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 anticipates partiallyl coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

Starting 2005 the Bank is member of the obligatory deposit insurance system. The system operates under the Armenian laws and regulations and is governed by the Law on Guarantee of Physical Persons Deposits. Insurance covers Bank's liabilities to individual depositors for the amount up to AMD 4,000 thousand (up to AMD 2,000 thousand for deposits in foreign currency) for each individual in case of business failure and revocation of the banking license.

29 Transactions with related parties

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

The shareholder company is controlled by Russian businessmen G. Zaqaryan and G. Piskov with equal voting shares.

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	**As of December 31, 2011**		As of December 31, 2010	
	Shareholders	**Key management personnel**	Shareholders	Key management personnel
Loans and advances to customers				
Loans outstanding at January 1, gross	**22,055**	**68,312**	1,006,931	59,957
Loans issued during the year	**17,528**	**214,382**	2,434,755	182,186
Loan repayments during the year	**(8,837)**	**(166,518)**	(3,419,631)	(173,831)
Loans outstanding at December 31, gross	**30,746**	**116,176**	22,055	68,312
Less: allowance for loan impairment	**(306)**	**(1,162)**	(220)	(683)
Loans outstanding at December 31	**30,440**	**115,014**	21,835	67,629
Interest income on loans	**2,926**	**12,569**	28,267	8,167
Impairment charge/(reversal) of impairment for credit losses	**86**	**479**	(9,849)	84
Amounts due from other financial institutions				
At January 1	**901,634**	-	986,049	-
Increase	**342,724,782**	-	302,526,493	-
Decrease	**(342,851,376)**	-	(302,610,908)	-
At December 31	**775,040**	-	901,634	-
Interest income	**4,704**	**-**	5,527	-
Amounts due to financial institutions				
At January 1	**2,283,298**	**-**	12,830,784	-
Increase	**11,229,283**	**-**	19,668,670	-
Decrease	**(12,879,465)**	**-**	(30,216,156)	-
At December 31	**633,116**	**-**	2,283,298	-
Interest expense	**49,553**	**-**	297,036	-
Amounts due to customers				
Deposits at January 1	**3,577,490**	**268,665**	1,832	2,386,094
Deposits received during the year	**95,204,160**	**27,327,562**	74,371,958	111,025
Deposits repaid during the year	**(95,755,905)**	**(26,092,356)**	(70,796,300)	(2,228,454)
Deposits at December 31	**3,025,745**	**1,503,871**	3,577,490	268,665
Interest expense on deposits	**201,552**	**-**	99	842
Purchase of PPE	**-**	**18,357**	-	23,400
Proceeds from sale of PPE	**11,760**	**-**	-	-
		-	-	-

In thousand Armenian drams	As of December 31, 2011		As of December 31, 2010	
	Shareholders	**Key management personnel**	Shareholders	Key management personnel
Comprehensive income statement items				
Operational lease	**297,600**	-	297,600	-
Insurance payments	**18,333**	-	-	-

The loans issued to the Bank's related parties during the year are repayable from 1 to 15 years and have interest rates of 12-20%.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	As of December 31, 2011	As of December 31, 2010
Salaries and other short-term benefits	**544,071**	456,984
Social security costs	**17,465**	14,669
Total key management compensation	**561,536**	471,653

30 Fair value of Financial instruments

Financial instruments that are not measured at fair value

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

In thousand Armenian drams	As of December 31, 2011		As of December 31, 2010	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL ASSETS				
Cash and balances with CBA	**16,228,746**	**16,228,746**	15,196,726	15,196,726
Precious metals	**86,493**	**86,493**	77,078	77,078
Amounts due from financial institutions	**3,526,993**	**3,526,993**	3,568,292	3,568,292
Loans and advances to customers	**84,204,130**	**84,204,130**	76,358,958	76,358,958
FINANCIAL LIABILITIES				
Amounts due to financial institutions	**6,476,828**	**6,476,828**	6,947,757	6,947,757
Amounts due to customers	**90,590,088**	**90,590,088**	82,239,921	82,239,921
Other liabilities (Note 25)	**342,386**	**342,386**	349,745	349,745

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.

Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Precious metals are included in other assets in the statement of financial position.

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 9% to 24% per annum. The interest rates mainly approximate current interest 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.

30.1 Fair Value Hierarchy

The fair value hierarchy has the following levels:

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

In thousand Armenian drams		As of December 31, 2011		
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Unquoted securities and debentures	-	**4,081,826**	-	**4,081,826**
Derivative financial assets	-	**79,047**	-	**79,047**
Total	-	**4,160,873**	-	**4,160,873**

In thousand Armenian drams		As of December 31, 2010		
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Unquoted securities and debentures	-	5,469,219	-	5,469,219
Derivative financial assets	-	306,822	-	306,822
Total	-	5,776,041	-	5,776,041
FINANCIAL LIABILITIES				
Derivative financial liabilities	-	6,510	-	6,510
Net fair value	-	5,769,531	-	5,769,531

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

Unquoted RA equity investments

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

31 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 32.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams								As of December 31, 2011
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Cash and balances with CBA	16,060,307	-	-	*16,060,307*	-	168,439	*168,439*	16,228,746
Precious metals	86,493	-	-	*86,493*	-	-	-	86,493
Amounts due from other financial institutions	2,724,924	-	300,300	*3,025,224*	-	501,769	*501,769*	3,526,993
Derivative financial assets	79,047	-	-	79,047	-	-	-	79,047
Loans and advances to customers	1,602,848	5,608,577	22,304,253	*29,515,678*	39,313,106	15,375,346	*54,688,452*	84,204,130
Investments available for sale	156,383	69,365	57,151	*282,899*	279,028	3,532,589	*3,811,617*	4,094,516
Securities pledged under repurchase agreements	917,393	-	-	*917,393*	-	-	-	917,393
	21,627,395	5,677,942	22,661,704	*49,967,041*	39,592,134	19,578,143	*59,170,277*	109,137,318
LIABILITIES								
Amounts due to financial institutions	1,801,256	279,058	1,440,510	*3,520,824*	2,863,775	92,229	*2,956,004*	6,476,828
Amounts due to customers	13,780,044	19,026,553	45,732,869	*78,539,466*	11,804,677	245,945	*12,050,622*	90,590,088
Other liabilities	342,386	-	-	*342,386*	-	-	-	342,386
	15,923,686	19,305,611	47,173,379	*82,402,676*	14,668,452	338,174	*15,006,626*	97,409,302
Net position	5,703,709	(13,627,669)	(24,511,675)	*(32,435,635)*	24,923,682	19,239,969	*44,163,651*	11,728,016
Accumulated gap	5,703,709	(7,923,960)	(32,435,635)		(7,511,953)	11,728,016		

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
								As of December 31, 2010
ASSETS								
Cash and balances with CBA	14,933,244	-	-	*14,933,244*	-	263,482	*263,482*	15,196,726
Precious metals	77,078	-	-	*77,078*	-	-	-	77,078
Amounts due from other financial institutions	3,192,132	-	-	*3,192,132*	-	376,160	*376,160*	3,568,292
Derivative financial assets	306,822	-	-	*306,822*	-	-	-	306,822
Loans and advances to customers	4,657,964	6,003,091	17,200,572	*27,861,627*	43,596,391	4,900,940	*48,497,331*	76,358,958
Investments available for sale	-	491,978	-	*491,978*	361,295	4,628,636	*4,989,931*	5,481,909
	23,167,240	6,495,069	17,200,572	*46,862,881*	43,957,686	10,169,218	*54,126,904*	100,989,785
LIABILITIES								
Amounts due to financial institutions	919,500	1,829,595	1,397,662	*4,146,757*	2,801,000	-	*2,801,000*	6,947,757
Amounts due to customers	12,260,385	22,407,449	28,602,510	*63,270,344*	18,902,490	67,087	*18,969,577*	82,239,921
Derivative financial liabilities	6,510	-	-	*6,510*	-	-	-	6,510
Other liabilities	349,745			*349,745*				349,745
	13,536,140	24,237,044	30,000,172	*67,773,356*	21,703,490	67,087	*21,770,577*	89,543,933
Net position	9,631,100	(17,741,975)	(12,799,600)	*(20,910,475)*	22,254,196	10,102,131	*32,356,327*	11,445,852
Accumulated gap	9,631,100	(8,110,875)	(20,910,475)		1,343,721	11,445,852		

32 Risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

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

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

Board of Bank

The Board is responsible for monitoring the overall risk management, approval of strategy and risk management principles.

Executive board
The Executive board of the Bank is responsible for investment and control over the risk management procedures.

Risk Management Directorate
The Risk Management Directorate is responsible for implementation of risk procedures and control over risk management principles, policy and the Bank's risk limits, as well as providing risk valuation and collection of overall information within the financial system.

Financial Directorate
The Financial Directorate of the Bank is responsible for management of assets and liabilities of the Bank. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit
Risk management processes throughout the Bank are audited annually by the internal audit that examines both the integrity of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems
The Bank also runs worst case scenarios that would arise in the event that extreme events which are to occur do, in fact, occur.

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

Risk mitigation
As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

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

32.1 Credit risk

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

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

32.1.1 Geographical sectors

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

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Cash and balances with CBA	16,228,746	-	-	16,228,746
Precious metals	86,493	-	-	86,493
Amounts due from other financial institutions	519,780	1,846,883	1,160,330	3,526,993
Derivative financial assets	-	-	79,047	79,047
Loans and advances to customers	83,210,518	15,229	978,383	84,204,130
Investments available for sale	4,094,516	-	-	4,094,516
Securities pledged under repurchase agreements	917,393	-	-	917,393
As at 31 December 2011	**105,057,446**	**1,862,112**	**2,217,760**	**109,137,318**
As at 31 December 2010	96,224,040	2,484,029	2,281,716	100,989,785

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

Industry sectors

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

In thousand Armenian drams	Financial institutions	Manufacturing	Agriculture	Construction	Transport	Trading	Services	Consumer sector	Mortgage	Other	Total
Cash and balances with CBA	16,228,746	-	-	-	-	-	-	-	-	-	16,228,746
Precious metals	86,493	-	-	-	-	-	-	-	-	-	86,493
Amounts due from other financial institutions	3,526,993	-	-	-	-	-	-	-	-	-	3,526,993
Derivative financial assets	79,047	-	-	-	-	-	-	-	-	-	79,047
Loans and advances to customers	-	15,931,196	581,921	5,142,993	4,172,987	20,832,024	4,267,694	15,487,923	11,357,085	6,430,307	84,204,130
Investments available for sale	4,094,516	-	-	-	-	-	-	-	-	-	4,094,516
Securities pledged under repurchase agreements	917,393	-	-	-	-	-	-	-	-	-	917,393
As at 31 December 2011	**24,933,188**	**15,931,196**	**581,921**	**5,142,993**	**4,172,987**	**20,832,024**	**4,267,694**	**15,487,923**	**11,357,085**	**6,430,307**	**109,137,318**
As at 31 December 2010	24,530,827	24,930,580	354,961	2,857,401	749,514	14,806,302	4,294,366	12,204,338	10,869,070	5,292,426	100,989,785

32.1.2 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 Bank.

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

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

- Mortgages over residential properties;
- Movable properties of individuals;
- Charges over business assets such as premises, inventory;
- 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	**As of December 31, 2011**	As of December 31, 2010
Loans collateralized by real estate	**63,686,504**	60,303,406
Loans collateralized by movable property	**4,589,788**	6,591,263
Loans collateralized by goods in circulation	**532,939**	406,799
Loans collateralized by guarantees	**3,765,171**	1,301,144
Loans collateralized by cash	**4,574,215**	3,504,204

Loans collateralized by Armenian Government guarantees	**4,263,742**	3,900,259
Loans collateralized by household appliances	**2,060,000**	275,583
Unsecured loans	**3,187,033**	1,493,770
Total loans and advances to customers (gross)	**86,659,392**	77,776,428

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and 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.

32.1.3 Impairment and provisioning policies

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

Individually assessed allowances

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

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	**As of December 31, 2011**	As of December 31, 2010
Loans and advances to customers		
Manufacture	**1.5%**	0.1%
Agriculture	**2.1%**	2%
Construction	**1.7%**	0.1%
Transportation	**4.8%**	4.8%
Trade	**1%**	1%
Service	**1%**	0.9%
Consumer	**1.1%**	1.2%
Mortgage	**2.1%**	1.8%

As of 31 December 2011 and 2010 the Bank has not had any losses on other financial assets bearing credit risk.

Past due but not impaired loans

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

In thousand Armenian drams				**As of December 31, 2011**	
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Manufacture	**5,288**	**57,558**	**-**	**55,790**	**118,636**
Agriculture	**-**	**15,891**	**104,777**	**-**	**120,668**
Construction	**35,385**	**-**	**-**	**-**	**35,385**
Transportation	**32,258**	**233,774**	**-**	**-**	**266,032**
Trade	**114,479**	**24,614**	**85,524**	**478,404**	**703,021**
Service	**38,977**	**52,442**	**7,711**	**1,591,881**	**1,691,011**
Consumer	**140,934**	**104,011**	**59,989**	**173,678**	**478,612**
Mortgage	**148,812**	**81,591**	**64,721**	**138,524**	**433,648**
Other	**1,016**	**-**	**-**	**-**	**1,016**
Total	**517,149**	**569,881**	**322,722**	**2,438,277**	**3,848,029**

In thousand Armenian drams	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	As of December 31, 2011 Total
Loans and advances to customers					
Manufacture	8,607	1,252	-	10,463	20,322
Construction	1,681	-	-	-	1,681
Trade	78,015	23,470	2,598	8,135	112,218
Service	33,780	12,459	-	52,844	99,083
Consumer	172,486	112,895	62,894	150,203	498,478
Mortgage	152,644	407,134	130,786	204,600	895,164
Total	447,213	557,210	196,278	426,245	1,626,946

Loans and advances individually impaired

The total gross amount of individually impaired loans and advances to customers before netting the individually assessed allowances for impairment is AMD 9,723,587 thousand (2010: AMD 2,652,215 thousand). Refer to Note 18.

32.2 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.

32.2.1 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 Bank has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2011. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, at 31 December 2011 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. 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							**As of December 31, 2011**
			Sensitivity of equity				
Currency	**Change in basis points**	**Sensitivity of net interest income**	**Up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
AMD	**+1**	-	**(149)**	**(232)**	**(3,439)**	**(187,348)**	**(191,168)**
AMD	**(1)**	-	**150**	**235**	**3,523**	**200,483**	**204,391**

In thousand Armenian drams							As of December 31, 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	-	(993)	-	(5,871)	(210,160)	(217,024)
AMD	(1)	-	997	-	6,054	226,591	233,642

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 Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2011 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges, and equity instruments). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	**As of December 31, 2011**		As of December 31, 2010	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	**3**	**(5,350)**	10	18,363
EUR	**(3)**	**198**	(10)	(265)

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	**9,751,497**	**5,834,913**	**642,336**	**16,228,746**
Precious metals	**-**	**86,493**	**-**	**86,493**
Amounts due from other financial institutions	**431,327**	**2,663,227**	**432,439**	**3,526,993**
Derivative financial assets	**-**	**79,047**	**-**	**79,047**
Loans and advances to customers	**35,057,850**	**49,146,280**	**-**	**84,204,130**
Investments available for sale	**4,094,516**	**-**	**-**	**4,094,516**
Securities pledged under repurchase agreements	**917,393**	**-**	**-**	**917,393**
	50,252,583	**57,809,960**	**1,074,775**	**109,137,318**
LIABILITIES				
Amounts due to financial institutions	**4,348,779**	**2,124,786**	**3,263**	**6,476,828**
Amounts due to customers	**34,114,178**	**55,213,295**	**1,262,615**	**90,590,088**
Other liabilities	**342,386**	**-**	**-**	**342,386**
	38,805,343	**57,338,081**	**1,265,878**	**97,409,302**
Net position as at 31 December 2011	**11,447,240**	**471,879**	**(191,103)**	**11,728,016**
Commitments and contingent liabilities as at 31 December 2011	**2,684,244**	**7,475,190**	**-**	**10,159,434**
Total financial assets	46,879,775	53,030,879	1,079,131	100,989,785
Total financial liabilities	36,357,458	52,099,748	1,086,727	89,543,933
Net position as at 31 December 2010	10,522,317	931,131	(7,596)	11,445,852
Commitments and contingent liabilities as at 31 December 2010	1,365,428	7,249,684	-	8,615,112

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.

32.3 Liquidity risk

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

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

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

	Not audited	
As at 31 December, these ratios were as follows:	**2011, %**	**2010, %**
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	**23.61**	24.64
N22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	**249.92**	192.28

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2011 based on contractual undiscounted repayment obligations. See note 31 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						**As of December 31, 2011**
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
FINANCIAL LIABILITIES						
Amounts due to financial institutions	**1,825,445**	**324,711**	**2,408,713**	**3,468,477**	**120,345**	**8,147,691**
Amounts due to customers	**13,787,397**	**19,236,782**	**47,006,264**	**13,592,512**	**396,885**	**94,019,840**
Other liabilities	**342,386**	**-**	**-**	**-**	**-**	**342,386**
Total undiscounted financial liabilities	**15,955,228**	**19,561,493**	**49,414,977**	**17,060,989**	**517,230**	**102,509,917**
Commitments and contingent liabilities	**3,537,228**	**542,728**	**1,956,799**	**4,122,679**	**-**	**10,159,434**
Derivative financial liabilities						
Currency swap contracts						
Inflow	**4,488,480**	**-**	**-**	**-**	**-**	**4,488,480**
Outflow	**4,409,753**	**-**	**-**	**-**	**-**	**4,409,753**

In thousand Armenian drams						As of December 31, 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	928,319	1,853,134	1,568,590	3,513,756	-	7,863,799
Amounts due to customers	12,663,191	24,386,064	31,074,411	22,919,954	76,408	91,120,028
Other liabilities	349,745	-	-	-	-	349,745
Total undiscounted financial liabilities	13,941,255	26,239,198	32,643,001	26,433,710	76,408	99,333,572
Commitments and contingent liabilities	88,569	450,797	3,079,179	4,839,351	157,216	8,615,112
Derivative financial liabilities						
Currency swap contracts						
Inflow	7,742,384	-	-	-	-	7,742,384
Outflow	7,740,446	-	-	-	-	7,740,446

The Bank has a significant cumulative maturity mismatch of the assets and liabilities up to one year. Refer to note 31. This liquidity mismatch arises due to the fact that the major source of finance for the Bank as at 31 December 2011 was customer deposits maturing in up to one year. Management believes that in spite of a substantial portion of customer accounts with maturity up to one year, the past experience of the Bank indicates that these deposits provide a long-term and stable source of finance for the Bank.

33 Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established in 1988 by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Armenia in supervising the Bank.

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

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

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

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit, and general reserve. Regulatory capital is calculated in accordance with the requirements of the Central Bank of Armenia and accounting standards of the Republic of Armenia. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves.

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

As of 31 December 2011 and 2010 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Not audited	
In thousand Armenian drams	**2011**	2010
Tier 1 capital	**14,876,637**	13,392,750
Tier 2 capital	**1,229,542**	1,685,908
Total regulatory capital	**16,106,179**	15,078,658
Risk-weighted assets	**111,415,733**	104,495,204
Capital adequacy ratio	**14.46%**	14.43%

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

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

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