

“Byblos Bank Armenia” cjsc

Financial Statements

for the year ended 31 December 2010

Contents

Independent Auditors' Report.....	3
Statement of comprehensive income.....	4
Statement of financial position.....	5
Statement of cash flows.....	6
Statement of changes in equity.....	7
Notes to the financial statements.....	8



KPMG Armenia cjsc
 8th floor, Erebuni Plaza Business Center,
 26/1 Vazgen Sargsyan Street
 Yerevan 0010, Armenia

Telephone + 374 (10) 566 762
 Fax + 374 (10) 566 762
 Internet www.kpmg.am

Independent Auditors' Report

To the Board of Directors
 "Byblos Bank Armenia" cjsc

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the "Byblos Bank Armenia" cjsc as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


 Andrew Coxshall
 Director


 Tigran Gasparyan
 Head of Audit Department

KPMG Armenia cjsc
 23 February 2011



“Byblos Bank Armenia” cjsc
Statement of Comprehensive Income for the year ended 31 December 2010

	Notes	2010 AMD'000	2009 AMD'000
Interest income	4	2,197,036	1,674,237
Interest expense	4	(850,428)	(543,468)
Net interest income		1,346,608	1,130,769
Fee and commission income	5	69,221	47,363
Fee and commission expense	6	(42,091)	(30,439)
Net fee and commission income		27,130	16,924
Net foreign exchange income	7	72,193	87,501
Net loss on available-for-sale financial assets		(204)	-
Other operating income		33,020	33,764
Operating income		1,478,747	1,268,958
Impairment losses	8	(209,713)	(283,875)
Personnel expenses	9	(592,093)	(438,969)
Other general administrative expenses	10	(332,499)	(319,574)
Profit before income tax		344,442	226,540
Income tax expense	11	(97,815)	(56,151)
Profit for the year		246,627	170,389
Other comprehensive income, net of income tax			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value	11	46,374	1,414
- Net change in fair value transferred to profit or loss	11	(8,388)	-
Other comprehensive income for the year, net of income tax		37,986	1,414
Total comprehensive income for the year		284,613	171,803

The financial statements as set out on pages 4 to 48 were approved by Board of Directors on 23 February 2011.



Ararat Ghukasyan
Chief Executive Officer





Karapet Melkonyan
Chief Accountant

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of the financial statements.

“Byblos Bank Armenia” cjsc
Statement of Financial Position as at 31 December 2010

	Notes	2010 AMD'000	2009 AMD'000
ASSETS			
Cash and cash equivalents	12	5,200,846	1,532,320
Available-for-sale financial assets			
- Held by the Bank	13	1,019,755	493,468
- Pledged under sale and repurchase agreements	13	-	298,995
Loans and advances to banks	14	5,815,609	2,515,163
Loans to customers	15	15,862,069	12,048,787
Property, equipment and intangible assets	16	782,764	616,464
Other assets	17	101,030	83,722
Total assets		28,782,073	17,588,919
LIABILITIES			
Deposits and balances from banks	18	7,293,877	586,557
Current accounts and deposits from customers	19	10,686,996	8,496,388
Other borrowed funds	20	1,930,470	-
Other liabilities	21	181,249	92,557
Deferred tax liability	11	22,271	30,820
Total liabilities		20,114,863	9,206,322
EQUITY			
Share capital	22	8,125,100	8,125,100
Share premium		257,149	257,149
Revaluation reserve for available-for-sale financial assets		38,617	631
Retained earnings/(Accumulated losses)		246,344	(283)
Total equity		8,667,210	8,382,597
Total liabilities and equity		28,782,073	17,588,919

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

“Byblos Bank Armenia” cjsc
Statement of Cash Flows for the year ended 31 December 2010

	Notes	2010 AMD'000	2009 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		2,220,765	1,610,610
Interest payments		(665,548)	(450,002)
Fee and commission receipts		52,026	36,901
Fee and commission payments		(33,159)	(26,453)
Net receipts from foreign exchange		87,173	68,026
Tax payments (other than income tax)		(40,748)	(40,319)
Salaries and other payments to employees		(522,429)	(422,279)
Other general administrative expenses payments		(265,695)	(270,158)
Other income receipts		80,005	38,267
(Increase)/decrease in operating assets			
Available-for-sale financial assets		(195,127)	731,476
Loans and advances to banks		(3,398,270)	1,674,229
Loans to customers		(4,348,230)	(4,719,486)
Other assets		12,575	75,402
Increase/(decrease) in operating liabilities			
Deposits and balances from banks		6,863,767	(1,412,959)
Amounts payable under repurchase agreements		-	(1,034,539)
Current accounts and deposits from customers		2,127,135	4,270,303
Receipts from other borrowed funds		1,909,698	-
Other liabilities		2,484	15,852
Net cash provided from operating activities before income taxes paid		3,886,422	144,871
Income tax paid		(21,675)	(15,251)
Cash flows from operations		3,864,747	129,620
CASH FLOWS USED IN INVESTING ACTIVITIES			
Net purchases of property and equipment and intangible assets		(240,586)	(128,698)
Cash flows used in investing activities		(240,586)	(128,698)
Net increase in cash and cash equivalents			
Effect of changes in exchange rates on cash and cash equivalents		41,289	725,459
Cash and cash equivalents at the beginning of the year		1,531,244	804,863
Cash and cash equivalents at the end of the year	12	5,196,694	1,531,244

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

“Byblos Bank Armenia” ejsc
Statement of Changes in Equity for the year ended 31 December 2010

AMD'000	Share capital	Share premium	Revaluation reserve for available-for- sale financial assets	Retained earnings/ (Accumulated losses)	Total
Balance as at 1 January 2009	8,125,100	257,149	(783)	(170,672)	8,210,794
Total comprehensive income					
Profit for the year	-	-	-	170,389	170,389
Other comprehensive income					
Net change in fair value of available- for-sale financial assets, net of income tax of AMD 354 thousand	-	-	1,414	-	1,414
Total comprehensive income for the year	-	-	1,414	170,389	171,803
Balance as at 31 December 2009	8,125,100	257,149	631	(283)	8,382,597
Balance as at 1 January 2010	8,125,100	257,149	631	(283)	8,382,597
Total comprehensive income					
Profit for the year	-	-	-	246,627	246,627
Other comprehensive income					
Net change in fair value of available- for-sale financial assets, net of income tax of AMD 11,594 thousand	-	-	46,374	-	46,374
Net change in fair value of available- for-sale financial assets, transferred to profit or loss, net of income tax of AMD 2,097 thousand	-	-	(8,388)	-	(8,388)
Total other comprehensive income	-	-	37,986	-	37,986
Total comprehensive income for the year	-	-	37,986	246,627	284,613
Balance as at 31 December 2010	8,125,100	257,149	38,617	246,344	8,667,210

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organisation and operations

The principal activities of “Byblos Bank Armenia” cjsc (“the Bank”) are deposit taking and customer accounts maintenance, lending, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of Armenia (“CBA”). The Bank has a general banking license, and is a member of the state deposit insurance system in the Republic of Armenia.

The Bank has three branches. The registered address of the Bank’s head office is 18/3 Amiryan Street, Yerevan, Republic of Armenia. The majority of the assets and liabilities are attracted in the Republic of Armenia.

The average number of persons employed by the Bank during the year was 82 (2009: 81).

(i) Shareholders

In August 2007 Byblos Bank SAL purchased 100% of the shares of “ITB” International Trade Bank” cjsc and the Bank was renamed “Byblos Bank Armenia” cjsc.

During the year ended 31 December 2008 the European Bank for Reconstruction and Development and the OPEC Fund for International Development acquired 25% and 10% of the ordinary shares of “Byblos Bank Armenia” cjsc, respectively. The current shareholder structure is as follows:

Byblos Bank SAL – 65%
European Bank for Reconstruction and Development – 25%
OPEC Fund for International Development – 10%

The Bank is ultimately controlled by a single individual Francois Bassil.

(b) Armenian business environment

Armenia is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Armenia involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets and its impact on the economy of Armenia have further increased the level of economic uncertainty in the environment. These financial statements reflect management’s assessment of the impact of the Armenian business environment on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Bank is the Armenian Dram (“AMD”) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The AMD is also the Bank’s presentation currency for the purposes of these financial statements. The Armenian Dram is not a convertible currency outside the Republic of Armenia.

Financial information presented in AMD is rounded to the nearest thousand.

(d) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 15 “Loans to customers”.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the Central Bank of Armenia and other banks. The minimum reserve deposit with the CBA is considered to be a cash equivalent due to the absence of restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments), or
- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise, or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available- for-sale, or
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss
- the Bank designates as available-for-sale, or
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised cost using the effective interest method, and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm’s length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

(v) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised as earned in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vi) *Derecognition*

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Bank writes off assets deemed to be uncollectible.

(vii) *Repurchase and reverse repurchase agreements*

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans and advances to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(viii) *Offsetting*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

– buildings	50 years
– computers and computer equipment	1-5 years
– fixtures and fittings	5-10 years
– motor vehicles	5 years

Leasehold improvements are depreciated over the shorter of the useful life of the asset and lease term.

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortization and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives for intangible assets range from 1-10 years.

(f) Impairment

(i) Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (“loans and receivables”). The Bank reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) *Financial assets carried at cost*

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and cannot be reversed.

(iii) *Available-for-sale financial assets*

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income

(iv) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(g) Provisions

A provision is recognized in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(h) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the followings:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss
- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- commitments to provide a loan at a below-market interest rate.

(i) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

(i) Share premium

Any amount paid in excess of par value of shares issued is recognized as share premium.

(ii) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Armenian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(j) Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(k) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognized in net gains less losses from financial instruments at fair value through profit or loss.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

Dividend income is recognized in profit or loss on the date that the dividend is declared.

(l) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2010, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of this pronouncement on its financial statements.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Bank recognizes that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Bank's financial statements. The impact of these changes will be analyzed during the course of the project as further phases of the standard are issued.
- *Improvements to IFRSs 2010* resulting from the International Accounting Standards Board's third annual improvements project are to be dealt with on a standard-by-standard basis. The effective date of each amendment is included in the IFRSs affected.

4 Net interest income

	2010 AMD'000	2009 AMD'000
Interest income		
Loans to customers	1,987,645	1,277,034
Loans and advances to banks	105,616	245,585
Available-for-sale financial assets	76,689	106,559
Cash and cash equivalents	21,314	44,566
Amounts receivable under reverse repurchase agreements	5,772	493
	2,197,036	1,674,237
Interest expense		
Current accounts and deposits from customers	512,272	348,871
Deposits and balances from banks	325,536	190,025
Other borrowed funds	12,211	-
Amounts payable under repurchase agreements	409	4,572
	850,428	543,468
Net interest income	1,346,608	1,130,769

5 Fee and commission income

	2010 AMD'000	2009 AMD'000
Remittances	22,879	14,483
Guarantee and letter of credit issuance	17,234	10,443
Credit card maintenance	13,630	7,074
Cash entry and withdrawal	9,267	10,932
Other	6,211	4,431
	69,221	47,363

6 Fee and commission expense

	2010 AMD'000	2009 AMD'000
Plastic card services	24,852	18,040
Guarantee and letter of credit issuance	8,932	3,986
Remittances	3,611	4,127
Other	4,696	4,286
	42,091	30,439

7 Net foreign exchange income

	2010 AMD'000	2009 AMD'000
Gain on spot transactions	87,173	68,026
(Loss)/gain from revaluation of financial assets and liabilities	(14,980)	19,475
	72,193	87,501

8 Impairment losses

	2010 AMD'000	2009 AMD'000
Loans to customers	209,773	279,225
Other assets	(60)	4,650
	209,713	283,875

9 Personnel expenses

	2010 AMD'000	2009 AMD'000
Employee compensation	561,638	411,003
Payroll related taxes	30,455	27,966
	592,093	438,969

10 Other general administrative expenses

	2010 AMD'000	2009 AMD'000
Depreciation and amortization	59,486	63,384
Advertising and marketing	41,265	32,101
Communications and information services	27,976	35,011
Maintenance of accounting application	22,850	19,574
Insurance	22,727	27,182
Repairs and maintenance	22,647	16,368
Professional services	22,048	25,168
Security	19,044	18,735
Operating lease expense	15,600	15,017
Maintenance of cars	14,717	13,422
Travel expenses	14,471	6,021
Office supplies	13,654	14,247
Other	36,014	33,344
	332,499	319,574

11 Income tax expense

	2010 AMD'000	2009 AMD'000
Current tax expense		
Current year	(115,861)	-
Deferred tax benefit/(expense)		
Origination and reversal of temporary differences	18,046	(56,151)
Total income tax expense	(97,815)	(56,151)

In 2010, applicable tax rate for current and deferred tax is 20% (2009: 20%).

Reconciliation of effective tax rate

	2010		2009	
	AMD'000	%	AMD'000	%
Profit before tax	344,442		226,540	
Income tax at the applicable tax rate	(68,888)	(20%)	(45,308)	(20%)
Non-deductible costs	(28,927)	(8%)	(10,843)	(5%)
	(97,815)	(28%)	(56,151)	(25%)

(a) Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2010 and 2009.

These deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2010 and 2009 are presented as follows:

AMD'000	Balance 1 January 2010	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2010
Loans to customers	(55,839)	47,164	-	(8,675)
Available-for-sale financial assets	(493)	38	(9,497)	(9,952)
Loans and advances to banks	(5,003)	(10,062)	-	(15,065)
Property and equipment	1,807	314	-	2,121
Other assets	(124)	(110)	-	(234)
Other liabilities	5,102	4,432	-	9,534
Tax loss carry-forward	23,730	(23,730)	-	-
	(30,820)	18,046	(9,497)	(22,271)

AMD'000	Balance 1 January 2009	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2009
Loans to customers	(11,474)	(44,365)	-	(55,839)
Available-for-sale financial assets	196	(335)	(354)	(493)
Loans and advances to banks	(6,834)	1,831	-	(5,003)
Property and equipment	516	1,291	-	1,807
Other assets	(117)	(7)	-	(124)
Other liabilities	6,240	(1,138)	-	5,102
Tax loss carry-forward	37,158	(13,428)	-	23,730
	25,685	(56,151)	(354)	(30,820)

(b) Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income for the year ended 31 December comprise the following:

AMD'000	2010			2009		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Net change in fair value of available-for-sale financial assets	57,968	(11,594)	46,374	1,768	(354)	1,414
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(10,485)	2,097	(8,388)	-	-	-
Other comprehensive income	47,483	(9,497)	37,986	1,768	(354)	1,414

12 Cash and cash equivalents

	2010 AMD'000	2009 AMD'000
Cash on hand	299,091	270,371
Nostro accounts with the CBA	3,020,360	1,074,035
Nostro accounts with other banks		
- OECD banks	147,149	16,272
- Other foreign banks	89,590	169,383
- Largest 10 Armenian banks	1,639,954	1,183
- Small and medium size Armenian banks	550	-
Total nostro accounts with other banks	1,877,243	186,838
Total cash and cash equivalents as shown in the statement of cash flows	5,196,694	1,531,244
Accrued interest	4,152	1,076
Total cash and cash equivalents	5,200,846	1,532,320

The nostro accounts represent balances with the Central Bank of Armenia related to settlement activity and were available for withdrawal at the year-end.

None of cash and cash equivalents are impaired or past due.

As at 31 December 2010 the Bank has one bank or group of related banks (2009: nil), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2010 is AMD 937,042 thousand.

13 Available-for-sale financial assets

	2010 AMD'000	2009 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	1,006,595	480,308
	1,006,595	480,308
Equity investments		
Corporate shares	13,160	13,160
	13,160	13,160
	1,019,755	493,468
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	-	298,995
	-	298,995

Included in available-for-sale assets are non-quoted equity securities:

Name	Country of incorporation	Main activity	% Controlled		2010	2009
			2010	2009	AMD'000	AMD'000
ArCa	Republic of Armenia	Payment system	2%	2%	12,143	12,143
SWIFT	Belgium	Money transfer	0%	0%	1,017	1,017
					13,160	13,160

Investment without a determinable fair value

Available-for-sale equity investments stated at cost comprise unquoted equity securities in the money transfer industry. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry.

14 Loans and advances to banks

	2010	2009
	AMD'000	AMD'000
Credit card settlement deposit with the CBA	124,155	121,676
Loans and deposits		
Largest 10 Armenian banks	3,444,075	2,346,293
Small and medium size Armenian banks	2,198,498	-
OECD banks	48,881	47,194
Total loans and deposits	5,691,454	2,393,487
Total loans and advances to banks	5,815,609	2,515,163

Included in loans and deposits with OECD banks is AMD 48,881 thousand (31 December 2009: AMD 47,194 thousand) which represents a blocked deposit in HSBC Bank Plc for membership in Europay International.

(a) Concentration of loans and advances to banks

As at 31 December 2010 the Bank has four banks or groups of connected banks (2009: one bank), whose balances exceeded 10% of equity. The gross values of these balances as at 31 December 2010 are AMD 4,942,400 thousand (2009: AMD 2,346,293 thousand).

15 Loans to customers

	2010 AMD'000	2009 AMD'000
Loans to corporate customers		
Loans to large corporates	12,294,119	9,110,747
Loans to small and medium size companies	44,105	12,859
Total loans to corporate customers	12,338,224	9,123,606
Loans to retail customers		
Mortgage loans	2,023,361	1,684,028
Consumer loans secured by real estate	944,297	635,854
Auto loans	773,338	714,561
Consumer loans with salary domiciliation	223,479	226,206
Credit cards	147,600	48,684
Other	1,184	1,651
Total loans to retail customers	4,113,259	3,310,984
Gross loans to customers	16,451,483	12,434,590
Impairment allowance	(589,414)	(385,803)
Net loans to customers	15,862,069	12,048,787

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2010 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	340,870	44,933	385,803
Net charge	190,325	19,448	209,773
Write-offs	(4,663)	(1,499)	(6,162)
Balance at the end of the year	526,532	62,882	589,414

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2009 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	70,597	43,867	114,464
Net charge	270,273	8,952	279,225
Write-offs	-	(7,886)	(7,886)
Balance at the end of the year	340,870	44,933	385,803

As at 31 December 2010, interest accrued on impaired loans amounts to AMD 4,634 thousand (31 December 2009: AMD 6,656 thousand).

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers portfolio as at 31 December 2010:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment to gross loans %
Loans to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment	11,333,611	(56,668)	11,276,943	0.5%
Impaired loans:				
- not overdue	538,235	(161,471)	376,764	30.0%
- overdue less than 90 days	13,266	(1,327)	11,939	10.0%
- overdue more than 90 days and less than 1 year	55,078	(27,539)	27,539	50.0%
- overdue more than 1 year	353,929	(277,518)	76,411	78.4%
Total impaired loans	960,508	(467,855)	492,653	48.7%
Total loans to large corporates	12,294,119	(524,523)	11,769,596	4.3%
Loans to small and medium size companies				
Loans without individual signs of impairment	41,855	(209)	41,646	0.5%
Impaired loans:				
- overdue more than 1 year	2,250	(1,800)	450	80.0%
Total impaired loans	2,250	(1,800)	450	80.0%
Total loans to small and medium size companies	44,105	(2,009)	42,096	4.6%
Total loans to corporate customers	12,338,224	(526,532)	11,811,692	4.27%
Loans to retail customers				
Mortgage loans				
- not overdue	1,992,814	(19,928)	1,972,886	1.0%
- overdue 180-360 days	21,047	(4,209)	16,838	20.0%
- overdue more than 360 days	9,500	(1,900)	7,600	20.0%
Total mortgage loans	2,023,361	(26,037)	1,997,324	1.3%
Consumer loans secured by real estate				
- not overdue	943,696	(9,437)	934,259	1.0%
- overdue more than 360 days	601	(120)	481	20.0%
Total consumer loans secured by real estate	944,297	(9,557)	934,740	1.0%
Auto loans				
- not overdue	756,428	(15,129)	741,299	2.0%
- overdue 180-360 days	16,910	(6,764)	10,146	40.0%
Total auto loans	773,338	(21,893)	751,445	2.8%

	Gross loans AMD'000	Impairment AMD'000	Net loans AMD'000	Impairment to gross loans %
Consumer loans with salary domiciliation				
- not overdue	223,479	(2,235)	221,244	1.0%
Total consumer loans with salary domiciliation	223,479	(2,235)	221,244	1.0%
Credit cards				
- not overdue	144,164	(1,442)	142,722	1.0%
- not overdue, but impaired	2,821	(1,410)	1,411	50.0%
- overdue 90-179 days	615	(308)	307	50.0%
Total credit cards	147,600	(3,160)	144,440	2.1%
Other				
- not overdue	1,184	-	1,184	0.0%
Total other	1,184	-	1,184	0.0%
Total loans to retail customers	4,113,259	(62,882)	4,050,377	1.53%
Total loans to customers	16,451,483	(589,414)	15,862,069	3.58%

The following table provides information on the credit quality of loans to customers portfolio as at 31 December 2009:

	Gross loans AMD'000	Impairment AMD'000	Net loans AMD'000	Impairment to gross loans %
Loans to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment	8,633,494	(43,167)	8,590,327	0.5%
Impaired loans:				
- not overdue	73,592	(29,437)	44,155	40.0%
- overdue more than 90 days and less than 1 year	168,727	(74,275)	94,452	44.0%
- overdue more than 1 year	234,934	(187,947)	46,987	80.0%
Total impaired loans	477,253	(291,659)	185,594	61.1%
Total loans to large corporates	9,110,747	(334,826)	8,775,921	3.7%
Loans to small and medium size companies				
Impaired loans:				
- overdue more than 1 year	12,859	(6,044)	6,815	47.0%
Total impaired loans	12,859	(6,044)	6,815	47.0%
Total loans to small and medium size companies	12,859	(6,044)	6,815	47.0%
Total loans to corporate customers	9,123,606	(340,870)	8,782,736	3.74%

	Gross loans	Impairment	Net loans	Impairment to gross loans
	AMD'000	AMD'000	AMD'000	%
Loans to retail customers				
Mortgage loans				
- not overdue	1,665,858	(16,659)	1,649,199	1.0%
- overdue 30-89 days	3,642	(729)	2,913	20.0%
- overdue 90-179 days	9,500	(1,900)	7,600	20.0%
- overdue 180-360 days	5,028	(1,006)	4,022	20.0%
Total mortgage loans	1,684,028	(20,294)	1,663,734	1.2%
Consumer loans secured by real estate				
- not overdue	629,792	(6,298)	623,494	1.0%
- overdue less than 30 days	806	(161)	645	20.0%
- overdue 90-179 days	1,413	(283)	1,130	20.0%
- overdue 180-360 days	1,282	(256)	1,026	20.0%
- overdue more than 360 days	2,561	(512)	2,049	20.0%
Total consumer loans secured by real estate	635,854	(7,510)	628,344	1.2%
Auto loans				
- not overdue	696,339	(13,927)	682,412	2.0%
- overdue 30-89 days	18,222	(364)	17,858	2.0%
Total auto loans	714,561	(14,291)	700,270	2.0%
Consumer loans with salary domiciliation				
- not overdue	226,206	(2,262)	223,944	1.0%
Total consumer loans with salary domiciliation	226,206	(2,262)	223,944	1.0%
Credit card loans				
- not overdue	48,684	(487)	48,197	1.0%
Total credit cards	48,684	(487)	48,197	1.0%
Other				
- overdue 180-360 days	1,651	(89)	1,562	5.4%
Total other	1,651	(89)	1,562	5.4%
Total loans to retail customers	3,310,984	(44,933)	3,266,051	1.36%
Total loans to customers	12,434,590	(385,803)	12,048,787	3.10%

During the year ended 31 December 2010 the Bank did not renegotiate any loans to customers. During the year ended 31 December 2009 the Bank renegotiated loans to corporate customers that would otherwise be past due or impaired of AMD 73,592 thousand.

(b) Key assumptions and judgments for estimating the loan impairment

(i) Loans to corporate customers

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in business environment, negative changes in the borrower’s markets.

The Bank estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to corporate customers, management considers the risks described in note 1(b) and makes the following key assumptions:

- for non-impaired loans the Bank creates a collective provision of 0.5% considering the economic environment and market loss experience
- for impaired loans a discount of 50-70% to the originally appraised value if the property pledged is sold and a delay of 6 to 48 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2010 would be AMD 118,117 thousand higher (31 December 2009: AMD 87,827 thousand higher).

(ii) Loans to retail customers

The Bank estimates loan impairment for loans to retail customers based on its past historical and market loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include the following loss estimates:

- Loans secured by real estate not past due – 1.0%
- The cost associated with the collection of the past due loans secured by real estate will not exceed 20.0% of the outstanding exposure
- Auto loans – 2.0%
- Credit card and consumer loans with salary domiciliation – 1.0%

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to retail customers as at 31 December 2010 would be AMD 121,511 thousand lower/higher (31 December 2009: AMD 97,981 thousand).

(c) Analysis of collateral

(i) Loans to corporate customers

The following table provides the analysis of loans to corporate customers portfolio, net of impairment, by types of collateral as at 31 December 2010:

	2010 AMD'000	% of loan portfolio	2009 AMD'000	% of loan portfolio
Real estate	11,266,025	95.4%	7,979,000	90.8%
Other collateral	545,667	4.6%	803,736	9.2%
	11,811,692	100.0%	8,782,736	100%

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Impaired or overdue loans with a gross value of AMD 962,758 thousand (2009: AMD 490,112 thousand) are secured by real estate with a fair value of at least AMD 1,216,248 thousand (AMD 608,742 thousand).

During the year ended 31 December 2010 the Bank did not obtain any assets by taking control of collateral accepted as security for loans to corporate customers (31 December 2009: nil).

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying cars. Consumer loans with salary domiciliation and credit card loans are secured by salaries.

(d) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located in the Republic of Armenia, who operate in the following economic sectors:

	2010 AMD'000	2009 AMD'000
Trade	6,897,950	6,638,258
Transport	2,624,458	-
Agriculture, forestry and timber	1,617,304	234,934
Manufacturing	992,441	1,942,129
Public catering and other services	196,404	294,757
Construction	9,667	13,528
Loans to retail customers	4,113,259	3,310,984
	16,451,483	12,434,590
Impairment allowance	(589,414)	(385,803)
	15,862,069	12,048,787

(e) Significant credit exposures

As at 31 December 2010 the Bank has six borrowers or groups of connected borrowers (2009: three), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2010 is AMD 7,594,477 thousand (2009: AMD 3,567,928 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in note 23 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

16 Property, equipment and intangible assets

AMD'000	Land and buildings	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Leasehold improvements	Intangible assets	Total
Cost							
Balance at 1 January 2010	519,277	200,207	155,424	68,800	19,628	93,100	1,056,436
Additions	108,326	21,725	22,794	-	7,116	66,277	226,238
Disposals	-	(14,428)	(1,330)	-	-	-	(15,758)
Balance at 31 December 2010	627,603	207,504	176,888	68,800	26,744	159,377	1,266,916
Depreciation							
Balance at 1 January 2010	(63,941)	(152,058)	(110,798)	(40,683)	(10,735)	(61,757)	(439,972)
Depreciation for the year	(10,396)	(10,369)	(14,821)	(10,740)	(5,032)	(8,128)	(59,486)
Disposals	-	14,428	878	-	-	-	15,306
Balance at 31 December 2010	(74,337)	(147,999)	(124,741)	(51,423)	(15,767)	(69,885)	(484,152)
Carrying amount							
At 31 December 2010	553,266	59,505	52,147	17,377	10,977	89,492	782,764
2009							
AMD'000	Land and buildings	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Leasehold improvements	Intangible assets	Total
Cost							
Balance at 1 January 2009	457,530	159,337	136,605	68,800	19,628	93,040	934,940
Additions	61,747	46,453	31,939	-	-	60	140,199
Disposals	-	(5,583)	(13,120)	-	-	-	(18,703)
Balance at 31 December 2009	519,277	200,207	155,424	68,800	19,628	93,100	1,056,436
Depreciation							
Balance at 1 January 2009	(54,392)	(139,622)	(114,368)	(29,943)	(2,780)	(54,043)	(395,148)
Depreciation for the year	(9,549)	(18,019)	(9,407)	(10,740)	(7,955)	(7,714)	(63,384)
Disposals	-	5,583	12,977	-	-	-	18,560
Balance at 31 December 2009	(63,941)	(152,058)	(110,798)	(40,683)	(10,735)	(61,757)	(439,972)
Carrying amount							
At 31 December 2009	455,336	48,149	44,626	28,117	8,893	31,343	616,464
At 1 January 2009	403,138	19,715	22,237	38,857	16,848	38,997	539,792

There are no capitalised borrowing costs related to the acquisition or construction of plant and equipment during 2010 (2009: nil).

17 Other assets

	2010	2009
	AMD'000	AMD'000
Receivables under money transfer and clearing systems	5,234	3,663
Other receivables	2,981	1,933
Total other financial assets	8,215	5,596
Prepayments	86,849	46,006
Prepayments for income taxes	-	26,388
Other	5,966	5,732
Total other non-financial assets	92,815	78,126
Total other assets	101,030	83,722

18 Deposits and balances from banks

	2010	2009
	AMD'000	AMD'000
Loans and term deposits	7,293,521	287,205
Amounts payable under repurchase agreements	-	298,961
Vostro accounts	356	391
	7,293,877	586,557

(a) Concentration of deposits and balances from banks

As at 31 December 2010 the Bank has one bank (2009: nil), whose balance exceeded 10% of equity. The gross value of this balance as at 31 December 2010 is AMD 6,654,561 thousand (2009: nil).

19 Current accounts and deposits from customers

	2010	2009
	AMD'000	AMD'000
Current accounts and demand deposits		
- Retail	796,417	368,024
- Corporate	1,978,369	516,487
Term deposits		
- Retail	3,724,896	2,255,551
- Corporate	4,187,314	5,356,326
	10,686,996	8,496,388

(a) Blocked accounts

As of 31 December 2010, the Bank did not maintain customer deposit balances that serve as collateral for loans and unrecognised credit instruments granted by the Bank (2009: AMD 5,422 thousand).

(b) Concentrations of current accounts and deposits from customers

As of 31 December 2010 the Bank has three customers (2009: one customer), whose balances exceed 10% of equity. These balances as at 31 December 2010 are AMD 3,919,408 thousand (2009: AMD 2,670,898 thousand).

20 Other borrowed funds

	2010 AMD'000	2009 AMD'000
Loans from other financial institutions	1,930,470	-

(a) Concentration of other borrowed funds

As at 31 December 2010 the Bank has one financial institution (2009: nil), whose balance exceeded 10% of equity. This balance as at 31 December 2010 is AMD 1,820,834 thousand.

21 Other liabilities

	2010 AMD'000	2009 AMD'000
Payables to suppliers	29,861	27,175
Salary and similar payables	29,337	17,164
Other financial liabilities	5,075	8,703
Total other financial liabilities	64,273	53,042
Income tax payable	67,798	-
Deferred income	27,478	17,429
Other taxes payable	12,898	13,075
Other non-financial liabilities	8,802	9,011
Total other non-financial liabilities	116,976	39,515
Total other liabilities	181,249	92,557

22 Share capital

(a) Issued capital and share premium

The authorized, issued and outstanding share capital comprises 81,251 ordinary shares (2009: 81,251). All shares have a nominal value of AMD 100,000. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Republic of Armenia. In accordance with the legislation of the Republic of Armenia, as at the reporting date, reserves available for distribution amounted to AMD 234,013 thousand (2009: nil).

23 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank’s operations. The major risks faced by the Bank are those related to market risk, which, credit risk and liquidity risk.

(a) Risk management policies and procedures

The Bank’s risk management policies aim to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Committee with the support of the Assets and Liability Committee (ALCO Committee) is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk management is vested in the ALCO Committee. Market risk limits are approved by the ALCO Committee.

The Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the ALCO Committee.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2010						
ASSETS						
Cash and cash equivalents	5,200,846	-	-	-	-	5,200,846
Available-for-sale financial assets	94,826	-	40,495	208,802	675,632	1,019,755
Loans and advances to banks	1,975,419	1,097,270	2,569,884	-	173,036	5,815,609
Loans to customers	1,527,058	1,628,472	3,039,040	7,873,538	1,793,961	15,862,069
	8,798,149	2,725,742	5,649,419	8,082,340	2,642,629	27,898,279
LIABILITIES						
Deposits and balances from banks	387,062	87,885	2,933,781	3,885,149	-	7,293,877
Current accounts and deposits from customers	5,198,223	2,474,886	2,973,510	40,377	-	10,686,996
Other borrowed funds	765	4,223	1,056	1,834,474	89,952	1,930,470
	5,586,050	2,566,994	5,908,347	5,760,000	89,952	19,911,343
Interest rate gap	3,212,099	158,748	(258,928)	2,322,340	2,552,677	7,986,936
31 December 2009						
ASSETS						
Cash and cash equivalents	1,532,320	-	-	-	-	1,532,320
Available-for-sale financial assets	733,846	-	5,006	53,611	-	792,463
Loans and advances to banks	2,346,293	-	-	-	168,870	2,515,163
Loans to customers	829,349	714,168	1,102,784	7,967,366	1,435,120	12,048,787
	5,441,808	714,168	1,107,790	8,020,977	1,603,990	16,888,733
LIABILITIES						
Deposits and balances from banks	300,770	491	1,313	283,983	-	586,557
Current accounts and deposits from customers	6,003,140	281,020	1,834,892	377,336	-	8,496,388
	6,303,910	281,511	1,836,205	661,319	-	9,082,945
Interest rate gap	(862,102)	432,657	(728,415)	7,359,658	1,603,990	7,805,788

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2010 and 2009. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2010			2009		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest bearing assets						
Nostro accounts with banks	-	2.4%	0.1%	-	0.1%	0.2%
Available-for-sale financial assets	13.5%	-	-	7.1%	-	-
Loans and advances to banks	4.5%	6.3%	-	-	7.8%	-
Loans to customers	14.4%	11.0%	10.0%	14.4%	13.2%	16.0%
Interest bearing liabilities						
Deposits and balances from banks						
- Loans and term deposits	7.8%	7.3%	3.5%	7.7%	-	-
- Amounts payable under repurchase agreements	-	-	-	5.0%	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	1.6%	1.6%	0.4%	1.6%	0.4%	0.3%
- Term deposits	10.9%	7.8%	3.5%	8.5%	8.0%	4.2%
Other borrowed funds	8.0%	8.0%	-	-	-	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2010 and 2009 is as follows:

	2010		2009	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
100 bp parallel fall	(8,501)	(8,501)	(6,491)	(6,491)
100 bp parallel rise	8,501	8,501	6,491	6,491

An analysis of sensitivity of profit or loss and equity as a result of changes in fair value of financial assets available for sale due to changes in the interest rates based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2010		2009	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
100 bp parallel fall	-	25,803	-	938
100 bp parallel rise	-	(25,803)	-	(938)

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Bank does not hedge its exposure to currency risk.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2010:

	USD	EUR	Other	Total
	AMD'000	AMD'000	currencies	AMD'000
	AMD'000	AMD'000	AMD'000	AMD'000
Assets				
Cash and cash equivalents	3,940,914	86,962	38,784	4,066,660
Loans and advances to banks	4,991,282	-	-	4,991,282
Loans to customers	9,118,593	751,577	-	9,870,170
Other financial assets	4,861	67	-	4,928
Total assets	18,055,650	838,606	38,784	18,933,040
Liabilities				
Deposits and balances from banks	6,654,599	385,637	2	7,040,238
Current accounts and deposits from customers	9,205,263	419,842	686	9,625,791
Other borrowed funds	1,820,834	-	-	1,820,834
Other financial liabilities	6,396	160	-	6,556
Total liabilities	17,687,092	805,639	688	18,493,419
Net positions as at 31 December 2010	368,558	32,967	38,096	439,621

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2009:

	USD	EUR	Other	Total
	AMD'000	AMD'000	currencies	AMD'000
	AMD'000	AMD'000	AMD'000	AMD'000
Assets				
Cash and cash equivalents	923,935	122,166	19,723	1,065,824
Loans and advances to banks	2,393,492	-	-	2,393,492
Loans to customers	4,404,421	136,964	-	4,541,385
Other financial assets	1,619	105	-	1,724
Total assets	7,723,467	259,235	19,723	8,002,425
Liabilities				
Deposits and balances from banks	116	289	2	407
Current accounts and deposits from customers	7,411,163	294,593	15,096	7,720,852
Other financial liabilities	6,212	3,445	-	9,657
Total liabilities	7,417,491	298,327	15,098	7,730,916
Net positions as at 31 December 2009	305,976	(39,092)	4,625	271,509

A strengthening of the AMD, as indicated below, against the following currencies at 31 December 2010 and 2009 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2010		2009	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
10% appreciation of USD against AMD	36,856	36,856	30,598	30,598
10% appreciation of EUR against AMD	3,297	3,297	(3,909)	(3,909)

A weakening of the AMD against the above currencies at 31 December 2010 and 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has developed policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments).

Corporate loan/credit applications are originated and analyzed by the relevant relationship managers from the Commercial Banking Department, which is responsible for the corporate loan portfolio. Analysis reports produced by the department’s credit analysts are based on a structured analysis focusing on the customer’s business and financial performance. The loan/credit application and the report are then independently reviewed by the Risk Management Department and a second opinion is given accompanied by verification that credit policy requirements are met. The Management Committee reviews the loan/credit application on the basis of submissions by the Commercial Banking Department. Individual transactions are also reviewed by the Legal Unit, depending on the specific risks and pending final approval of the Management Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer’s most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by either independent appraisal companies or the Bank’s specialists.

Retail loan/credit applications are reviewed by the Retail Approval Unit, Retail Approval Committee and Management Committee based on the authorized limits.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Management Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position and unrecognised contractual commitments. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2010	2009
	AMD'000	AMD'000
ASSETS		
Cash and cash equivalents	5,200,846	1,532,320
Available-for-sale financial assets	1,019,755	792,463
Loans and advances to banks	5,815,609	2,515,163
Loans to customers	15,862,069	12,048,787
Other financial assets	8,215	5,596
Total maximum exposure	27,906,494	16,894,329

For the analysis of concentration of credit risk in respect of loans to customers refer to note 15.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 25.

As at 31 December 2010 the bank has one counterparty or group of connected counterparties (2009: one), credit risk exposure to whom exceeds 10% of maximum credit risk exposure. The credit risk exposure for this customer as at 31 December 2010 is AMD 3,144,515 thousand (2009: AMD 2,346,293 thousand).

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Bank’s liquidity policy is reviewed and approved by the ALCO Committee.

The Bank seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Treasury Unit receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Unit then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Unit. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on the liquidity management are made by the ALCO Committee, based on the reports of Risk Management and Treasury Unit.

The tables below show the undiscounted cash flows of non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The maturity analysis for financial liabilities as at 31 December 2010 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
31 December 2010							
Non-derivative liabilities							
Deposits and balances from banks	387,593	248	87,898	3,071,481	4,872,370	8,419,590	7,293,877
Current accounts and deposits from customers	3,234,192	1,987,613	2,544,011	3,152,594	44,311	10,962,721	10,686,996
Other borrowed funds	467	303	4,241	1,121	2,456,449	2,462,581	1,930,470
Other financial liabilities	50,223	14,050	-	-	-	64,273	64,273
Total liabilities	3,672,475	2,002,214	2,636,150	6,225,196	7,373,130	21,909,165	19,975,616
Credit related commitments	3,375,305	-	-	-	-	3,375,305	3,375,305

The maturity analysis for financial liabilities as at 31 December 2009 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
31 December 2009							
Non-derivative liabilities							
Deposits and balances from banks	300,943	240	505	1,396	351,773	654,857	586,557
Current accounts and deposits from customers	1,728,954	4,331,906	289,404	1,946,687	401,499	8,698,450	8,496,388
Other financial liabilities	25,867	15,407	11,768	-	-	53,042	53,042
Total liabilities	2,055,764	4,347,553	301,677	1,948,083	773,272	9,406,349	9,135,987
Credit related commitments	2,775,081	-	-	-	-	2,775,081	2,775,081

In accordance with Armenian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The principal amount of such deposits, by each time band, is as follows:

- less than 1 month: AMD 149,981 thousand
- from 1 to 3 months: AMD 553,492 thousand
- from 3 to 6 months: AMD 1,237,909 thousand
- from 6 to 12 months: AMD 1,664,987 thousand
- more than 1 year: AMD 38,678 thousand

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at 31 December 2010:

AMD'000	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	5,200,846	-	-	-	-	-	-	5,200,846
Available-for-sale financial assets	-	94,826	40,495	208,802	662,472	13,160	-	1,019,755
Loans and advances to banks	1,975,419	-	3,667,154	-	-	173,036	-	5,815,609
Loans to customers	491,667	1,035,391	4,667,512	7,509,710	1,793,961	-	363,828	15,862,069
Property, equipment and intangible assets	-	-	-	-	-	782,764	-	782,764
Other assets	7,393	65,158	18,829	9,650	-	-	-	101,030
Total assets	7,675,325	1,195,375	8,393,990	7,728,162	2,456,433	968,960	363,828	28,782,073
Non-derivative liabilities								
Deposits and balances from banks	386,817	245	3,021,666	3,885,149	-	-	-	7,293,877
Current accounts and deposits from customers	3,233,678	1,964,545	5,448,396	40,377	-	-	-	10,686,996
Other borrowed funds	466	299	5,279	1,834,474	89,952	-	-	1,930,470
Other liabilities	65,319	18,444	87,571	2,134	7,781	-	-	181,249
Deferred tax liability	-	-	-	-	-	22,271	-	22,271
Total liabilities	3,686,280	1,983,533	8,562,912	5,762,134	97,733	22,271	-	20,114,863
Net position	3,989,045	(788,158)	(168,922)	1,966,028	2,358,700	946,689	363,828	8,667,210

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at 31 December 2009:

AMD'000	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	1,532,320	-	-	-	-	-	-	1,532,320
Available-for-sale financial assets	728,845	5,001	5,006	40,451	-	13,160	-	792,463
Loans and advances to banks	2,346,293	-	-	-	-	168,870	-	2,515,163
Loans to customers	296,681	532,668	1,816,952	7,727,839	1,435,119	-	239,527	12,048,786
Property, equipment and intangible assets	-	-	-	-	-	616,464	-	616,464
Other assets	13,781	21,349	22,203	26,389	-	-	-	83,722
Total assets	4,917,920	559,018	1,844,161	7,794,679	1,435,119	798,494	239,527	17,588,918
Non-derivative liabilities								
Deposits and balances from banks	300,533	237	1,804	283,983	-	-	-	586,557
Current accounts and deposits from customers	1,727,225	4,275,915	2,115,912	377,336	-	-	-	8,496,388
Other liabilities	33,055	16,691	22,942	10,745	7,991	1,133	-	92,557
Deferred tax liability	-	-	-	-	-	30,820	-	30,820
Total liabilities	2,060,813	4,292,843	2,140,658	672,064	7,991	31,953	-	9,206,322
Net position	2,857,107	(3,733,825)	(296,497)	7,122,615	1,427,128	766,541	239,527	8,382,597

The key measure used by the Bank for managing liquidity risk is the ratio of highly liquid assets to demand liabilities. For this purpose highly liquid assets include cash, nostro accounts, gold bullion, debt securities issued by the Government of Armenia, CBA and other corporate debt securities for which there is an active and liquid market, which are not pledged or the use of which is not restricted in any way. Demand liabilities include current accounts and demand deposits of customers, as well as any other liability that is payable on demand. The reported ratios of highly liquid assets to demand liabilities for December 2010 and during the year are as follows:

	2010	2009
For December	205.7%	523.7%
Average for the year	236.0%	453.4%
Maximum for the year	324.6%	606.7%
Minimum for the year	103.9%	228.1%

The above ratio is also used to measure compliance with the liquidity limit established by the CBA.

24 Capital management

The Central Bank of Armenia sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, which are based on Basle Accord principles, banks have to maintain a ratio of capital to risk weighted assets (“statutory capital ratio”) above the prescribed minimum level. As at 31 December 2010, this minimum level was 12%. The Bank was in compliance with the statutory capital ratios during the years ended 31 December 2010 and 2009.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Central Bank of Armenia, as at 31 December:

	2010	2009
	AMD’000	AMD’000
Tier 1 capital		
Share capital	8,125,100	8,125,100
Share premium	257,149	257,149
General reserve	16,033	16,033
Retained earnings	106,189	(283,755)
Deductions	(36 485)	(25,660)
Total tier 1 capital	8,467,986	8 088 867
Tier 2 capital		
Revaluation reserve for available-for-sale financial assets	38,617	631
Total tier 2 capital	38,617	631
Total capital	8,506,603	8,089,498
Total risk weighted assets	25,636,985	14,643,229
Total capital expressed as a percentage of risk-weighted assets	33.2%	55.2%
Total tier 1 capital expressed as a percentage of risk-weighted assets	33.1%	55.2%

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

25 Commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

	2010	2009
	AMD'000	AMD'000
Contracted amount		
Loan and credit line commitments	3,052,656	2,475,038
Credit card commitments	101,979	58,017
Guarantees and letters of credit	220,670	242,026
	3,375,305	2,775,081

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Of these commitments, AMD 2,271,500 thousand (2009: AMD 2,078,395 thousand) are to three customers as at 31 December 2010 (2009: two customers). This exposure represents a significant credit risk exposure to the Bank.

26 Contingencies

(a) Insurance

The insurance industry in the Republic of 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 has up to AMD 305 million coverage for each type of insurance including for its premises and equipment, business interruption, third party liability in respect of property arising from accidents on the Bank's property or related to the Bank's operations. The Bank also has up to AMD 90 million insurance coverage of cash desks against physical damage and theft.

(b) Litigation

Bank management is unaware of any significant actual, pending or threatened claims against the Bank.

(c) Taxation contingencies

The taxation system in the Republic of Armenia is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

These circumstances may create tax risks in the Republic of Armenia that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

27 Related party transactions

(a) Control relationships

The Bank’s Parent is “Byblos Bank S.A.L”, which owns 65% of the share capital. The Parent produces publicly available financial statements.

The party with ultimate control over the Bank is Francois Bassil.

(b) Transactions with the members of the Board of Directors and the Management Committee

Total remuneration included in personnel expenses for the year ended 31 December is as follows:

	2010 AMD’000	2009 AMD’000
Short-term employee benefits	<u>288,358</u>	<u>182,647</u>

These amounts include non-cash benefits in respect of the members of the Board of Directors and the Management Committee.

The outstanding balances and average interest rates as at 31 December 2010 for transactions with the members of the Board of Directors and the Management Committee are as follows:

	2010 AMD’000	Average interest rate, %	2009 AMD’000	Average interest rate, %
Statement of financial position				
Assets				
Loans to customers	248,020	8.8%	195,155	9.0%
Liabilities				
Current accounts and deposits from customers	114,586	6.8%	45,295	6.8%

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Committee for the year ended 31 December are as follows:

	2010 AMD’000	2009 AMD’000
Profit or loss		
Interest income	19,466	14,184
Interest expense	<u>(3,371)</u>	<u>(3,362)</u>

(b) Transactions with other related parties

Other related parties include the Parent company, its fellow subsidiaries and non-controlling shareholders. The outstanding balances and the related average interest rates as at 31 December 2010 and related profit or loss amounts of transactions for the year ended 31 December 2010 with other related parties are as follows:

	Parent company		Non-controlling shareholders		Other subsidiaries of the parent company		Total	
	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %
Statement of financial position								
ASSETS								
Cash and cash equivalents	61,456	0.2%	-	-	1,882	-	63,338	0.2%
LIABILITIES								
Deposits and balances from banks	6,654,561	7.3%	-	-	-	-	6,654,561	7.3%
Current accounts and deposits from customers	-	-	-	-	1,217,733	7.5%	1,217,733	7.5%
Other borrowed funds	-	-	1,820,834	8.0%	-	-	1,820,834	8.0%
Statement of comprehensive income								
Interest income	567		-		98		665	
Interest expense	(286,290)		(8,279)		(84,336)		(378,905)	
Other operating income	-		-		13,897		13,897	
Fee expense	(10,246)		-		(172)		(10,418)	

The outstanding balances and the related average interest rates as at 31 December 2009 and related profit or loss amounts of transactions for the year ended 31 December 2009 with other related parties are as follows:

	Parent company		Other subsidiaries of the parent company		Total	
	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %
Statement of financial position						
ASSETS						
Cash and cash equivalents	160,218	0.1%	16,272	-	176,490	0.1%
LIABILITIES						
Deposits and balances from banks	28	-	-	-	28	-
Current accounts and deposits from customers	-	-	805,659	7.0%	805,569	7.0%
Statement of comprehensive income						
Interest income	569		246		815	
Interest expense	(1,154)		(51,058)		(52,212)	

All balances in the statement of financial position are in foreign currencies.

28 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The estimated fair values of financial assets and liabilities, except as described below, are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date. As disclosed in note 13 the fair value of unquoted equity securities available for sale with a carrying value of AMD 13,160 thousand could not be determined.

The estimated fair values of all financial instruments except for unquoted equity securities available-for-sale approximate their carrying values.

(b) Fair value hierarchy

The Group measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2010, by the level in the fair value hierarchy into which the fair value measurement is categorised:

AMD '000	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
- Debt instruments	-	1,006,595	-	1,006,595
	-	1,006,595	-	1,006,595

The table below analyses financial instruments measured at fair value at 31 December 2009 by the level in the fair value hierarchy into which the fair value measurement is categorised:

AMD '000	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
- Debt and other fixed income instruments	-	779,303	-	779,303
	-	779,303	-	779,303