

**“Byblos Bank Armenia” cjsc**

Interim Financial Statements  
for the nine-month period ended  
30 September 2010

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*“Byblos Bank Armenia” cjsc*  
*Interim Statement of comprehensive income for the nine-month period ended*  
*30 September 2010*

		<b>July 1, 2010</b>	<b>January 1, 2010</b>	<b>July 1, 2009</b>	<b>January 1, 2009</b>
		<b>September 30, 2010</b>	<b>September 30, 2010</b>	<b>September 30, 2009</b>	<b>September 30, 2009</b>
	<b>Notes</b>	<b>AMD'000</b>	<b>AMD'000</b>	<b>AMD'000</b>	<b>AMD'000</b>
Interest income	4	601,114	1,584,703	429,577	1,177,186
Interest expense	4	(234,238)	(586,124)	(143,776)	(361,137)
<b>Net interest income</b>		<b>366,876</b>	<b>998,579</b>	<b>285,801</b>	<b>816,049</b>
Fee and commission income	5	15,415	49,353	11,420	35,851
Fee and commission expense	6	(9,201)	(32,155)	(4,914)	(16,734)
<b>Net fee and commission income</b>		<b>6,214</b>	<b>17,198</b>	<b>6,506</b>	<b>19,117</b>
Net foreign exchange income	7	9,315	52,984	7,658	71,026
Net realized loss on available-for-sale assets	8	-	(204)	-	-
Other operating income / (loss)		6,740	8,277	(286)	7,548
		<b>389,145</b>	<b>1,076,834</b>	<b>299,679</b>	<b>913,740</b>
Impairment losses	9	(59,869)	(250,896)	(61,638)	(217,683)
Personnel expenses	10	(132,924)	(452,772)	(108,264)	(339,446)
Other general administrative expenses	11	(94,870)	(291,084)	(103,119)	(285,940)
<b>Profit before taxes</b>		<b>101,482</b>	<b>82,082</b>	<b>26,658</b>	<b>70,671</b>
Income tax expense	12	(29,744)	(40,227)	(10,866)	(22,908)
<b>Net profit</b>		<b>71,738</b>	<b>41,855</b>	<b>15,792</b>	<b>47,763</b>
<b>Other comprehensive income</b>					
Net change in fair value of available-for-sale assets, net of tax	12	(27,913)	5,006	(1,328)	3,977
Net change in fair value of available-for-sale assets, transferred to profit or loss, net of tax	12	-	(8,388)	-	-
<b>Other comprehensive (loss) / income, net of tax</b>		<b>(27,913)</b>	<b>(3,382)</b>	<b>(1,328)</b>	<b>3,977</b>
<b>Total comprehensive income</b>		<b>43,825</b>	<b>38,473</b>	<b>14,464</b>	<b>51,740</b>

The interim financial statements as set out on pages 3 to 47 were approved on 14 October 2010.

Ararat Ghukasyan  
Chief Executive Officer

Karapet Melkonyan  
Chief Accountant

*“Byblos Bank Armenia” cjsc*  
*Interim statement of financial position as at 30 September 2010*

	Notes	September 30, 2010 AMD'000	December 31, 2009 AMD'000
<b>ASSETS</b>			
Cash		227,805	270,371
Due from the Central Bank of Armenia	13	1,648,097	1,195,711
Placements with banks	14	2,407,619	2,581,401
Loans to customers	15	16,127,701	12,048,787
Available-for-sale assets			
- Held by the Bank	16	845,063	493,468
- Pledged under repurchase agreements	16	-	298,995
Property, equipment and intangible assets	17	768,318	616,464
Other assets	18	69,588	83,722
<b>Total assets</b>		<b>22,094,191</b>	<b>17,588,919</b>
<b>LIABILITIES</b>			
Deposits and balances from banks	19	5,706,336	586,557
Other borrowed funds	20	79,368	-
Current accounts and deposits from customers	21	7,681,814	8,496,388
Other liabilities	22	203,156	92,557
Deferred tax liability	12	2,447	30,820
<b>Total liabilities</b>		<b>13,673,121</b>	<b>9,206,322</b>
<b>EQUITY</b>			
Share capital	23	8,125,100	8,125,100
Share premium		257,149	257,149
Revaluation reserve for available-for-sale assets		(2,751)	631
Retained earnings / (accumulated losses)		41,572	(283)
<b>Total equity</b>		<b>8,421,070</b>	<b>8,382,597</b>
<b>Total liabilities and equity</b>		<b>22,094,191</b>	<b>17,588,919</b>
Commitments and contingencies	26-27		

*“Byblos Bank Armenia” cjsc*  
*Interim Statement of cash flows for the nine-month period ended 30 September 2010*

	January 1, 2010 September 30, 2010 AMD'000	January 1, 2009 September 30, 2009 AMD'000
Notes		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest receipts	1,648,258	1,126,359
Interest payments	(497,283)	(271,333)
Fee and commission receipts	37,006	25,379
Fee and commission payments	(23,394)	(13,428)
Recovery of assets, previously written-off	3,824	8,734
Net payments from available-for-sale securities	(204)	-
Net receipts from foreign exchange	71,682	52,669
Tax payments (other than income tax)	(32,687)	(33,605)
Salaries and other payments to employees	(414,847)	(323,674)
Other general administrative expenses	(180,657)	(184,801)
Net cash flows from other operating activities	30,213	(130)
<b>(Increase) / decrease in operating assets</b>		
Placements with banks	471,747	988,259
Loans to customers	(4,697,950)	(4,231,031)
Available-for-sale assets	(100,353)	154,070
Other assets	14,759	63,978
<b>Increase / (decrease) in operating liabilities</b>		
Deposits and balances from banks	5,426,692	2,467,463
Other borrowed funds	79,212	-
Amounts payable under repurchase agreements	-	(1,333,418)
Current accounts and deposits from customers	(795,610)	2,684,075
Other liabilities	3,067	16,241
<b>Net cash provided from operating activities before taxes paid</b>	<b>1,043,475</b>	<b>1,195,807</b>
Taxes paid	(15,814)	(10,337)
<b>Cash flows from operations</b>	<b>1,027,661</b>	<b>1,185,470</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net purchases of property and equipment	(166,748)	(125,612)
<b>Cash flows used in investing activities</b>	<b>(166,748)</b>	<b>(125,612)</b>
<b>Net increase in cash and cash equivalents</b>		
	<b>860,913</b>	<b>1,059,858</b>
Effect of changes in exchange rates on cash and cash equivalents	14,228	821,919
Cash and cash equivalents at the beginning of the period	1,531,244	804,863
<b>Cash and cash equivalents at the end of the period</b>	<b>2,406,385</b>	<b>2,686,640</b>

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*“Byblos Bank Armenia” cjsc*  
*Interim Statement of changes in equity for the nine-month period ended 30 September 2010*

	Share capital AMD'000	Share premium AMD'000	Revaluation reserve for available-for-sale assets AMD'000	Retained earnings / (Accumulated losses) AMD'000	Total AMD'000
<b>Balance as at 1 January 2009</b>	<b>8,125,100</b>	<b>257,149</b>	<b>(783)</b>	<b>(170,672)</b>	<b>8,210,794</b>
<b>Total comprehensive income</b>					
Profit	-	-	-	47,763	<b>47,763</b>
<b>Other comprehensive income</b>					
Net change in fair value of available-for-sale assets, net of tax of AMD 994 thousand	-	-	3,977	-	<b>3,977</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>3,977</b>	<b>47,763</b>	<b>51,740</b>
<b>Balance as at 30 September 2009</b>	<b>8,125,100</b>	<b>257,149</b>	<b>3,194</b>	<b>(122,909)</b>	<b>8,262,534</b>
<b>Balance as at 1 January 2010</b>	<b>8,125,100</b>	<b>257,149</b>	<b>631</b>	<b>(283)</b>	<b>8,382,597</b>
<b>Total comprehensive income</b>					
Profit	-	-	-	41,855	<b>41,855</b>
<b>Other comprehensive income</b>					
Net change in fair value of available-for-sale assets, net of tax of AMD 1,251 thousand	-	-	5,006	-	<b>5,006</b>
Net change in fair value of available-for-sale assets, transferred to profit or loss, net of tax of AMD 2,097 thousand	-	-	(8,388)	-	<b>(8,388)</b>
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>(3,382)</b>	<b>41,855</b>	<b>38,473</b>
<b>Balance as at 30 September 2010</b>	<b>8,125,100</b>	<b>257,149</b>	<b>(2,751)</b>	<b>41,572</b>	<b>8,421,070</b>

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

## **1 Background**

### **Principal activities**

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 majority of the assets are placed in, and liabilities attracted from the Republic of Armenia. The registered address of the Bank’s head office is 18/3 Amiryan Street, Yerevan, Republic of Armenia. The average number of persons employed by the Bank during the period was 81 (2009: 81).

### **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 party with ultimate control over the Bank is Francois Bassil. Related party transactions are detailed in note 28.

### **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 recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The 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**

### **Statement of compliance**

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

### **Basis of measurement**

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale assets are stated at fair value.

## **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.

## **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 following significant accounting policies are consistently applied in the preparation of the financial statements. Changes in accounting policies are described at the end of this note.

### **Foreign currency transactions**

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of each reporting period are translated 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. 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, 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.

### **Cash and cash equivalents**

The Bank includes cash and nostro accounts with banks and the CBA in cash and cash equivalents.

### **Financial instruments**

#### ***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 by the Bank as at fair value through profit or loss.

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

- the assets or liabilities are managed and evaluated 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 assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported liabilities.

*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 assets* are those 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.

Management determines the appropriate classification of financial instruments 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.

## ***Recognition***

Financial assets and liabilities are recognized 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.

### ***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 amortized cost using the effective interest method;
- held-to-maturity investments which are measured at amortized 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 can not 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 amortized cost. Amortized cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

### ***Fair value measurement principles***

The fair value of financial instruments is based on their quoted market price at the end of reporting period without any deduction for transaction costs. Where a quoted market price is not available, fair value is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices for substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties and own credit risk.

### ***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 recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss;
- a gain or loss on an available-for-sale financial asset is recognized 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 derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the profit or loss. Interest in relation to an available-for-sale financial asset is recognized as earned in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

### ***Derecognition***

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognized when it is extinguished.

The Bank also derecognizes certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

### ***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 placements with 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 agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

### ***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.

## **Property and equipment**

### ***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.

### ***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 communication equipment	1-5 years
– fixtures and fittings	5-10 years
– vehicles	5 years

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

## **Intangible assets**

Intangible assets, which are acquired by the Bank, 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.

## **Impairment**

### ***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 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 judgment 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 uncollectible, 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.

### ***Financial assets carried at cost***

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not 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 can not be reversed.

### ***Available-for-sale assets***

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been 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

### ***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.

### **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.

## **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 within other liabilities.

## **Share capital**

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

### ***Share premium***

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

### ***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.

## **Taxation**

Income tax comprises current and deferred tax. Income tax is recognized in the income statement 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 provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognized 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 utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### **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/(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.

### **Changes in accounting policies**

Starting from 1 January 2009 the Bank adopted the revised version of IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009). As a result the income statement is replaced by a statement of comprehensive income that also includes all non-owner changes in equity, such as the revaluation of available-for-sale assets. The balance sheet is renamed the statement of financial position and the cash flow statement is renamed the statement of cash flows. According to the revised IAS 1, a statement of financial position at the beginning of the earliest comparative period is presented whenever the Bank restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis.

### **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 2009, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's operations. The Bank plans to adopt this pronouncement when it becomes 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 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.

Various *Improvements to IFRSs* which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010.



## 4 Net interest income

	July 1, 2010	January 1, 2010	July 1, 2009	January 1, 2009
	September 30, 2010	September 30, 2010	September 30, 2009	September 30, 2009
	AMD'000	AMD'000	AMD'000	AMD'000
<b>Interest income</b>				
Loans to customers	548,370	1,456,044	338,157	860,975
Placements with banks	25,965	80,177	63,109	225,900
Available-for-sale assets	26,779	48,482	28,311	90,311
	<b>601,114</b>	<b>1,584,703</b>	<b>429,577</b>	<b>1,177,186</b>
<b>Interest expense</b>				
Current accounts and deposits from customers	141,069	371,945	94,113	216,190
Deposits and balances from banks	90,404	209,125	49,663	144,947
Other borrowed funds	2,765	5,054	-	-
	<b>234,238</b>	<b>586,124</b>	<b>143,776</b>	<b>361,137</b>
<b>Net interest income</b>	<b>366,876</b>	<b>998,579</b>	<b>285,801</b>	<b>816,049</b>

## 5 Fee and commission income

	July 1, 2010	January 1, 2010	July 1, 2009	January 1, 2009
	September 30, 2010	September 30, 2010	September 30, 2009	September 30, 2009
	AMD'000	AMD'000	AMD'000	AMD'000
Remittances	5,503	17,112	3,547	10,152
Guarantees and letters of credit	2,141	12,391	2,524	10,443
Credit card maintenance	4,008	9,619	1,708	4,981
Cash entry and withdrawal	2,140	6,086	2,735	6,977
Other	1,623	4,145	906	3,298
	<b>15,415</b>	<b>49,353</b>	<b>11,420</b>	<b>35,851</b>

## 6 Fee and commission expense

	July 1, 2010	January 1, 2010	July 1, 2009	January 1, 2009
	September 30, 2010	September 30, 2010	September 30, 2009	September 30, 2009
	AMD'000	AMD'000	AMD'000	AMD'000
Plastic card services	6,482	17,540	2,858	7,579
Guarantees and letters of credit	37	8,760	407	3,306
Remittances	1,110	2,566	958	2,575
Enquiries to credit register	664	1,891	633	1,846
Cash withdrawal and settlement	213	562	48	1,388
Other	695	836	10	40
	<b>9,201</b>	<b>32,155</b>	<b>4,914</b>	<b>16,734</b>

## 7 Net foreign exchange income

	July 1, 2010	January 1, 2010	July 1, 2009	January 1, 2009
	September 30, 2010 AMD'000	September 30, 2010 AMD'000	September 30, 2009 AMD'000	September 30, 2009 AMD'000
Gain on spot transactions	23,594	71,682	12,009	52,670
(Loss) / Gain from revaluation of financial assets and liabilities	(14,279)	(18,698)	(4,351)	18,356
	<u>9,315</u>	<u>52,984</u>	<u>7,658</u>	<u>71,026</u>

## 8 Net realized loss on available-for-sale assets

	July 1, 2010	January 1, 2010	July 1, 2009	January 1, 2009
	September 30, 2010 AMD'000	September 30, 2010 AMD'000	September 30, 2009 AMD'000	September 30, 2009 AMD'000
Debt instruments	-	(204)	-	-
	<u>-</u>	<u>(204)</u>	<u>-</u>	<u>-</u>

## 9 Impairment losses

	July 1, 2010	January 1, 2010	July 1, 2009	January 1, 2009
	September 30, 2010 AMD'000	September 30, 2010 AMD'000	September 30, 2009 AMD'000	September 30, 2009 AMD'000
Loans to customers	59,986	251,433	56,697	213,972
Other assets	(117)	(537)	4,941	3,711
	<u>59,869</u>	<u>250,896</u>	<u>61,638</u>	<u>217,683</u>

## 10 Personnel expenses

	July 1, 2010	January 1, 2010	July 1, 2009	January 1, 2009
	September 30, 2010 AMD'000	September 30, 2010 AMD'000	September 30, 2009 AMD'000	September 30, 2009 AMD'000
Employee compensation	125,221	430,477	101,088	317,937
Payroll related taxes	7,703	22,295	7,176	21,509
	<u>132,924</u>	<u>452,772</u>	<u>108,264</u>	<u>339,446</u>

## 11 Other general administrative expenses

	July 1, 2010	January 1, 2010	July 1, 2009	January 1, 2009
	September 30, 2010	September 30, 2010	September 30, 2009	September 30, 2009
	AMD'000	AMD'000	AMD'000	AMD'000
Professional services	24,256	75,136	22,885	73,103
Depreciation and amortization	14,480	42,897	16,556	46,147
Advertising and marketing	7,796	26,866	15,184	20,050
Communications and information services	6,776	21,457	8,755	26,038
Repairs and maintenance	6,227	17,779	3,856	11,068
Insurance	5,873	17,073	6,307	20,844
Maintenance of accounting application	5,952	16,919	4,903	14,544
Security	4,761	14,283	4,761	13,974
Occupancy	3,900	11,700	3,915	11,112
Maintenance of cars	4,035	10,818	3,644	9,597
Stationery	3,296	10,195	3,039	9,622
Taxes and other dues	3,061	7,744	3,774	10,933
Subscription fees	1,335	3,905	1,035	3,545
Business trips	351	3,840	1,069	5,104
Other	2,771	10,472	3,436	10,259
	<b>94,870</b>	<b>291,084</b>	<b>103,119</b>	<b>285,940</b>

## 12 Income tax expense

	July 1, 2010	January 1, 2010	July 1, 2009	January 1, 2009
	September 30, 2010	September 30, 2010	September 30, 2009	September 30, 2009
	AMD'000	AMD'000	AMD'000	AMD'000
<b>Current tax expense</b>				
Current year	(42,579)	(67,754)	-	-
<b>Deferred tax benefit / (expense)</b>				
Origination and reversal of temporary differences	12,835	27,527	(10,866)	(22,908)
Total income tax expense in the interim statement of comprehensive income	<b>(29,744)</b>	<b>(40,227)</b>	<b>(10,866)</b>	<b>(22,908)</b>

The Bank's applicable tax rate for current and deferred tax is 20% (2009: 20%).

### Reconciliation of effective tax rate

	September 30, 2010		September 30, 2009	
	AMD'000	%	AMD'000	%
Profit before tax	82,082		70,761	
Income tax expense at the applicable tax rate	(16,416)	(20.0%)	(14,134)	(20.0%)
Non-taxable income	(23,811)	(29.0%)	(8,774)	(12.4%)
	<b>(40,227)</b>	<b>(49.0%)</b>	<b>(22,908)</b>	<b>(32.4%)</b>

## 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 30 September 2010 and 31 December 2009.

These deductible temporary differences (except for tax loss carry-forwards) do not expire under current tax legislation.

Movements in temporary differences during the 2010 and 2009 were as follows:

AMD'000	Assets		Liabilities		Net	
	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
Loans to customers	-	-	(14,875)	(55,839)	(14,875)	(55,839)
Available-for-sale assets	390	-	-	(493)	390	(493)
Placements with banks	-	-	(4,780)	(5,003)	(4,780)	(5,003)
Property and equipment	881	1,807	-	-	881	1,807
Other assets	-	-	(393)	(124)	(393)	(124)
Tax losses carry-forwards	-	23,730	-	-	-	23,730
Other liabilities	16,330	5,102	-	-	16,330	5,102
<b>Recognised net deferred tax assets/(liabilities)</b>	<b>17,601</b>	<b>30,639</b>	<b>(20,048)</b>	<b>(61,459)</b>	<b>(2,447)</b>	<b>(30,820)</b>

Movement in temporary differences during the nine-month period ended 30 September 2010

AMD'000	Balance 1 January 2010	Recognised in profit or loss	Recognised in other comprehensive income	Balance 30 September 2010
Loans to customers	(55,839)	40,964	-	(14,875)
Available-for-sale assets	(493)	37	846	390
Placements with banks	(5,003)	223	-	(4,780)
Property and equipment	1,807	(926)	-	881
Other assets	(124)	(269)	-	(393)
Tax losses carry-forwards	23,730	(23,730)	-	-
Other liabilities	5,102	11,228	-	16,330
	<b>(30,820)</b>	<b>27,527</b>	<b>846</b>	<b>(2,447)</b>

Movement in temporary differences during the nine-month period ended 30 September 2009

AMD'000	Balance 1 January 2009	Recognised in profit or loss	Recognised in other comprehensive income	Balance 30 September 2009
Loans to customers	(11,474)	(31,975)	-	(43,449)
Available-for-sale assets	196	(335)	(994)	(1,133)
Placements with banks	(6,834)	(1,593)	-	(8,427)
Property and equipment	516	884	-	1,400
Other assets	(117)	(431)	-	(548)
Tax losses carry-forward	37,158	(2,991)	-	34,167
Other liabilities	6,240	13,533	-	19,773
	<b>25,685</b>	<b>(22,908)</b>	<b>(994)</b>	<b>1,783</b>

## Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income comprise:

	September 30, 2010			September 30, 2009		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
<b>AMD'000</b>						
Net change in fair value of available-for-sale assets	6,257	(1,251)	5,006	4,971	(994)	3,977
Net change in fair value of available-for-sale assets transferred to profit or loss	(10,485)	2,097	(8,388)	-	-	-
<b>Other comprehensive (loss) / income</b>	<b>(4,228)</b>	<b>846</b>	<b>(3,382)</b>	<b>4,971</b>	<b>(994)</b>	<b>3,977</b>

## 13 Due from the Central Bank of Armenia

	September 30, 2010 AMD'000	December 31, 2009 AMD'000
Nostro accounts	1,594,109	1,074,035
Deposited funds in the CBA	53,988	121,676
	<b>1,648,097</b>	<b>1,195,711</b>

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

The deposited funds in the Central Bank of Armenia represent a non-withdrawable deposit in the Central Banks of Armenia for membership in ArCa system.

## 14 Placements with banks

	September 30, 2010 AMD'000	December 31, 2009 AMD'000
<b>Nostro accounts</b>		
OECD banks	206,728	16,272
Other foreign banks	374,062	169,383
Armenian banks	3,681	1,183
Accrued interest	269	1,076
<b>Total nostro accounts</b>	<b>584,740</b>	<b>187,914</b>
<b>Term placements</b>		
Loans to, and deposits with Armenian banks	1,774,285	2,346,293
Loans to, and deposits with OECD banks	48,594	47,194
<b>Total term placements</b>	<b>1,822,879</b>	<b>2,393,487</b>
	<b>2,407,619</b>	<b>2,581,401</b>

Included in loans and deposits with OECD banks is AMD 48,594 thousand (31 December 2009: AMD 47,194 thousand) which represents a blocked deposit in HSBC Bank Plc for membership in Europay International.

## Concentration of placements with banks

As at 30 September 2010 and 31 December 2009 there were 3 and 1 banks or groups of related banks, respectively, whose balances exceeded 10% of total placements with banks. The gross value of these balances as of 30 September 2010 and 31 December 2009 were AMD 2,143,025 thousand and AMD 2,346,293 thousand, respectively.

## 15 Loans to customers

	September 30, 2010 AMD'000	December 31, 2009 AMD'000
<b>Loans to legal entities</b>		
Loans to large corporates	12,864,027	9,110,747
Loans to small and medium size companies	2,250	12,859
<b>Total commercial loans</b>	<b>12,866,277</b>	<b>9,123,606</b>
<b>Loans to individuals</b>		
Mortgage loans	1,823,606	1,684,028
Consumer loans secured by real estate	907,451	635,854
Auto loans	799,363	714,561
Consumer loans with salary domiciliation	212,183	226,206
Credit card loans	131,980	48,684
Loans secured with cash collateral	24,581	-
Consumer loans not secured by real estate	-	1,651
<b>Total loans to individuals</b>	<b>3,899,164</b>	<b>3,310,984</b>
<b>Gross loans to customers</b>	<b>16,765,441</b>	<b>12,434,590</b>
Impairment allowance	(637,740)	(385,803)
<b>Net loans to customers</b>	<b>16,127,701</b>	<b>12,048,787</b>

Movements in the loan impairment allowance for the nine-month period ended 30 September 2010 are as follows:

	September 30, 2010 AMD'000	December 31, 2009 AMD'000
Balance at the beginning of the period	385,803	114,464
Net charge	251,433	279,225
Recovery / (write-offs)	504	(7,886)
<b>Balance at the end of the period</b>	<b>637,740</b>	<b>385,803</b>

As at 30 September 2010, interest accrued on impaired loans amounts to AMD 14,178 thousand (31 December 2009: AMD 6,656 thousand).

### Credit quality of loans to legal entities portfolio

The following table provides information on the credit quality of loans to legal entities as at 30 September 2010:

	Gross loans AMD'000	Impairment AMD'000	Net loans AMD'000	Impairment to gross loans %
<b>Loans to large corporates</b>				
Loans without individual signs of impairment	11,711,900	(58,559)	11,653,341	0.5%
Impaired loans:				
- not overdue	571,876	(171,563)	400,313	30.0%
- overdue more than 90 days and less than 179 days	55,083	(16,525)	38,558	30.0%
- overdue more than 180 days and less than 360 days	271,173	(131,319)	139,854	48.4%
- overdue more than 360 days	253,995	(197,571)	56,424	77.8%
Total impaired loans	1,152,127	(516,978)	635,149	44.87%
<b>Total loans to large corporates</b>	<b>12,864,027</b>	<b>(575,537)</b>	<b>12,288,490</b>	<b>4.47%</b>
<b>Loans to small and medium size companies</b>				
Impaired loans:				
- overdue more than 360 days	2,250	(1,800)	450	80.0%
Total impaired loans	2,250	(1,800)	450	80.0%
<b>Total loans to small and medium size companies</b>	<b>2,250</b>	<b>(1,800)</b>	<b>450</b>	<b>80.0%</b>
<b>Total loans to legal entities</b>	<b>12,866,277</b>	<b>(577,337)</b>	<b>12,288,940</b>	<b>4.49%</b>

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

	Gross loans AMD'000	Impairment AMD'000	Net loans AMD'000	Impairment to gross loans %
<b>Loans to large corporates</b>				
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 180 days and less than 360 days	168,727	(74,275)	94,452	44.0%
- overdue more than 360 days	234,934	(187,947)	46,987	80.0%
Total impaired loans	477,253	(291,659)	185,594	61.1%
<b>Total loans to large corporates</b>	<b>9,110,747</b>	<b>(334,826)</b>	<b>8,775,921</b>	<b>3.7%</b>
<b>Loans to small and medium size companies</b>				
Impaired loans:				
- overdue more than 360 days	12,859	(6,044)	6,815	47.0%
Total impaired loans	12,859	(6,044)	6,815	47.0%
<b>Total loans to small and medium size companies</b>	<b>12,859</b>	<b>(6,044)</b>	<b>6,815</b>	<b>47.0%</b>
<b>Total loans to legal entities</b>	<b>9,123,606</b>	<b>(340,870)</b>	<b>8,782,736</b>	<b>3.74%</b>

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 which 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 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 legal entities 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 legal entities, management made the following key assumptions:

- for non-impaired loans the Bank created a collective provision of 0.5% considering the economic environment and market loss experience.
- for impaired loans a discount of 50% to the originally appraised value if the property pledged is sold and delay of 6 to 50 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 loan impairment provision on loans to legal entities as at 30 September 2010 would be AMD 128,663 thousand higher (31 December 2009: AMD 91,236 thousand)

### ***Analysis of collateral***

The analysis of corporate loan portfolio per type of collateral as at September 30, 2010 and December 31, 2009 is as follows:

	<b>September 30, 2010</b>		<b>December 31, 2009</b>	
	<b>AMD’000</b>		<b>AMD’000</b>	
	Gross loans		Gross loans	
Cash	34,482	0.2%	344,085	3.8%
Guarantees	112,324	0.9%	-	0.0%
Inventory	580,059	4.5%	463,690	5.1%
Real estate	12,139,412	94.4%	8,315,831	91.1%
	<b>12,866,277</b>	<b>100.0%</b>	<b>9,123,606</b>	<b>100.0%</b>

Impaired or overdue loans with a gross value of AMD 1,154,376 thousand are secured by real estate with a fair value of at least AMD 1,831,435 thousand.

During the nine-month period ended 30 September 2010 the Bank did not obtain any assets by taking control of collateral accepted as security for loans to legal entities (31 December 2009: nil).

### ***Analysis of movements in the impairment allowance***

Movements in the loan impairment allowance by classes of loans to legal entities for the nine-month period ended 30 September 2010 are as follows:



<b>AMD'000</b>	<b>Loans to large corporates</b>	<b>Loans to small and medium size companies</b>	<b>Total</b>
Loan impairment allowance as at 1 January	334,826	6,044	340,870
Loans written off during the period as uncollectible	-	(1,544)	(1,544)
Loan impairment losses/(recovery) during the period	240,711	(2,700)	238,011
<b>Loan impairment allowance as at 30 September</b>	<b>575,537</b>	<b>1,800</b>	<b>577,337</b>

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

<b>AMD'000</b>	<b>Loans to large corporates</b>	<b>Loans to small and medium size companies</b>	<b>Total</b>
Loan impairment allowance as at 1 January 2009	70,365	232	70,597
Loan impairment losses during the period	264,461	5,812	270,273
<b>Loan impairment allowance as at 31 December 2009</b>	<b>334,826</b>	<b>6,044</b>	<b>340,870</b>

## Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals collectively assessed for impairment as at 30 September 2010:

	Gross loans AMD'000	Impairment AMD'000	Net loans AMD'000	Impairment to gross loans %
<b>Mortgage loans</b>				
- Not past due	1,768,128	(17,681)	1,750,447	1.0%
- Overdue less than 30 days	3,504	(701)	2,803	20.0%
- Overdue 30-89 days	8,530	(1,706)	6,824	20.0%
- Overdue 90-179 days	12,897	(2,579)	10,318	20.0%
- Overdue 180-360 days	21,047	(4,209)	16,838	20.0%
- More than 360 days overdue	9,500	(1,900)	7,600	20.0%
<b>Total mortgage loans</b>	<b>1,823,606</b>	<b>(28,776)</b>	<b>1,794,830</b>	<b>1.58%</b>
<b>Consumer loans secured by real estate</b>				
- Not past due	900,295	(9,003)	891,292	1.0%
- Overdue less than 30 days	3,915	(783)	3,132	20.0%
- Overdue more than 360 days	3,241	(648)	2,593	20.0%
<b>Total consumer loans secured by real estate</b>	<b>907,451</b>	<b>(10,434)</b>	<b>897,017</b>	<b>1.15%</b>
<b>Auto loans</b>				
- Not past due	776,533	(15,531)	761,002	2.0%
- Overdue less than 30 days	3,256	(65)	3,191	2.0%
- Overdue 30-89 days	2,664	(53)	2,611	2.0%
- Overdue 90-179 days	16,910	(338)	16,572	2.0%
<b>Total auto loans</b>	<b>799,363</b>	<b>(15,987)</b>	<b>783,376</b>	<b>2.00%</b>
<b>Consumer loans with salary domiciliation</b>				
- Not past due	207,717	(2,077)	205,640	1.0%
- Overdue less than 30 days	2,382	(715)	1,667	30.0%
- Overdue 30-89 days	2,084	(625)	1,459	30.0%
<b>Total consumer loans with salary domiciliation</b>	<b>212,183</b>	<b>(3,417)</b>	<b>208,766</b>	<b>1.61%</b>
<b>Credit card loans</b>				
- Not past due	130,367	(1,304)	129,063	1.0%
- Not overdue, but impaired	998	(300)	698	30.0%
- Overdue 30-89 days	615	(185)	430	30.0%
<b>Total credit cards</b>	<b>131,980</b>	<b>(1,789)</b>	<b>130,191</b>	<b>1.35%</b>
<b>Loans secured with cash collateral</b>				
- Not past due	24,581	-	24,581	0.0%
<b>Total loans secured with cash collateral</b>	<b>24,581</b>	<b>-</b>	<b>24,581</b>	<b>0.00%</b>
<b>Total loans to individuals</b>	<b>3,899,164</b>	<b>(60,403)</b>	<b>3,838,761</b>	<b>1.55%</b>

The following table provides information on the credit quality of loans to individuals collectively assessed for impairment as at 31 December 2009:

	<b>Gross loans AMD'000</b>	<b>Impairment AMD'000</b>	<b>Net loans AMD'000</b>	<b>Impairment to gross loans %</b>
<b>Mortgage loans</b>				
- Not past due	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%
<b>Total mortgage loans</b>	<b>1,684,028</b>	<b>(20,294)</b>	<b>1,663,734</b>	<b>1.2%</b>
<b>Consumer loans secured by real estate</b>				
- Not past due	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%
<b>Total consumer loans secured by real estate</b>	<b>635,854</b>	<b>(7,510)</b>	<b>628,344</b>	<b>1.2%</b>
<b>Auto loans</b>				
- Not past due	696,339	(13,927)	682,412	2.0%
- Overdue 30-89 days	18,222	(364)	17,858	2.0%
<b>Total auto loans</b>	<b>714,561</b>	<b>(14,291)</b>	<b>700,270</b>	<b>2.0%</b>
<b>Consumer loans with salary domiciliation</b>				
- Not past due	226,206	(2,262)	223,944	1.0%
<b>Total consumer loans with salary domiciliation</b>	<b>226,206</b>	<b>(2,262)</b>	<b>223,944</b>	<b>1.0%</b>
<b>Credit card loans</b>				
- Not past due	48,684	(487)	48,197	1.0%
<b>Total credit cards</b>	<b>48,684</b>	<b>(487)</b>	<b>48,197</b>	<b>1.0%</b>
<b>Consumer loans not secured by real estate</b>				
- Overdue less than 360 days	1,651	(89)	1,562	5.4%
<b>Total consumer loans not secured by real estate</b>	<b>1,651</b>	<b>(89)</b>	<b>1,562</b>	<b>5.4%</b>
<b>Total loans to individuals</b>	<b>3,310,984</b>	<b>(44,933)</b>	<b>3,266,051</b>	<b>1.36%</b>

The Bank estimates loan impairment based on its past historical loss experience on these types of loans. The significant assumptions used by management in determining the impairment losses for loans to individuals include the following loan loss rates:

- 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%
- The cost associated with the collection of the past due credit card and consumer loans with salary domiciliation will not exceed 30.0% of the outstanding exposure
- Loans secured with cash collateral – 0%

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 loan impairment on loans to individuals as of 30 September 2010 would be AMD 38,992 thousand higher (31 December 2009: AMD 33,110 thousand).

### *Analysis of collateral*

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by underlying cars. Consumer loans not secured by real estate are secured by consumer appliances. Credit cards are secured by salaries.

### *Analysis of movements in the impairment allowance*

Movements in the loan impairment allowance by classes of loans to individuals for the nine-month period ended 30 September 2010 are as follows:

AMD'000	Mortgage loans	Cons. loans secur ed by real estate	Auto loans	Salary dom. loans	Credit card loans	Consumer loans not secured by real estate	Total
Loan impairment allowance as at 1 January	20,294	7,510	14,291	2,262	487	89	44,933
Loans recovered / (written off) during the period as uncollectible	-	(139)	-	-	-	2,187	2,048
Loan impairment losses / (recovery) during the period	8,482	3,063	1,696	1,155	1,302	(2,276)	13,422
<b>Loan impairment allowance as at 30 September</b>	<b>28,776</b>	<b>10,434</b>	<b>15,987</b>	<b>3,417</b>	<b>1,789</b>	<b>-</b>	<b>60,403</b>

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

AMD'000	Mortgage loans	Consu mer loans secured by real estate	Auto loans	Salary dom. loans	Credit card loans	Consumer loans not secured by real estate	Total
Loan impairment allowance as at 1 January	12,176	4,873	11,993	-	640	14,185	43,867
Loans written off during the period as uncollectible	-	-	-	-	-	(7,886)	(7,886)
Loan impairment losses / (recovery) during the period	8,118	2,637	2,298	2,262	(153)	(6,210)	8,952
<b>Loan impairment allowance as at 31 December</b>	<b>20,294</b>	<b>7,510</b>	<b>14,291</b>	<b>2,262</b>	<b>487</b>	<b>89</b>	<b>44,933</b>

### **Industry and geographical analysis of the loan portfolio**

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

	<b>September 30, 2010</b> <b>AMD'000</b>	<b>December 31, 2009</b> <b>AMD'000</b>
Trade	6,537,386	6,638,258
Transport	2,641,753	-
Manufacturing	2,204,746	1,942,129
Agriculture, forestry and timber	1,257,390	234,934
Public catering and other services	214,375	294,757
Construction	10,627	13,528
Loans to individuals	3,899,164	3,310,984
	<b>16,765,441</b>	<b>12,434,590</b>
Impairment allowance	(637,740)	(385,803)
	<b>16,127,701</b>	<b>12,048,787</b>

### **Significant credit exposures**

As at 30 September 2010 the bank didn't have borrowers or groups of related borrowers, whose loan balances exceeded 10% of loans to customers. As at 31 December 2009 there was 1 borrower with a gross value of AMD 1,315,986 thousand.

## 16 Available-for-sale assets

	September 30, 2010 AMD'000	December 31, 2009 AMD'000
<b>Held by the Bank</b>		
<b>Debt and other fixed-income instruments</b>		
- Government securities of the Republic of Armenia	831,903	480,308
	<b>831,903</b>	<b>480,308</b>
<b>Equity investments</b>		
Corporate shares	13,160	13,160
	<b>13,160</b>	<b>13,160</b>
	<b>845,063</b>	<b>493,468</b>
<b>Pledged under repurchase agreements</b>		
<b>Debt and other fixed-income instruments</b>		
- Government securities of the Republic of Armenia	-	298,995
	<b>-</b>	<b>298,995</b>

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

Name	Country of incorporation	Main activity	% Controlled		September 30, 2010 AMD'000	December 31, 2009 AMD'000
			September 30, 2010	December 31, 2009		
ArCa	Republic of Armenia	Payment system	2%	2%	12,143	12,143
SWIFT	Belgium	Money transfer	0%	0%	1,017	1,017
					<b>13,160</b>	<b>13,160</b>

### 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 this investment 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.

### Securities pledged

The Bank didn't pledge any securities as of September 30, 2010. As of 31 December 2009, the Bank pledged Armenian Government securities as collateral under repurchase agreements.

## 17 Property, equipment and intangible assets

AMD'000	Land and buildings	Computers and communication equipment	Fixtures and fittings	Vehicles	Leasehold improvement	Intangible assets	Total
<b>Cost</b>							
At 1 January 2010	519,277	200,207	155,424	68,800	19,628	93,100	<b>1,056,436</b>
Additions	88,206	20,891	19,829	-	-	66,277	195,203
Disposals	-	(14,428)	(1,330)	-	-	-	(15,758)
<b>At 30 September 2010</b>	<b>607,483</b>	<b>206,670</b>	<b>173,923</b>	<b>68,800</b>	<b>19,628</b>	<b>159,377</b>	<b>1,235,881</b>
<b>Depreciation</b>							
At 1 January 2010	(63,941)	(152,058)	(110,798)	(40,683)	(10,735)	(61,757)	(439,972)
Depreciation charge	(7,798)	(6,139)	(10,852)	(8,055)	(4,020)	(6,033)	(42,897)
Disposals	-	14,428	878	-	-	-	15,306
<b>At 30 September 2010</b>	<b>(71,739)</b>	<b>(143,769)</b>	<b>(120,772)</b>	<b>(48,738)</b>	<b>(14,755)</b>	<b>(67,790)</b>	<b>(467,563)</b>
<b>Carrying value</b>							
<b>At 30 September 2010</b>	<b>535,744</b>	<b>62,901</b>	<b>53,151</b>	<b>20,062</b>	<b>4,873</b>	<b>91,587</b>	<b>768,318</b>

AMD'000	Land and buildings	Computers and communication equipment	Fixtures and fittings	Vehicles	Leasehold improvement	Intangible assets	Total
<b>Cost</b>							
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)
<b>At 31 December 2009</b>	<b>519,277</b>	<b>200,207</b>	<b>155,424</b>	<b>68,800</b>	<b>19,628</b>	<b>93,100</b>	<b>1,056,436</b>
<b>Depreciation</b>							
At 1 January 2009	(54,392)	(139,622)	(114,368)	(29,943)	(2,780)	(54,043)	(395,148)
Depreciation charge	(9,549)	(18,019)	(9,407)	(10,740)	(7,955)	(7,714)	(63,384)
Disposals	-	5,583	12,977	-	-	-	18,560
<b>At 31 December 2009</b>	<b>(63,941)</b>	<b>(152,058)</b>	<b>(110,798)</b>	<b>(40,683)</b>	<b>(10,735)</b>	<b>(61,757)</b>	<b>(439,972)</b>
<b>Carrying value</b>							
<b>At 31 December 2009</b>	<b>455,336</b>	<b>48,149</b>	<b>44,626</b>	<b>28,117</b>	<b>8,893</b>	<b>31,343</b>	<b>616,464</b>

## 18 Other assets

	<b>September 30, 2010</b> <b>AMD'000</b>	<b>December 31, 2009</b> <b>AMD'000</b>
Prepayments	48,691	46,006
Prepayments for income taxes	-	26,388
Receivables under money transfer and clearing systems	10,223	2,647
Other	10,674	8,681
	<b>69,588</b>	<b>83,722</b>

### Analysis of movements in the impairment allowance

	<b>September 30, 2010</b> <b>AMD'000</b>	<b>December 31, 2009</b> <b>AMD'000</b>
Balance at the beginning of the period	-	-
Net (recovery) / charge	(537)	4,650
(Recoveries) / Write-offs	537	(4,650)
<b>Balance at the end of the period</b>	<b>-</b>	<b>-</b>

## 19 Deposits and balances from banks

	<b>September 30, 2010</b> <b>AMD'000</b>	<b>December 31, 2009</b> <b>AMD'000</b>
Loans and deposits with banks	5,705,975	287,205
Amounts payable under repurchase agreements	-	298,961
Vostro accounts	361	391
	<b>5,706,336</b>	<b>586,557</b>

### Concentration of deposits and balances from banks

As at 30 September 2010 and 31 December 2009 there were 3 and 1 banks, respectively, whose balances exceeded 10% of total deposits and balances from banks. The gross value of these balances as at 30 September 2010 and 31 December 2009 were AMD 5,449,500 thousand and AMD 586,138 thousand, respectively.



## 20 Other borrowings from financial institutions

	September 30, 2010 AMD'000	December 31, 2009 AMD'000
Loans from other financial institutions	79,368	-
	<b>79,368</b>	<b>-</b>

## 21 Current accounts and deposits from customers

	September 30, 2010 AMD'000	December 31, 2009 AMD'000
Current accounts and demand deposits		
- Retail	646,635	368,024
- Corporate	635,883	516,487
Term deposits		
- Retail	2,732,772	2,255,551
- Corporate	3,666,524	5,356,326
	<b>7,681,814</b>	<b>8,496,388</b>

### Blocked accounts

As of 30 September 2010, the Bank has customer deposit balances of AMD 46,864 thousand (31 December 2009: AMD 5,422 thousand) that serve as collateral for loans and off-balance sheet credit instruments granted by the Bank.

### Concentrations of current accounts and customer deposits

As of 30 September 2010 and 31 December 2009 the Bank has 2 and 1 customers, respectively, whose balances exceed 10% of total customer accounts. The gross value of these balances as of 30 September 2010 and 31 December 2009 are AMD 2,529,608 thousand and 2,670,898 thousand, respectively.

## 22 Other liabilities

	September 30, 2010 AMD'000	December 31, 2009 AMD'000
Payables to suppliers	74,283	27,175
Non-income taxes payable	30,001	13,075
Deferred income	27,741	17,429
Income taxes payable	25,553	-
Salary and similar payables	22,578	17,164
Other	23,000	17,714
	<b>203,156</b>	<b>92,557</b>

## **23 Share capital**

### **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.

### **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 of the reporting date no reserves are available for distribution.

## **24 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 includes interest rate and currency risks, credit risk and liquidity risk.

### **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.

### **Market risk**

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect income or the value of portfolios. Market risks comprise currency risk, interest rate risk and other price risk. 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 which are monitored on a regular basis and reviewed and approved by the ALCO Committee.

The management of interest rates risk includes the monitoring of the interest rate gap and is supplemented by monitoring the sensitivity of the net interest margin to various standard and non-standard interest rate scenarios.

The Bank manages its currency risk by setting open position limits in relation to currency positions which are monitored on a regular basis and reviewed and approved by the ALCO Committee.

### ***Interest rate risk***

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

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 risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

An analysis of sensitivity of profit or loss and equity 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 30 September 2010 and 31 December 2009 is as follows:

	<b>September 30, 2010</b>		<b>December 31, 2009</b>	
	<b>Profit or loss AMD'000</b>	<b>Equity AMD'000</b>	<b>Profit or loss AMD'000</b>	<b>Equity AMD'000</b>
100 bp parallel increase	3,889	3,889	(6,491)	(6,491)
100 bp parallel decrease	(3,889)	(3,889)	6,491	6,491

In the above table if figure is negative this means profit and loss and equity will decrease as a result of changes in the interest rate and vice versa.

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 30 September 2010 and 31 December 2009 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	<b>September 30, 2010</b>		<b>December 31, 2009</b>	
	<b>Profit or loss AMD'000</b>	<b>Equity AMD'000</b>	<b>Profit or loss AMD'000</b>	<b>Equity AMD'000</b>
100 bp parallel increase	-	(25,110)	-	(938)
100 bp parallel decrease	-	25,110	-	938

### ***Currency risk***

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the exposure to currency risk at the reporting date refer to note 33.

An analysis of sensitivity of the profit or loss for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 30 September 2010 and 31 December 2009 and a simplified scenario of a 10% change in USD and EUR to AMD exchange rates is as follows:

	<b>September 30, 2010</b>		<b>December 31, 2009</b>	
	<b>Profit or loss AMD'000</b>	<b>Equity AMD'000</b>	<b>Profit or loss AMD'000</b>	<b>Equity AMD'000</b>
10% appreciation of USD against AMD	(1,065)	(1,065)	30,598	30,598
10% depreciation of USD against AMD	1,065	1,065	(30,598)	(30,598)
10% appreciation of EUR against AMD	2,547	2,547	(3,909)	(3,909)
10% depreciation of EUR against AMD	(2,547)	(2,547)	3,909	3,909

## **Credit risk**

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank has developed policies and procedures for the management of credit exposures both for on balance sheet and off balance sheet exposures.

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. 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 a check that credit policy requirements have been 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 balance sheet and guarantees and credit commitments included in note 26. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to on balance sheet credit risk at the reporting date is as follows:

	September 30, 2010 AMD'000	December 31, 2009 AMD'000
<b>ASSETS</b>		
Due from the Central Bank of Armenia	1,648,097	1,195,711
Placements with banks	2,407,619	2,581,401
Loans to customers	16,127,701	12,048,787
Available-for-sale debt assets	845,063	792,463
Other assets	69,588	83,722
<b>Total maximum exposure to on balance sheet credit risk</b>	<b>21,098,068</b>	<b>16,702,084</b>

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

The maximum exposure to off balance sheet credit risk at the reporting date is presented in note 26.

### **Liquidity risk**

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its commitments. 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 the management of financial institutions, including the Bank. 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 balance sheet 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 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.

The Bank also calculates mandatory liquidity ratios in accordance with the requirement of the Central Bank of Armenia. The Bank was in compliance with these ratios as at 30 September 2010 and 31 December 2009.

The following tables show the undiscounted cash flows on financial assets and liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial asset, liability or commitment. The expected cash flows on these financial assets and liabilities and unrecognized loan commitments can vary significantly from this analysis.

The liquidity position of the Bank as at 30 September 2010 was as follows:

<b>AMD'000</b>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Total gross amount</b>	<b>Carrying amount</b>
<b>Non-derivative assets</b>							
Due from the Central Bank of Armenia	1,594,109	-	-	-	53,988	<b>1,648,097</b>	<b>1,648,097</b>
Placements with banks	584,470	1,780,707	-	-	48,594	<b>2,413,771</b>	<b>2,407,619</b>
Loans to customers	975,940	1,105,851	1,190,128	2,173,557	16,142,706	<b>21,588,182</b>	<b>16,127,701</b>
Available-for-sale assets	11,852	-	-	42,649	1,760,433	<b>1,814,934</b>	<b>845,063</b>
Other assets	10,451	4,120	-	-	-	<b>14,571</b>	<b>14,571</b>
<b>Total assets</b>	<b>3,176,822</b>	<b>2,890,678</b>	<b>1,190,128</b>	<b>2,216,206</b>	<b>18,005,721</b>	<b>27,479,555</b>	<b>21,043,051</b>
<b>Non-derivative liabilities</b>							
Deposits and balances from banks	1,840,200	246	389	1,166	4,931,580	<b>6,773,581</b>	<b>5,706,336</b>
Other borrowed funds	382	496	783	1,765	118,109	<b>121,535</b>	<b>79,368</b>
Current accounts and deposits from customers	1,648,642	2,231,934	1,553,353	2,394,324	75,216	<b>7,903,469</b>	<b>7,681,814</b>
Other liabilities	77,660	-	63,348	25,553	-	<b>166,561</b>	<b>166,561</b>
<b>Total liabilities</b>	<b>3,566,884</b>	<b>2,232,676</b>	<b>1,617,873</b>	<b>2,422,808</b>	<b>5,124,905</b>	<b>14,965,146</b>	<b>13,634,079</b>
<b>Net position</b>	<b>(390,062)</b>	<b>658,002</b>	<b>(427,745)</b>	<b>(206,602)</b>	<b>12,880,816</b>	<b>12,514,409</b>	<b>7,408,972</b>
<b>Credit related commitments</b>	<b>3,984,339</b>	-	-	-	-	<b>3,984,339</b>	<b>3,984,339</b>

The liquidity position of the Bank as at 31 December 2009 was as follows:

<b>AMD'000</b>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Total gross amount</b>	<b>Carrying amount</b>
<b>Non-derivative assets</b>							
Due from the Central Bank of Armenia	1,074,035	-	-	-	121,676	1,195,711	1,195,711
Placements with banks	2,539,503	-	-	-	47,194	2,586,697	2,581,401
Loans to customers	537,801	545,581	743,043	1,232,291	13,812,039	16,870,755	12,048,787
Available-for-sale assets	730,000	5,046	-	5,225	60,388	800,659	792,463
Other assets	5,000	6,328	-	-	-	11,328	11,328
<b>Total assets</b>	<b>4,886,339</b>	<b>556,955</b>	<b>743,043</b>	<b>1,237,516</b>	<b>14,041,297</b>	<b>21,465,150</b>	<b>16,629,690</b>
<b>Non-derivative liabilities</b>							
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 liabilities	34,188	16,691	19,090	3,852	18,736	92,557	92,557
<b>Total liabilities</b>	<b>2,064,085</b>	<b>4,348,837</b>	<b>308,999</b>	<b>1,951,935</b>	<b>772,008</b>	<b>9,445,864</b>	<b>9,175,502</b>
<b>Net position</b>	<b>2,822,254</b>	<b>(3,791,882)</b>	<b>434,044</b>	<b>(714,419)</b>	<b>13,269,289</b>	<b>12,019,286</b>	<b>7,454,188</b>
<b>Credit related commitments</b>	<b>2,775,081</b>	-	-	-	-	<b>2,775,081</b>	<b>2,775,081</b>

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 bullions, 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 ratios for September 2010 and during the reporting period are as follows:

	<u>September, 2010</u>	<u>December, 2009</u>
Average for September	150.3%	523.7%
Average for the period	233.2%	453.4%
Maximum for the period	324.6%	606.7%
Minimum for the period	103.9%	228.1%

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

For further information on the exposure to liquidity risk at year end refer to note 32.

## 25 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 banks have to maintain a ratio of capital to risk weighted assets (“statutory capital ratio”) above the prescribed minimum level. As at 30 September 2010, this minimum level was 12%. The Bank was in compliance with the statutory capital ratios during the periods ended 30 September 2010 and 31 December 2009.

## 26 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 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.

	<u>September 30, 2010</u> <u>AMD'000</u>	<u>December 31, 2009</u> <u>AMD'000</u>
<b>Contracted amount</b>		
Loan and credit line commitments	3,293,759	2,475,038
Guarantees	596,282	242,026
Credit card commitments	94,298	58,017
	<u><b>3,984,339</b></u>	<u><b>2,775,081</b></u>



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

## **27 Contingencies**

### **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.

### **Litigation**

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

### **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.

## 28 Related party transactions

### 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.

### Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses (refer note 10):

	September 30, 2010 AMD’000	September 30, 2009 AMD’000
Members of the Board of Directors	2,520	2,042
Members of the Management Board	229,589	126,486
	<b>232,109</b>	<b>128,528</b>

Included in management remuneration is AMD 78,778 thousand of bonuses, as well as AMD 24,557 thousand which represents non-cash benefits in respect of the members of the management of the Bank (as of September 30, 2009: 7,200 and AMD 14,209 thousand, respectively).

The outstanding balances and average interest rates as of 30 September 2010 and 31 December 2009 for transactions with the members of the Board of Directors and the Management Board are as follows:

	September 30, 2010 AMD’000	Average interest rate	December 31, 2009 AMD’000	Average interest rate
<b>Statement of financial position</b>				
<b>Assets</b>				
Loans to customers	246,801	8.8%	195,155	9.0%
<b>Liabilities</b>				
Current accounts and deposits from customers	37,608	5.7%	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 Board are as follows:

	September 30, 2010 AMD’000	September 30, 2009 AMD’000
<b>Profit or loss</b>		
Interest income	13,926	5,459
Interest expense	(2,703)	(1,623)

## 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 30 September 2010 and related profit or loss amounts of transactions for the period ended 30 September 2010 with fellow subsidiaries are as follows:

	Parent company		Fellow subsidiaries		Total	
	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000
<b>Statement of financial position</b>						
<b>ASSETS</b>						
Placements with banks	0.2%	363,995	0.3%	4,745	0.2%	368,740
<b>LIABILITIES</b>						
Deposits and balances from banks	8.9%	3,621,111	-	-	8.9%	3,621,111
Current accounts and deposits from customers	-	-	7.5%	1,189,093	7.5%	1,189,093
<b>Profit (loss)</b>						
Interest income		415		98		513
Interest expense		(181,510)		(66,108)		(247,618)
Other operating income		-		(7,315)		(7,315)
Fee expense		(9,767)		(137)		(9,904)

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 fellow subsidiaries are as follows:

	Parent company		Fellow subsidiaries		Total	
	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000
<b>Statement of financial position</b>						
<b>ASSETS</b>						
Placements with banks	0.1%	160,218	-	16,272	0.1%	176,490
<b>LIABILITIES</b>						
Deposits and balances from banks	-	28	-	-	-	28
Current accounts and deposits from customers	-	-	7.0%	805,659	7.0%	805,569
<b>Profit (loss)</b>						
Interest income		569		246		815
Interest expense		(1,154)		(51,058)		(52,212)

## 29 Cash and cash equivalents

Cash and cash equivalents at the reporting date as shown in the statement of cash flow are composed of the following items:

	September 30, 2010 AMD'000	September 30, 2009 AMD'000
Cash	227,805	487,361
Due from the Central Bank of Armenia – nostro accounts	1,594,109	1,492,045
Placements with banks – nostro accounts	584,471	707,234
	<b>2,406,385</b>	<b>2,686,640</b>

## 30 Fair value of financial instruments

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 16 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 approximates their carrying values.

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 30 September 2010:

	Quoted market prices AMD'000	Valuation techniques based on market observable inputs AMD'000	Total AMD'000
<b>Financial assets</b>			
Available-for-sale assets	-	831,903	831,903

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2009:

	Quoted market prices AMD'000	Valuation techniques based on market observable inputs AMD'000	Total AMD'000
<b>Financial assets</b>			
Available-for-sale assets	-	779,303	779,303

As at 30 September 2010 and 31 December 2009, the Bank does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value

should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

## 31 Average effective interest rates

The table below displays average effective interest rates for the Bank’s interest bearing assets and liabilities as at 30 September 2010 and 31 December 2009. These interest rates are an approximation of the yields to maturity of these assets and liabilities, except for the placements with banks of AMD 368,740 thousand the interest rate on which is based on Libor / Euribor - 0.125% for USD and EUR balances, respectively.

	30 September 2010			31 December 2009		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
<b>Interest bearing assets</b>						
Placements with banks						
- Nostro accounts with banks	-	0.2%	0.4%	-	0.1%	0.2%
- Loans and deposits	-	7.0%	2.8%	-	7.8%	-
Loans to customers	14.5%	11.9%	10.0%	14.4%	13.2%	16.0%
Available-for-sale assets	14.1%	-	-	7.1%	-	-
<b>Interest bearing liabilities</b>						
Deposits and balances from banks						
- Vostro accounts	-	-	-	-	-	-
- Loans and term deposits	8.8%	7.8%	2.5%	7.7%	-	-
- Amounts payable under repurchase agreements	-	-	-	5.0%	-	-
Other borrowed funds	8.0%	-	-	-	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	1.3%	1.5%	0.3%	1.6%	0.4%	0.3%
- Term deposits	7.8%	7.9%	3.2%	8.5%	8.0%	4.2%

## 32 Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as at 30 September 2010.

	Less than 1 month AMD'000	1 to 3 months AMD'000	3 months to 1 year AMD'000	1 to 5 years AMD'000	More than 5 years AMD'000	No maturity AMD'000	Overdue AMD'000	Total AMD'000
<b>Assets</b>								
Cash	227,805	-	-	-	-	-	-	227,805
Due from the Central Bank of Armenia	1,594,109	-	-	-	-	53,988	-	1,648,097
Placements with banks	584,470	1,774,555	-	-	-	48,594	-	2,407,619
Loans to customers	629,449	1,081,906	3,109,361	9,328,841	1,634,994	-	343,150	16,127,701
Available-for-sale assets	11,852	-	38,804	781,247	-	13,160	-	845,063
Property, equipment and intangible assets	-	-	-	-	-	768,318	-	768,318
Other assets	17,885	21,223	16,896	11,070	-	2,514	-	69,588
<b>Total assets</b>	<b>3,065,570</b>	<b>2,877,684</b>	<b>3,165,061</b>	<b>10,121,158</b>	<b>1,634,994</b>	<b>886,574</b>	<b>343,150</b>	<b>22,094,191</b>
<b>Liabilities</b>								
Deposits and balances from banks	1,837,755	243	1,475	3,866,863	-	-	-	5,706,336
Other borrowed funds	381	489	2,423	17,039	59,036	-	-	79,368
Current accounts and deposits from customers	1,648,137	2,200,167	3,764,175	69,335	-	-	-	7,681,814
Other liabilities	78,727	2,134	98,504	15,957	7,834	-	-	203,156
Deferred tax liability	-	-	-	-	-	2,447	-	2,447
<b>Total liabilities</b>	<b>3,565,000</b>	<b>2,203,033</b>	<b>3,866,577</b>	<b>3,969,194</b>	<b>66,870</b>	<b>2,447</b>	<b>-</b>	<b>13,673,121</b>
<b>Net position as at 30 September 2010</b>	<b>(499,430)</b>	<b>674,651</b>	<b>(701,516)</b>	<b>6,151,964</b>	<b>1,568,124</b>	<b>884,127</b>	<b>343,150</b>	<b>8,421,070</b>
Net position as at 31 December 2009	2,855,974	(3,733,825)	(296,497)	7,122,615	1,427,129	767,674	239,527	<b>8,382,597</b>
<b>Cumulative net position as at 30 September 2010</b>	<b>(499,430)</b>	<b>175,221</b>	<b>(526,295)</b>	<b>5,625,669</b>	<b>7,193,793</b>	<b>8,077,920</b>	<b>8,421,070</b>	<b>8,421,070</b>
Cumulative net position as at 31 December 2009	2,855,974	(877,851)	(1,174,348)	5,948,267	7,375,396	8,143,070	8,382,597	<b>8,382,597</b>

Due to the fact that substantially all the financial instruments are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates, except for the placements with banks of AMD 368,740 thousand the interest rate on which is based on Libor / Euribor - 0.125% for USD / EUR balances, respectively.

The amounts in the tables above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

The overdue column includes only the contractually overdue portion of financial instruments.

Management believes that in spite of the early withdrawal option for term deposits of individuals as permitted by Civil Code of Republic of Armenia, diversification of these customer accounts by number and type of depositors and the past experience of the Bank indicates that these customer accounts provide a long term and stable source of funding.

### 33 Currency analysis

The following table shows the currency structure of assets and liabilities at 30 September 2010:

	AMD AMD'000	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
<b>Assets</b>					
Cash	90,590	37,993	83,549	15,673	227,805
Due from the Central Bank of Armenia	786,765	806,766	54,566	-	1,648,097
Placements with banks	3,156	1,688,924	705,292	10,247	2,407,619
Loans to customers	7,185,176	8,547,686	394,839	-	16,127,701
Available-for-sale assets	845,063	-	-	-	845,063
Property, equipment and intangible assets	768,318	-	-	-	768,318
Other assets	68,067	989	532	-	69,588
<b>Total assets</b>	<b>9,747,135</b>	<b>11,082,358</b>	<b>1,238,778</b>	<b>25,920</b>	<b>22,094,191</b>
<b>Liabilities</b>					
Deposits and balances from banks	256,487	4,463,732	986,115	2	5,706,336
Other borrowed funds	79,368	-	-	-	79,368
Current accounts and deposits from customers	891,204	6,562,905	227,026	679	7,681,814
Other liabilities	136,622	66,371	163	-	203,156
Deferred tax liability	2,447	-	-	-	2,447
<b>Total liabilities</b>	<b>1,366,128</b>	<b>11,093,008</b>	<b>1,213,304</b>	<b>681</b>	<b>13,673,121</b>
<b>Net positions as of 30 September 2010</b>	<b>8,381,007</b>	<b>(10,650)</b>	<b>25,474</b>	<b>25,239</b>	<b>8,421,070</b>
Net positions as of 31 December 2009	8,111,088	305,976	(39,092)	4,625	8,382,597