

“Byblos Bank Armenia” cjsc

Interim Financial Statements

for the year ended

31 December 2011

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“Byblos Bank Armenia” cjsc
Interim Statement of Comprehensive Income
for the year ended 31 December 2011

		October 1, 2011 December 31, 2011 AMD'000	January 1, 2011 December 31, 2011 AMD'000	October 1, 2010 December 31, 2010 AMD'000	January 1, 2010 December 31, 2010 AMD'000
Interest income	4	831,597	2,953,755	612,333	2,197,036
Interest expense	4	(455,540)	(1,643,606)	(264,304)	(850,428)
Net interest income		376,057	1,310,149	348,029	1,346,608
Fee and commission income	5	16,760	76,442	19,868	69,221
Fee and commission expense	6	(11,859)	(44,476)	(9,936)	(42,091)
Net fee and commission income		4,901	31,966	9,932	27,130
Net loss from financial instruments at fair value through profit or loss	7	(17,187)	(46,743)	-	(41,155)
Net foreign exchange income	8	28,383	98,414	19,209	113,348
Net gain / (loss) on available-for-sale financial assets		-	1,414	-	(204)
Other operating (loss) / income		(1,691)	21,093	24,743	33,020
Operating income		390,463	1,416,293	401,913	1,478,747
Impairment (losses) / release	9	(172,694)	(14,895)	41,183	(209,713)
Personnel expenses	10	(149,938)	(622,589)	(135,946)	(584,698)
Other general administrative expenses	11	(107,118)	(383,410)	(44,790)	(339,894)
(Loss) / profit before income tax		(39,287)	395,399	262,360	344,442
Income tax benefit / (expense)	12	1,270	(103,570)	(57,588)	(97,815)
(Loss) / profit		(38,017)	291,829	204,772	246,627
Other comprehensive income					
Revaluation reserve for available-for-sale financial assets:					
- Net change in fair value	12	43,966	25,073	41,368	46,374
- Net change in fair value transferred to profit or loss	12	-	(14,607)	-	(8,388)
Other comprehensive income		43,966	10,466	41,368	37,986
Total comprehensive income		5,949	302,295	246,140	284,613

The financial statements as set out on pages 4 to 49 were approved on 19 January 2012.

Chief Executive Officer

A. Ghukasyan

Head of Finance and Administration

H. Stepanyan

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

“Byblos Bank Armenia” cjsc
Interim Statement of Financial Position as at 31 December 2011

	Notes	December 31, 2011 AMD'000	December 31, 2010 AMD'000
ASSETS			
Cash and cash equivalents	13	4,301,241	5,200,846
Available-for-sale financial assets	14	2,048,323	1,019,755
Amounts receivable under reverse repurchase agreements	15	804,415	-
Loans and advances to banks	16	9,303,338	5,815,609
Loans to customers	17	20,118,110	15,862,069
Property, equipment and intangible assets	18	1,144,989	782,764
Other assets	19	95,689	101,030
Total assets		37,816,105	28,782,073
LIABILITIES			
Deposits and balances from banks	20	7,451,441	7,293,877
Current accounts and deposits from customers	21	16,108,072	10,686,996
Other borrowed funds	22	5,052,992	1,930,470
Other liabilities	23	200,933	181,249
Deferred tax liability	12	33,162	22,271
Total liabilities		28,846,600	20,114,863
EQUITY			
Share capital	24	8,125,100	8,125,100
Share premium		257,149	257,149
Revaluation reserve for available-for-sale financial assets		49,083	38,617
Retained earnings		538,173	246,344
Total equity		8,969,505	8,667,210
Total liabilities and equity		37,816,105	28,782,073

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

“Byblos Bank Armenia” cjsc
Interim Statement of Cash Flows
for the year ended 31 December 2011

	January 1, 2011 December 31, 2011 AMD'000	January 1, 2010 December 31, 2010 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	2,791,694	2,220,765
Interest payments	(1,346,006)	(665,548)
Fee and commission receipts	61,150	52,026
Fee and commission payments	(38,989)	(33,159)
Recovery of the assets previously written-off	3,470	4,331
Net receipts / (payments) from the available-for-sale financial assets	2,001	(204)
Net receipts from foreign exchange	51,206	87,173
Tax payments (other than income tax)	(67,079)	(40,748)
Salaries and other payments to employees	(571,711)	(522,429)
Other general administrative expenses payments	(319,258)	(265,695)
Other income receipts	52,312	75,878
(Increase) / decrease in operating assets		
Available-for-sale financial assets	(976,742)	(195,127)
Amounts receivable under reverse repurchase agreements	(803,205)	-
Loans and advances to banks	(3,058,474)	(3,357,115)
Loans to customers	(3,512,169)	(4,348,230)
Other assets	(6,377)	12,575
Increase / (decrease) in operating liabilities		
Financial instruments at fair value through profit or loss	(46,743)	(41,155)
Deposits and balances from banks	(315,417)	6,863,767
Current accounts and deposits from customers	4,563,628	2,127,135
Receipts from other borrowed funds	2,964,938	1,909,698
Other liabilities	2,718	2,484
Net cash (used in) / provided from operating activities before income taxes paid	(569,053)	3,886,422
Income tax paid	(146,039)	(21,675)
Cash flows from operations	(715,092)	3,864,747
CASH FLOWS USED IN INVESTING ACTIVITIES		
Net purchases of property and equipment and intangible assets	(407,345)	(240,586)
Cash flows used in investing activities	(407,345)	(240,586)
Net (decrease) / increase in cash and cash equivalents	(1,122,437)	3,624,161
Effect of changes in exchange rates on cash and cash equivalents	226,720	41,289
Cash and cash equivalents at the beginning of the year	5,196,694	1,531,244
Cash and cash equivalents at the end of the year	4,300,977	5,196,694

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

“Byblos Bank Armenia” cjsc
Interim Statement of Changes in Equity
for the year ended 31 December 2011

AMD'000	<u>Share capital</u>	<u>Share premium</u>	<u>Revaluation reserve for available-for-sale financial assets</u>	<u>Retained earnings/ (Accumulated losses)</u>	<u>Total</u>
Balance as at 1 January 2010	8,125,100	257,149	631	(283)	8,382,597
Total comprehensive income for the period	-	-	37,986	246,627	284,613
Balance as at 31 December 2010	<u>8,125,100</u>	<u>257,149</u>	<u>38,617</u>	<u>246,344</u>	<u>8,667,210</u>
Balance as at 1 January 2011	8,125,100	257,149	38,617	246,344	8,667,210
Total comprehensive income for the period	-	-	10,466	291,829	302,295
Balance as at 31 December 2011	<u>8,125,100</u>	<u>257,149</u>	<u>49,083</u>	<u>538,173</u>	<u>8,969,505</u>

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

1 Background

(a) Organisation and operations

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

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

The average number of persons employed by the Bank during the quarter was 88 (2010: 82).

(i) Shareholders

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

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

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

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

(b) Armenian business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgments

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 17 “Loans to customers”.

3 Significant accounting policies

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

(a) Foreign currency transactions

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

(b) Cash and cash equivalents

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

(c) Financial instruments

(i) Classification

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

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

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

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

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

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

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

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

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

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

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

(ii) Recognition

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

(iii) Measurement

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

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

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

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

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

(iv) Fair value measurement principles

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

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

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

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

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

(v) Gains and losses on subsequent measurement

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

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

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

(vi) *Derecognition*

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

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

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

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

The Bank writes off assets deemed to be uncollectible.

(vii) *Repurchase and reverse repurchase agreements*

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

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

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

(viii) *Offsetting*

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

(d) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

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

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

(e) Intangible assets

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

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

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

(f) Impairment

(i) Financial assets carried at amortized cost

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

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

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

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

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

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

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

(ii) *Financial assets carried at cost*

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

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

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

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

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

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

(iv) Non financial assets

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

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

(g) Provisions

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

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

(h) Credit related commitments

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

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

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

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

Loan commitments are not recognised, except for the followings:

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

(i) Share capital

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

(i) Share premium

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

(ii) Dividends

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

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

(j) Taxation

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

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

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

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

(k) Income and expense recognition

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

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

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

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

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

(l) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2011, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective.

- 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 phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Bank's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2012. The Bank has not yet analysed the likely impact of this pronouncement on its financial statements.

4 Net interest income

	October 1, 2011 December 31, 2011 AMD'000	January 1, 2011 December 31, 2011 AMD'000	October 1, 2010 December 31, 2010 AMD'000	January 1, 2010 December 31, 2010 AMD'000
Interest income				
Loans to customers	576,380	2,141,626	531,601	1,987,645
Loans and advances to banks	178,626	546,750	44,225	105,616
Available-for-sale financial assets	64,647	190,779	28,207	76,689
Cash and cash equivalents	4,201	41,247	8,300	21,314
Amounts receivable under reverse repurchase agreements	7,697	31,495	-	5,772
Financial instruments at fair value through profit or loss	46	1,858	-	-
	831,597	2,953,755	612,333	2,197,036
Interest expense				
Current accounts and deposits from customers	247,395	861,085	140,327	512,272
Deposits and balances from banks	137,293	567,298	116,820	324,957
Other borrowed funds	70,852	214,533	7,157	12,211
Financial instruments at fair value through profit or loss	-	690	-	579
Amounts payable under repurchase agreements	-	-	-	409
	455,540	1,643,606	264,304	850,428
Net interest income	376,057	1,310,149	348,029	1,346,608

5 Fee and commission income

	October 1, 2011 December 31, 2011 AMD'000	January 1, 2011 December 31, 2011 AMD'000	October 1, 2010 December 31, 2010 AMD'000	January 1, 2010 December 31, 2010 AMD'000
Remittances	5,194	21,593	5,767	22,879
Credit card maintenance	5,798	19,438	4,011	13,630
Guarantee and letter of credit issuance	228	15,698	4,843	17,234
Cash entry and withdrawal	3,280	10,800	3,181	9,267
Other	2,260	8,913	2,066	6,211
	16,760	76,442	19,868	69,221

6 Fee and commission expense

	October 1, 2011	January 1, 2011	October 1, 2010	January 1, 2010
	December 31, 2011	December 31, 2011	December 31, 2010	December 31, 2010
	AMD'000	AMD'000	AMD'000	AMD'000
Plastic card services	8,540	29,369	7,312	24,852
Guarantee and letter of credit issuance	407	5,488	172	8,932
Remittances	1,184	4,062	1,045	3,611
Other	1,728	5,557	1,407	4,696
	11,859	44,476	9,936	42,091

7 Net loss from financial instruments at fair value through profit or loss

	October 1, 2011	January 1, 2011	October 1, 2010	January 1, 2010
	December 31, 2011	December 31, 2011	December 31, 2010	December 31, 2010
	AMD'000	AMD'000	AMD'000	AMD'000
Derivative financial instruments	(17,187)	(46,743)	-	(41,155)
	(17,187)	(46,743)	-	(41,155)

8 Net foreign exchange income

	October 1, 2011	January 1, 2011	October 1, 2010	January 1, 2010
	December 31, 2011	December 31, 2011	December 31, 2010	December 31, 2010
	AMD'000	AMD'000	AMD'000	AMD'000
Gain on spot transactions	10,483	51,205	15,491	87,173
Gain from revaluation of financial assets and liabilities	17,900	47,209	3,718	26,175
	28,383	98,414	19,209	113,348

9 Impairment (losses) / release

	October 1, 2011	January 1, 2011	October 1, 2010	January 1, 2010
	December 31, 2011	December 31, 2011	December 31, 2010	December 31, 2010
	AMD'000	AMD'000	AMD'000	AMD'000
Loans to customers	(172,725)	(15,361)	41,660	(209,773)
Other assets	31	466	(477)	60
	(172,694)	(14,895)	41,183	(209,713)

10 Personnel expenses

	October 1, 2011 December 31, 2011 AMD'000	January 1, 2011 December 31, 2011 AMD'000	October 1, 2010 December 31, 2010 AMD'000	January 1, 2010 December 31, 2010 AMD'000
Employee compensation	139,809	581,668	127,786	554,243
Payroll related taxes	10,129	40,921	8,160	30,455
	<u>149,938</u>	<u>622,589</u>	<u>135,946</u>	<u>584,698</u>

11 Other general administrative expenses

	October 1, 2011 December 31, 2011 AMD'000	January 1, 2011 December 31, 2011 AMD'000	October 1, 2010 December 31, 2010 AMD'000	January 1, 2010 December 31, 2010 AMD'000
Depreciation and amortization	19,799	74,975	16,591	59,486
Advertising and marketing	18,678	63,713	14,399	41,265
Repairs and maintenance	7,847	26,276	4,868	22,647
Communications and information services	5,712	25,355	6,519	27,976
Maintenance of accounting application	6,297	24,294	5,931	22,850
Professional services	4,558	23,217	(53,088)	22,048
Insurance	5,665	22,911	5,654	22,727
Security	4,461	18,044	4,761	19,044
Maintenance of cars	4,917	17,825	3,899	14,717
Office supplies	4,953	15,368	3,459	13,654
Operating lease expense	3,000	14,700	3,900	15,600
Travel expenses	3,263	14,294	10,631	14,471
Taxes other than on income	3,117	11,335	3,418	11,162
Other	14,851	31,103	13,848	32,247
	<u>107,118</u>	<u>383,410</u>	<u>44,790</u>	<u>339,894</u>

12 Income tax benefit / (expense)

	October 1, 2011 December 31, 2011 AMD'000	January 1, 2011 December 31, 2011 AMD'000	October 1, 2010 December 31, 2010 AMD'000	January 1, 2010 December 31, 2010 AMD'000
Current tax expense				
Current year	(25,077)	(95,295)	(48,107)	(115,861)
Deferred tax benefit / (expense)				
Origination and reversal of temporary differences	26,347	(8,275)	(9,481)	18,046
Total income tax benefit / (expense)	<u>1,270</u>	<u>(103,570)</u>	<u>(57,588)</u>	<u>(97,815)</u>

In 2011, applicable tax rate for current and deferred tax is 20% (2010: 20%).

Reconciliation of effective tax rate

	January 1, 2011		January 1, 2010	
	December 31, 2011	%	December 31, 2010	%
	AMD'000		AMD'000	
Profit before tax	<u>395,399</u>		<u>344,442</u>	
Income tax at the applicable tax rate	(79,080)	(20%)	(68,888)	(20%)
Non-deductible costs	(24,490)	(6%)	(28,927)	(8%)
	<u>(103,570)</u>	<u>(26%)</u>	<u>(97,815)</u>	<u>(28%)</u>

(a) Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2011 and 31 December 2010.

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

Movements in temporary differences during the year ended 31 December 2011 and 31 December 2010 are presented as follows:

AMD'000	Balance 1 January 2011	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2011
Loans to customers	(8,675)	2,177	-	(6,498)
Available-for-sale financial assets	(9,952)	12	(2,616)	(12,556)
Cash and cash equivalents	(3,754)	1,892	-	(1,862)
Loans and advances to banks	(11,311)	(6,764)	-	(18,075)
Property and equipment	2,121	(1,848)	-	273
Other assets	(234)	45	-	(189)
Other liabilities	9,534	(3,789)	-	5,745
	<u>(22,271)</u>	<u>(8,275)</u>	<u>(2,616)</u>	<u>(33,162)</u>

AMD'000	Balance 1 January 2010	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2010
Loans to customers	(55,839)	47,164	-	(8,675)
Available-for-sale financial assets	(493)	38	(9,497)	(9,952)
Cash and cash equivalents	(374)	(3,380)	-	(3,754)
Loans and advances to banks	(4,629)	(6,682)	-	(11,311)
Property and equipment	1,807	314	-	2,121
Other assets	(124)	(110)	-	(234)
Other liabilities	5,102	4,432	-	9,534
Tax loss carry-forward	23,730	(23,730)	-	-
	(30,820)	18,046	(9,497)	(22,271)

(b) Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income for the year ended 31 December 2011 and 31 December 2010 comprise the following:

AMD'000	31 December 2011			31 December 2010		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Net change in fair value of available-for-sale financial assets	31,341	(6,268)	25,073	57,968	(11,594)	46,374
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(18,259)	3,652	(14,607)	(10,485)	2,097	(8,388)
Other comprehensive loss	13,082	(2,616)	10,466	47,483	(9,497)	37,986

13 Cash and cash equivalents

	December 31, 2011 AMD'000	December 31, 2010 AMD'000
Cash on hand	498,492	299,091
Nostro accounts with the CBA	2,871,293	3,020,360
Nostro accounts with other banks		
- OECD banks	149,570	147,149
- Other foreign banks	315,482	89,590
- Largest 10 Armenian banks	465,572	1,639,954
- Small and medium size Armenian banks	568	550
Total nostro accounts with other banks	931,192	1,877,243
Total cash and cash equivalents as shown in the statement of cash flows	4,300,977	5,196,694
Accrued interest	264	4,152
Total cash and cash equivalents	4,301,241	5,200,846

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

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

As at 31 December 2011 the Bank has one bank or group of related banks (2010: two), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2011 is AMD 2,871,293 thousand (2010: AMD 3,957,402 thousand).

14 Available-for-sale financial assets

	December 31, 2011 AMD'000	December 31, 2010 AMD'000
Debt and other fixed-income instruments		
Government securities of the Republic of Armenia	2,035,163	1,006,595
	2,035,163	1,006,595
Equity investments		
Corporate shares	13,160	13,160
	13,160	13,160
	2,048,323	1,019,755

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

Name	Country of incorporation	Main activity	% Controlled		December 31, 2011 AMD'000	December 31, 2010 AMD'000
			December 31, 2011	December 31, 2010		
ArCa	Republic of Armenia	Payment system	2%	2%	12,143	12,143
SWIFT	Belgium	Money transfer	0%	0%	1,017	1,017
					13,160	13,160

Investment without a determinable fair value

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

15 Amounts receivable under reverse repurchase agreements

	December 31, 2011 AMD'000	December 31, 2010 AMD'000
Amounts receivable under reverse repurchase agreements	804,415	-
	804,415	-

16 Loans and advances to banks

	December 31, 2011 AMD'000	December 31, 2010 AMD'000
Credit card settlement deposit with the CBA	127,832	124,155
Loans and deposits		
Largest 10 Armenian banks	6,005,708	3,444,075
Small and medium size Armenian banks	3,117,914	2,198,498
OECD banks	51,884	48,881
Total loans and deposits	9,175,506	5,691,454
Total loans and advances to banks	9,303,338	5,815,609

As at 31 December 2011 included in loans and deposits with OECD banks is AMD 51,184 thousand (2010: AMD 48,881 thousand) which represents a blocked deposit in HSBC Bank Plc for membership in Europay International.

(a) Concentration of loans and advances to banks

As at 31 December 2011 the Bank has six banks or groups of connected banks (2010: four banks), whose balances exceed 10% of equity. The gross values of these balances as at 31 December 2011 are AMD 8,624,832 thousand (2010: AMD 4,942,400 thousand).

17 Loans to customers

	December 31, 2011 AMD'000	December 31, 2010 AMD'000
Loans to corporate customers		
Loans to large corporates	14,092,845	12,294,119
Loans to small and medium size companies	758,380	44,105
Total loans to corporate customers	14,851,225	12,338,224
Loans to retail customers		
Mortgage loans	3,218,000	2,023,361
Consumer loans secured by real estate	1,262,386	944,297
Auto loans	808,676	773,338
Consumer loans with salary domiciliation	230,988	223,479
Credit cards	194,381	147,600
Small business loans	153,698	-
Other	1,621	1,184
Total loans to retail customers	5,869,750	4,113,259
Gross loans to customers	20,720,975	16,451,483
Impairment allowance	(602,865)	(589,414)
Net loans to customers	20,118,110	15,862,069

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2011 are as follows:

	Loans to corporate customers AMD'000	Loans to retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	526,532	62,882	589,414
(Write-offs) / Recoveries	(2,250)	340	(1,910)
Net (release) / charge	(43,528)	58,889	15,361
Balance at the end of the year	480,754	122,111	602,865

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

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

As at 31 December 2011, interest accrued on impaired loans amounts to AMD 9,218 thousand (2010: AMD 4,634 thousand).

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers portfolio as at 31 December 2011:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment to gross loans %
Loans to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment	12,308,322	(61,542)	12,246,780	0.5%
Impaired loans:				
- not overdue	1,437,631	(143,763)	1,293,868	10.0%
- overdue 90 days – 1 year	11,713	(3,514)	8,199	30.0%
- overdue more than 1 year	335,179	(268,143)	67,036	80.0%
Total impaired loans	1,784,523	(415,420)	1,369,103	23.3%
Total loans to large corporates	14,092,845	(476,962)	13,615,883	3.4%
Loans to small and medium size companies				
Loans without individual signs of impairment	758,380	(3,792)	754,588	0.5%
Total loans to small and medium size companies	758,380	(3,792)	754,588	0.5%
Total loans to corporate customers	14,851,225	(480,754)	14,370,471	3.24%

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment to gross loans %
Loans to retail customers				
Mortgage loans				
- not overdue	3,068,604	(30,686)	3,037,918	1.0%
- overdue less than 30 days	93,838	(18,768)	75,070	20.0%
- overdue 30-89 days	21,977	(4,395)	17,582	20.0%
- overdue 90-179 days	33,581	(6,716)	26,865	20.0%
Total mortgage loans	3,218,000	(60,565)	3,157,435	1.9%
Consumer loans secured by real estate				
- not overdue	1,251,827	(12,518)	1,239,309	1.0%
- overdue less than 30 days	2,166	(433)	1,733	20.0%
- overdue 30-89 days	7,267	(1,453)	5,814	20.0%
- overdue 90-179 days	1,126	(226)	900	20.0%
Total consumer loans secured by real estate	1,262,386	(14,630)	1,247,756	1.2%
Auto loans				
- not overdue	773,433	(15,469)	757,964	2.0%
- overdue less than 30 days	6,679	(2,672)	4,007	40.0%
- overdue 30-89 days	7,806	(3,122)	4,684	40.0%
- overdue 90-179 days	3,848	(1,540)	2,308	40.0%
- overdue more than 1 year	16,910	(6,764)	10,146	40.0%
Total auto loans	808,676	(29,567)	779,109	3.7%
Consumer loans with salary domiciliation				
- not overdue	226,880	(6,806)	220,074	3.0%
- overdue less than 30 days	2,210	(1,105)	1,105	50.0%
- overdue 30-89 days	971	(486)	485	50.0%
- overdue 90-179 days	927	(464)	463	50.0%
Total consumer loans with salary domiciliation	230,988	(8,861)	222,127	3.8%
Credit cards				
- not overdue	190,362	(5,711)	184,651	3.0%
- not overdue, but impaired	4,019	(2,009)	2,010	50.0%
Total credit cards	194,381	(7,720)	186,661	4.0%
Small business loans				
- not overdue	153,698	(768)	152,930	0.5%
Total small business loans	153,698	(768)	152,930	0.5%
Other retail loans				
- not overdue	1,621	-	1,621	0.0%
Total other retail loans	1,621	-	1,621	0.0%
Total loans to retail customers	5,869,750	(122,111)	5,747,639	2.08%
Total loans to customers	20,720,975	(602,865)	20,118,110	2.91%

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

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

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

During 2011 and 2010 the Bank did not renegotiate such conditions of loans to customers, which would impact on the validity of the objective indications of impairment.

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

(i) Loans to corporate customers

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

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

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

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

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

- for non-impaired loans the Bank creates a collective provision of 0.5% considering the economic environment and market loss experience
- for impaired loans a discount of 50%-75% to the originally appraised value if the property pledged is sold and a delay of 18 to 46 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 plus/minus one percent, the impairment allowance on loans to corporate customers as at 31 December 2011 would be AMD 143,705 thousand lower/higher (2010: AMD 118,117 thousand higher).

(ii) *Loans to retail customers*

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

- Loans secured by real estate not past due – 1.0%
- The cost associated with the collection of the past due loans secured by real estate will not exceed 20.0% of the outstanding exposure
- Auto loans – 2.0%
- The cost associated with the collection of the past due auto loans will not exceed 40.0% of the outstanding exposure
- Credit card and consumer loans with salary domiciliation – 3.0%
- The cost associated with the collection of the past due credit card loans and consumer loans with salary domiciliation will not exceed 50.0% of the outstanding exposure
- Small business loans – 0.5%

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to retail customers as at 31 December 2011 would be AMD 172,429 thousand lower/higher (2010: AMD 121,511 thousand).

(c) *Analysis of collateral*

(i) *Loans to corporate customers*

The following table provides the analysis of loans to corporate customers portfolio, net of impairment, by types of collateral as at 31 December 2011 and 31 December 2010:

	December 31, 2011	December 31, 2010
	AMD'000	AMD'000
Real estate	13,239,711	11,266,025
No collateral	576,551	-
Other collateral	554,209	545,667
	14,370,471	11,811,692

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

Loans to corporate customers that are past due or impaired

Impaired or overdue loans to corporate customers are secured by collateral with fair value of AMD 1,784,523 thousand (2010: AMD 962,758 thousand), excluding the effect of overcapitalization.

Loans to corporate customers that are past due or impaired

As at 31 December 2011 the fair value of cash balances, serving as collateral for loans to corporate customers, is AMD 38,577 thousand (2010: AMD 50,155 thousand).

For remaining loans to corporate customers with a net carrying amount of AMD 12,970,515 thousand (2010: AMD 11,285,852 thousand) which are neither past due nor impaired, the fair value of collateral was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

As at 31 December 2011, for loans to corporate customers with a carrying amounts of AMD 13,035,694 (2010: AMD 11,342,564 thousand) management estimates that the fair value of collateral is at least equal to their carrying amounts.

During the year ended 31 December 2011 the Bank did not obtain any assets by taking control of collateral accepted as security for loans to corporate customers (2010: nil).

(ii) *Loans to retail customers*

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying cars. Consumer loans with salary domiciliation and credit card loans are secured by salaries. The fair value of collateral of mortgage and auto loans is at least equal to their carrying amount.

(d) Industry and geographical analysis of the loan portfolio

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

	December 31, 2011 AMD'000	December 31, 2010 AMD'000
Trade	6,983,386	6,897,950
Manufacturing	2,892,677	992,441
Transport	2,573,292	2,624,458
Agriculture, forestry and timber	1,748,670	1,617,304
Energy and gas	579,448	-
Public catering and other services	227,450	196,404
Construction	-	9,667
Consumer loans	5,716,052	4,113,259
	20,720,975	16,451,483
Impairment allowance	(602,865)	(589,414)
	20,118,110	15,862,069

(e) Significant credit exposures

As at 31 December 2011 the Bank has four borrowers or groups of connected borrowers (2010: six), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2011 is AMD 5,253,416 thousand (2010: AMD 7,594,477 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in note 25 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

18 Property, equipment and intangible assets

AMD'000	<u>Land and buildings</u>	<u>Computers and communication equipment</u>	<u>Fixtures and fittings</u>	<u>Motor vehicles</u>	<u>Leasehold improvements</u>	<u>Intangible assets</u>	<u>Total</u>
Cost							
Balance at 1 January 2011	627,603	207,504	176,888	68,800	26,744	159,377	1,266,916
Additions	301,604	85,800	49,771	-	217	853	438,245
Disposals	-	(21,392)	(7,521)	-	-	-	(28,913)
Balance at 31 December 2011	<u>929,207</u>	<u>271,912</u>	<u>219,138</u>	<u>68,800</u>	<u>26,961</u>	<u>160,230</u>	<u>1,676,248</u>
Depreciation							
Balance at 1 January 2011	(74,337)	(147,999)	(124,741)	(51,423)	(15,767)	(69,885)	(484,152)
Depreciation for the period	(12,205)	(23,413)	(17,927)	(10,740)	(2,349)	(8,341)	(74,975)
Disposals	-	21,225	6,643	-	-	-	27,868
Balance at 31 December 2011	<u>(86,542)</u>	<u>(150,187)</u>	<u>(136,025)</u>	<u>(62,163)</u>	<u>(18,116)</u>	<u>(78,226)</u>	<u>(531,259)</u>
Carrying amount							
At 31 December 2011	<u>842,665</u>	<u>121,725</u>	<u>83,113</u>	<u>6,637</u>	<u>8,845</u>	<u>82,004</u>	<u>1,144,989</u>

AMD'000	<u>Land and buildings</u>	<u>Computers and communication equipment</u>	<u>Fixtures and fittings</u>	<u>Motor vehicles</u>	<u>Leasehold improvements</u>	<u>Intangible assets</u>	<u>Total</u>
Cost							
Balance at 1 January 2010	519,277	200,207	155,424	68,800	19,628	93,100	1,056,436
Additions	108,326	21,725	22,794	-	7,116	66,277	226,238
Disposals	-	(14,428)	(1,330)	-	-	-	(15,758)
Balance at 31 December 2010	<u>627,603</u>	<u>207,504</u>	<u>176,888</u>	<u>68,800</u>	<u>26,744</u>	<u>159,377</u>	<u>1,266,916</u>
Depreciation							
Balance at 1 January 2010	(63,941)	(152,058)	(110,798)	(40,683)	(10,735)	(61,757)	(439,972)
Depreciation for the year	(10,396)	(10,369)	(14,821)	(10,740)	(5,032)	(8,128)	(59,486)
Disposals	-	14,428	878	-	-	-	15,306
Balance at 31 December 2010	<u>(74,337)</u>	<u>(147,999)</u>	<u>(124,741)</u>	<u>(51,423)</u>	<u>(15,767)</u>	<u>(69,885)</u>	<u>(484,152)</u>
Carrying amount							
At 31 December 2010	<u>553,266</u>	<u>59,505</u>	<u>52,147</u>	<u>17,377</u>	<u>10,977</u>	<u>89,492</u>	<u>782,764</u>

There are no capitalised borrowing costs related to the acquisition or construction of plant and equipment during the year ended 31 December 2011 (2010: nil).

19 Other assets

	December 31, 2011 AMD'000	December 31, 2010 AMD'000
Receivables under money transfer and clearing systems	2,334	5,234
Other receivables	10,627	2,981
Total other financial assets	12,961	8,215
Future expenses	38,284	28,980
Prepayments	35,695	57,869
Other	8,749	5,966
Total other non-financial assets	82,728	92,815
Total other assets	95,689	101,030

20 Deposits and balances from banks

	December 31, 2011 AMD'000	December 31, 2010 AMD'000
Loans and term deposits	7,451,070	7,293,521
Vostro accounts	371	356
	7,451,441	7,293,877

(a) Concentration of deposits and balances from banks

As at 31 December 2011 the Bank has two banks (2010: one), whose balance exceeded 10% of equity. The gross value of these balances as at 31 December 2011 is AMD 6,722,474 thousand (2010: AMD 6,654,561 thousand).

21 Current accounts and deposits from customers

	December 31, 2011 AMD'000	December 31, 2010 AMD'000
Current accounts and demand deposits		
- Retail	2,071,334	796,417
- Corporate	1,083,842	1,978,369
Term deposits		
- Retail	9,433,546	3,724,896
- Corporate	3,519,350	4,187,314
	16,108,072	10,686,996

(a) Blocked accounts

As of 31 December 2011, the Bank maintains customer deposit balances of AMD 51,272 thousand that serve as collateral for loans and unrecognised credit instruments granted by the Bank (2010: AMD 117,274 thousand).

(b) Concentrations of current accounts and deposits from customers

As of 31 December 2011 the Bank has two customers (2010: three customers), whose balances exceed 10% of equity. These balances as at 31 December 2011 are AMD 3,614,451 thousand (2010: AMD 3,919,408 thousand).

22 Other borrowed funds

	December 31, 2011	December 31, 2010
	AMD'000	AMD'000
Loans from other financial institutions	5,052,992	1,930,470
	5,052,992	1,930,470

(a) Concentration of other borrowed funds

As at 31 December 2011 the Bank has two financial institutions (2010: one), whose balances exceeded 10% of equity. This balance as at 31 December 2011 is AMD 3,873,658 thousand (2010: AMD 1,820,834 thousand).

23 Other liabilities

	December 31, 2011	December 31, 2010
	AMD'000	AMD'000
Salary and similar payables	39,001	29,337
Payables to suppliers	25,542	29,861
Other financial liabilities	92,941	5,075
Total other financial liabilities	157,484	64,273
Income tax payable	17,054	67,798
Other taxes payable	17,509	12,898
Deferred income	295	27,478
Other non-financial liabilities	8,591	8,802
Total other non-financial liabilities	43,449	116,976
Total other liabilities	200,933	181,249

24 Share capital

(a) Issued capital and share premium

The authorized, issued and outstanding share capital comprises 81,251 ordinary shares (2010: 81,251). All shares have a nominal value of AMD 100,000. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Republic of Armenia. In accordance with the legislation of the Republic of Armenia, as at the reporting date, reserves available for distribution amounted to AMD 523,582 thousand (2010: AMD 234,013 thousand).

25 Risk management

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

(a) Risk management policies and procedures

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

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

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

(b) Market risk

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

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

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

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

(i) Interest rate risk

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

Interest rate gap analysis

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

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2011						
ASSETS						
Cash and cash equivalents	4,301,241	-	-	-	-	4,301,241
Available-for-sale financial assets	-	194,291	-	1,340,234	513,798	2,048,323
Amounts receivable under reverse repurchase agreements	804,415	-	-	-	-	804,415
Loans and advances to banks	636,682	5,015,010	3,471,930	-	179,716	9,303,338
Loans to customers	1,015,614	1,629,986	2,669,206	11,792,413	3,010,891	20,118,110
	6,757,952	6,839,287	6,141,136	13,132,647	3,704,405	36,575,427
LIABILITIES						
Deposits and balances from banks	667,463	2,727,845	712,473	3,343,660	-	7,451,441
Current accounts and deposits from customers	8,135,959	1,498,300	3,385,302	3,088,511	-	16,108,072
Other borrowed funds	21,925	279,098	604,335	3,958,490	189,144	5,052,992
	8,825,347	4,505,243	4,702,110	10,390,661	189,144	28,612,505
Interest rate gap	(2,067,395)	2,334,044	1,439,026	2,741,986	3,515,261	7,962,922
31 December 2010						
ASSETS						
Cash and cash equivalents	5,200,846	-	-	-	-	5,200,846
Available-for-sale financial assets	94,826	-	40,495	208,802	675,632	1,019,755
Loans and advances to banks	1,975,419	1,097,270	2,569,884	-	173,036	5,815,609
Loans to customers	1,527,058	1,628,472	3,039,040	7,873,538	1,793,961	15,862,069
	8,798,149	2,725,742	5,649,419	8,082,340	2,642,629	27,898,279
LIABILITIES						
Deposits and balances from banks	387,062	87,885	2,933,781	3,885,149	-	7,293,877
Current accounts and deposits from customers	5,198,223	2,474,886	2,973,510	40,377	-	10,686,996
Other borrowed funds	765	4,223	1,056	1,834,474	89,952	1,930,470
	5,586,050	2,566,994	5,908,347	5,760,000	89,952	19,911,343
Interest rate gap	3,212,099	158,748	(258,928)	2,322,340	2,552,677	7,986,936

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2011 and 31 December 2010. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	December 31, 2011			December 31, 2010		
	Average effective interest rate, %			Average effective interest rate, %		
	AMD	USD	Other currencies	AMD	USD	Other currencies
Interest bearing assets						
Nostro accounts with banks	-	1.5%	0.1%	-	2.4%	0.1%
Available-for-sale financial assets	13.6%	-	-	13.5%	-	-
Amounts receivable under reverse repurchase agreements	11.0%	-	-	-	-	-
Loans and advances to banks	-	8.4%	0.5%	4.5%	6.3%	-
Loans to customers	14.6%	10.6%	19.2%	14.4%	11.0%	10.0%
Interest bearing liabilities						
Deposits and balances from banks	7.8%	6.5%	-	7.8%	7.3%	3.5%
Current accounts and deposits from customers						
- Current accounts and demand deposits	0.6%	1.9%	0.4%	1.6%	1.6%	0.4%
- Term deposits	11.5%	7.2%	4.4%	10.9%	7.8%	3.5%
Other borrowed funds	10.5%	6.9%	-	8.0%	8.0%	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities.

An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2011 and 31 December 2010 as follows:

	31 December 2011		31 December 2010	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
100 bp parallel fall	5,750	5,750	(8,501)	(8,501)
100 bp parallel rise	(5,750)	(5,750)	8,501	8,501

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 at 31 December 2011 and 31 December 2010 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	31 December 2011		31 December 2010	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
100 bp parallel fall	-	43,157	-	25,803
100 bp parallel rise	-	(43,157)	-	(25,803)

(ii) **Currency risk**

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

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2011:

	USD AMD'000	EUR AMD'000	Other currencies AMD'000	Total AMD'000
Assets				
Cash and cash equivalents	1,068,929	112,078	23,223	1,204,230
Loans and advances to banks	8,676,717	498,788	-	9,175,505
Loans to customers	14,279,948	1,473	-	14,281,421
Other financial assets	11,281	144	-	11,425
Total assets	24,036,875	612,483	23,223	24,672,581
Liabilities				
Deposits and balances from banks	7,223,935	249	219	7,224,403
Current accounts and deposits from customers	12,910,927	556,673	10,594	13,478,194
Other borrowed funds	3,873,657	-	-	3,873,657
Other financial liabilities	18,856	68,667	432	87,955
Total liabilities	24,027,375	625,589	11,245	24,664,209
Net positions as at 31 December 2011	9,500	(13,106)	11,978	8,372

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

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

A strengthening of the AMD, as indicated below, against the following currencies at 31 December 2011 and 31 December 2010 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2011		31 December 2010	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
10% appreciation of USD against AMD	950	950	36,856	36,856
10% appreciation of EUR against AMD	(1,311)	(1,311)	3,297	3,297

A weakening of the AMD against the above currencies at 31 December 2011 and 31 December 2010 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

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

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

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

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

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

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

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

	December 31, 2011	December 31, 2010
	AMD'000	AMD'000
ASSETS		
Cash and cash equivalents	4,301,241	5,200,846
Available-for-sale financial assets	2,048,323	1,019,755
Amounts receivable under reverse repurchase agreements	804,415	-
Loans and advances to banks	9,303,338	5,815,609
Loans to customers	20,118,110	15,862,069
Other financial assets	12,961	8,215
Total maximum exposure	36,588,388	27,906,494

For the analysis of concentration of credit risk in respect of loans to customers refer to note 17.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 27.

As at 31 December 2011 the bank doesn't have any counterparty or group of connected counterparties (2010: one), credit risk exposure to whom exceeds 10% of maximum credit risk exposure (2010: AMD 3,144,515 thousand).

(d) Liquidity risk

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

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

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

The liquidity management policy requires:

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

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

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

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

The maturity analysis for financial liabilities as at 31 December 2011 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
31 December 2011							
Non-derivative liabilities							
Deposits and balances from banks	667,392	212	2,778,234	757,452	3,985,160	8,188,450	7,451,441
Current accounts and deposits from customers	4,382,915	3,797,545	1,536,462	3,581,392	3,943,619	17,241,933	16,108,072
Other borrowed funds	18,990	2,986	284,160	642,914	5,030,582	5,979,632	5,052,992
Other financial liabilities	145,891	11,593	-	-	-	157,484	157,484
Total liabilities	5,215,188	3,812,336	4,598,856	4,981,758	12,959,361	31,567,499	28,769,989
Credit related commitments	2,857,958	-	-	-	-	2,857,958	2,857,958

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

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

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

- less than 1 month: AMD 270,190 thousand (2010: AMD 149,981 thousand)
- from 1 to 3 months: AMD 2,118,494 thousand (2010: AMD 553,492 thousand)
- from 3 to 6 months: AMD 1,324,183 thousand (2010: AMD 1,237,909 thousand)
- from 6 to 12 months: AMD 2,353,870 thousand (2010: AMD 1,664,987 thousand)
- more than 1 year: AMD 3,078,512 thousand (2010: AMD 38,678 thousand)

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at 31 December 2011:

AMD'000	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	4,301,241	-	-	-	-	-	-	4,301,241
Available-for-sale financial assets	-	-	194,291	1,340,234	500,638	13,160	-	2,048,323
Amounts receivable under reverse repurchase agreements	804,415	-	-	-	-	-	-	804,415
Loans and advances to banks	636,682	-	8,486,940	-	-	179,716	-	9,303,338
Loans to customers	371,191	644,423	4,299,192	11,484,046	3,010,891	-	308,367	20,118,110
Property, equipment and intangible assets	-	-	-	-	-	1,144,989	-	1,144,989
Other assets	11,250	43,506	32,711	5,432	-	2,790	-	95,689
Total assets	6,124,779	687,929	13,013,134	12,829,712	3,511,529	1,340,655	308,367	37,816,105
Non-derivative liabilities								
Deposits and balances from banks	667,254	209	3,440,318	3,343,660	-	-	-	7,451,441
Current accounts and deposits from customers	4,380,156	3,755,803	4,883,602	3,088,511	-	-	-	16,108,072
Other borrowed funds	18,987	2,938	883,433	3,958,490	189,144	-	-	5,052,992
Other liabilities	163,442	11,677	17,427	816	7,571	-	-	200,933
Deferred tax liability	-	-	-	-	-	33,162	-	33,162
Total liabilities	5,229,839	3,770,627	9,224,780	10,391,477	196,715	33,162	-	28,846,600
Net position	894,940	(3,082,698)	3,788,354	2,438,235	3,314,814	1,307,493	308,367	8,969,505

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

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

The key measure used by the Bank for managing liquidity risk is the ratio of highly liquid assets to demand liabilities. For this purpose highly liquid assets include cash, nostro accounts, gold bullion, debt securities issued by the Government of Armenia, CBA and other corporate debt securities for which there is an active and liquid market, which are not pledged or the use of which is not restricted in any way. Demand liabilities include current accounts and demand deposits of customers, as well as any other liability that is payable on demand. The reported ratios of highly liquid assets to demand liabilities for December 2011 and during the period are as follows:

	31 December, 2011	31 December, 2010
For December	224.3%	205.7%
Average for the year	315.1%	236.0%
Maximum for the year	471.9%	324.6%
Minimum for the year	224.3%	103.9%

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

26 Capital management

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

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, which are based on Basle Accord principles, banks have to maintain a ratio of capital to risk weighted assets (“statutory capital ratio”) above the prescribed minimum level. As at 31 December 2011, this minimum level was 12%. The Bank was in compliance with the statutory capital ratios during the nine-month period ended 31 December 2011 and 31 December 2010.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Central Bank of Armenia, as at 31 December 2011:

	31 December 2011 AMD’000	31 December 2010 AMD’000
Tier 1 capital		
Share capital	8,125,100	8,125,100
Share premium	257,149	257,149
General reserve	28,364	16,033
Retained earnings	379,309	106,189
Deductions	(73,012)	(36,485)
Total tier 1 capital	8,716,910	8,467,986
Tier 2 capital		
Revaluation reserve for available-for-sale financial assets	49,082	38,616
Total tier 2 capital	49,082	38,616
Total capital	8,765,992	8,506,602
Total risk weighted assets	33,093,295	25,636,985
Total capital expressed as a percentage of risk-weighted assets	26.49%	33.18%
Total tier 1 capital expressed as a percentage of risk-weighted assets	26.34%	33.03%

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

27 Commitments

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

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

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

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

	31 December 2011	31 December 2010
	AMD'000	AMD'000
Contracted amount		
Loan and credit line commitments	2,607,018	3,052,656
Credit card commitments	148,303	101,979
Guarantees and letters of credit	102,637	220,670
	2,857,958	3,375,305

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

Of these commitments, AMD 1,771,049 thousand (2010: AMD 2,271,500 thousand) are to four customers as at 31 December 2011 (2010: three customers). This exposure represents a significant credit risk exposure to the Bank.

28 Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank has up to AMD 500 million coverage of BBB insurance police. The police covers premises and equipment, business interruption, third party liability in respect of property arising from accidents on the Bank's property or related to the Bank's operations. The Bank also has up to AMD 90 million insurance coverage of cash desks against physical damage and theft.

(b) Litigation

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

(c) Taxation contingencies

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

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

29 Related party transactions

(a) Control relationships

The Bank’s Parent is “Byblos Bank S.A.L”, which owns 65% of the share capital. The Parent produces publicly available financial statements. The party with ultimate control over the Bank is Francois Bassil.

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

Total remuneration included in personnel expenses for the years ended 31 December 2011 and 31 December 2010 is as follows:

	December 31, 2011 AMD’000	December 31, 2010 AMD’000
Short-term employee benefits	<u>261,159</u>	<u>288,358</u>

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

The outstanding balances and average interest rates as at 31 December 2011 and 31 December 2010 for transactions with the members of the Board of Directors and the Management Committee are as follows:

	31 December 2011 AMD’000	Average interest rate, %	31 December 2010 AMD’000	Average interest rate, %
Statement of financial position				
Assets				
Loans to customers	182,135	8.6%	248,020	8.8%
Liabilities				
Current accounts and deposits from customers	355,130	7.9%	114,586	6.8%

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Committee for the year ended 31 December 2011 and December 31 2010 are as follows:

	December 31, 2011 AMD’000	December 31, 2010 AMD’000
Profit or loss		
Interest income	18,064	19,466
Interest expense	<u>(15,678)</u>	<u>(3,371)</u>

(b) Transactions with other related parties

Other related parties include the Parent company, its fellow subsidiaries and non-controlling shareholders. The outstanding balances and the related average interest rates as at 31 December 2011 and related profit or loss amounts of transactions for the year ended 31 December 2011 with other related parties are as follows:

	Parent company		Non-controlling shareholders		Other subsidiaries of the parent company		Total	
	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %
Statement of financial position								
ASSETS								
Cash and cash equivalents	301,866	0.2%	-	-	12,712	-	314,578	0.2%
LIABILITIES								
Deposits and balances from banks	3,950,741	8.7%	-	-	-	-	3,950,741	8.7%
Current accounts and deposits from customers	-	-	-	-	1,373,997	7.0%	1,373,997	7.0%
Other borrowed funds	-	-	3,873,658	6.9%	-	-	3,873,658	6.9%
Statement of comprehensive income								
Interest income	517		-		12		529	
Interest expense	(466,667)		(198,462)		(87,428)		(752,557)	
Fee expense	(6,950)		-		(50)		(7,000)	
Other operating expense	-		(5,798)		-		(5,798)	

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

	Parent company		Non-controlling shareholders		Other subsidiaries of the parent company		Total	
	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %
Statement of financial position								
ASSETS								
Cash and cash equivalents	61,456	0.2%	-	-	1,882	-	63,338	0.2%
LIABILITIES								
Deposits and balances from banks	6,654,561	7.3%	-	-	-	-	6,654,561	7.3%
Current accounts and deposits from customers	-	-	-	-	1,217,733	7.5%	1,217,733	7.5%
Other borrowed funds	-	-	1,820,834	8.0%	-	-	1,820,834	8.0%

	Parent company		Non-controlling shareholders		Other subsidiaries of the parent company		Total	
	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %	AMD'000	Average interest rate, %
Statement of comprehensive income								
Interest income	567		-		98		665	
Interest expense	(286,290)		(8,279)		(84,336)		(378,905)	
Fee expense	(10,246)		-		(172)		(10,418)	
Other operating expenses	-		(13,897)		-		(13,897)	

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

30 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The estimated fair values of financial assets and liabilities, except as described below, are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date. As disclosed in note 14 the fair value of unquoted equity securities available for sale with a carrying value of AMD 13,160 thousand could not be determined.

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

(b) Fair value hierarchy

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

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

The table below analyses financial instruments measured at fair value at 31 December 2011, by the level in the fair value hierarchy into which the fair value measurement is categorised:

AMD '000	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
- Debt instruments	-	2,035,163	-	2,035,163
	-	2,035,163	-	2,035,163

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

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