Ameriabank cjsc

Financial Statements

for the year ended 31 December 2011

Contents

KPMG

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Independent Auditors' Report

To the Management Board
Ameriabank cjsc

We have audited the accompanying financial statements of Ameriabank cjsc (the Bank), which comprise the statement of financial position as at 31 December 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Andrew Coxshall
Director

KPMG Armenia cjsc

Tigran Gasparyan
Head ofAudit Department

KPMG Armenia cjsc
26 April 2012

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«KPMG» ARMENIA
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	Notes	2011 AMD'000	2010 AMD'000
Interest income	4	16,268,848	10,839,458
Interest expense	4	(7,466,101)	(4,657,144)
Net interest income		**8,802,747**	**6,182,314**
Fee and commission income	5	1,324,729	924,697
Fee and commission expense	6	(451,408)	(274,671)
Net fee and commission income		**873,321**	**650,026**
Net loss on financial instruments at fair value through profit or loss		(238,871)	(48,262)
Net foreign exchange income	7	1,096,625	797,391
Net gain (loss) on available-for-sale financial assets		31,452	(15,391)
Other operating income (expenses)		63,242	(24,277)
Operating income		**10,628,516**	**7,541,801**
Result from acquisition	33	-	779,528
Impairment losses	8	(304,900)	(309,944)
Personnel expenses	9	(2,798,417)	(2,320,800)
Other general administrative expenses	10	(2,369,377)	(1,827,782)
Profit before income tax		**5,155,822**	**3,862,803**
Income tax expense	11	(1,100,477)	(682,832)
Profit for the year		**4,055,345**	**3,179,971**
Other comprehensive income, net of income tax			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		69,456	131,875
- Net change in fair value transferred to profit or loss		(25,162)	12,313
Other comprehensive income for the year, net of income tax		**44,294**	**144,188**
Total comprehensive income for the year		**4,099,639**	**3,324,159**

The financial statements as set out on pages 4 to 62 were approved by the Management Board on 26 April 2012 and were signed on its behalf by:

Artak Hanesyan
General Director
Chairman of Management Board

Gohar Khachatryan
Chief Accountant

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

	Notes	2011 AMD'000	2010 AMD'000
ASSETS			
Cash and cash equivalents	12	34,200,857	28,408,492
Financial instruments at fair value through profit or loss	13	52,406	132,659
Available-for-sale financial assets	14	13,225,987	12,821,824
Loans and advances to banks	15	8,635,846	14,000,523
Amounts receivable under reverse repurchase agreements	16	922,519	2,364,903
Loans to customers	17	134,053,462	88,579,633
Receivables from finance leases	18	1,815,786	1,659,006
Assets held for sale	17	2,234,280	-
Property, equipment and intangible assets	19	2,546,732	2,725,258
Deferred tax asset	11	53,924	74,134
Other assets	20	3,200,786	1,836,817
Total assets		**200,942,585**	**152,603,249**
LIABILITIES			
Financial instruments at fair value through profit or loss	13	390,251	22,402
Deposits and balances from banks	21	20,932,458	12,986,742
Current accounts and deposits from customers	22	91,332,821	67,588,084
Other borrowed funds	23	49,591,576	37,658,140
Current tax liability		312,861	220,224
Dividends payable	25	1,315,054	-
Other liabilities	24	2,295,621	2,140,299
Total liabilities		**166,170,642**	**120,615,891**
EQUITY			
Share capital	25	25,447,640	25,447,640
Share premium		29,691	29,691
Revaluation reserve for available-for-sale financial assets		62,278	17,984
Retained earnings		9,232,334	6,492,043
Total equity		**34,771,943**	**31,987,358**
Total liabilities and equity		**200,942,585**	**152,603,249**

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

	Notes	2011 AMD'000	2010 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		15,769,744	9,886,323
Interest payments		(6,550,548)	(4,189,448)
Fee and commission receipts		1,556,290	924,697
Fee and commission payments		(451,408)	(274,671)
Net receipts (payments) from available-for-sale financial assets		31,452	(15,391)
Net receipts from foreign exchange		959,377	868,183
Other expense payments		(112,160)	(24,278)
Salaries and other payments to employees		(2,360,179)	(1,904,428)
Other general administrative expenses payments		(1,863,154)	(1,449,288)
(Increase) decrease in operating assets			
Financial instruments at fair value through profit or loss		(28,587)	(665,130)
Available-for-sale financial assets		(303,926)	(3,278,475)
Loans and advances to banks		5,941,586	3,402,548
Amounts receivable under reverse repurchase agreements		1,441,432	(1,636,733)
Loans to customers		(43,051,317)	(26,667,798)
Receivables on finance lease		167,348	(1,043,216)
Other assets		(1,344,931)	(1,183,341)
Increase (decrease) in operating liabilities			
Financial instruments at fair value through profit or loss		265,345	592,418
Deposits and balances from banks		7,319,776	7,204,919
Amounts payable under repurchase agreements		-	(3,219,562)
Current accounts and deposits from customers		19,489,321	3,517,375
Other liabilities		(679,323)	1,171,749
Net cash used in operating activities before income tax paid		**(3,803,862)**	**(17,983,547)**
Income tax paid		(998,704)	(585,339)
Cash flows used in operations		**(4,802,566)**	**(18,568,886)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and intangible assets		(1,119,723)	(596,863)
Sales of property and equipment and intangible assets		781,397	351,406
Cash flows used in investing activities		**(338,326)**	**(245,457)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of other borrowed funds		13,173,417	29,208,604
Repayment of other borrowed funds		(3,217,567)	(1,730,512)
Cash flows from financing activities		**9,955,850**	**27,478,092**
Net increase in cash and cash equivalents		**4,814,958**	**8,663,749**
Effect of changes in exchange rates on cash and cash equivalents		977,407	(1,069,081)
Cash and cash equivalents as at the beginning of the year		28,408,492	20,813,824
Cash and cash equivalents as at the end of the year	12	**34,200,857**	**28,408,492**

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

AMD'000	Share capital	Share premium	Revaluation reserve for available-for-sale financial assets	Retained earnings	Total equity
Balance as at 1 January 2010	18,200,000	28,407	(126,204)	3,645,130	21,747,333
Total comprehensive income					
Profit for the year	-	-	-	3,179,971	3,179,971
Other comprehensive income					
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	131,875	-	131,875
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax	-	-	12,313	-	12,313
Total other comprehensive income	-	-	144,188	-	144,188
Total comprehensive income for the year	**-**	**-**	**144,188**	**3,179,971**	**3,324,159**
Transactions with owners, recorded directly in equity					
Shares issued	7,247,640	1,284	-	-	7,248,924
Effect of the acquisition	-	-	-	(333,058)	(333,058)
Total transactions with owners	**7,247,640**	**1,284**	**-**	**(333,058)**	**6,915,866**
Balance as at 31 December 2010	**25,447,640**	**29,691**	**17,984**	**6,492,043**	**31,987,358**
Balance as at 1 January 2011	25,447,640	29,691	17,984	6,492,043	31,987,358
Total comprehensive income					
Profit for the year	-	-	-	4,055,345	4,055,345
Other comprehensive income					
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	69,456	-	69,456
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of income tax	-	-	(25,162)	-	(25,162)
Total other comprehensive income	-	-	44,294	-	44,294
Total comprehensive income for the year	**-**	**-**	**44,294**	**4,055,345**	**4,099,639**
Transactions with owners, recorded directly in equity					
Dividends declared	-	-	-	(1,315,054)	(1,315,054)
Total transactions with owners	**-**	**-**	**-**	**(1,315,054)**	**(1,315,054)**
Balance as at 31 December 2011	**25,447,640**	**29,691**	**62,278**	**9,232,334**	**34,771,943**

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

1 Background

(a) Organisation and operations

Ameriabank cjsc (formerly Armimpexbank cjsc) (the Bank) was established on 8 September 1992. In 2007 the Bank was acquired by TDA Holdings Limited, which purchased a shareholding of 96.15%.

The principal activities are deposit taking and customer accounts maintenance, lending, issuing guarantees, 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 majority of the Bank's assets and liabilities are located in Armenia.

The Bank has eight branches from which it conducts business throughout the Republic of Armenia. The registered address of the head office is 9 Grigor Lusavorich Street, Yerevan 0015, Republic of Armenia.

The main shareholder of the Bank as at 31 December 2011 is former TDA Holdings Limited, which was renamed to Ameria Group (CY) during 2011 and owns 99.9% of the Bank's shares.

The Bank is ultimately controlled by a single individual, Ruben Vardanyan, who has the power to direct the transactions of the Bank at his own discretion and for his own benefit.

Related party transactions are detailed in note 31.

(b) Armenian business environment

The Bank's operations are primarily located in Armenia. Consequently, the Bank is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Armenia. The financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(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 financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value, land and buildings are stated at revalued amounts.

(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 presentation currency for the purposes of these financial statements.

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

(e) Changes in accounting policies and presentation

With effect from 1 January 2011, the Bank changed its accounting policies by retrospectively applying limited amendments to IFRS 7 *Financial Instruments: Disclosures* issued as part of *Improvements to IFRSs 2010.* These amendments mainly relate to disclosures on collateral and other credit enhancements, as well as to renegotiated assets that would otherwise be past due or impaired.

3 Significant accounting policies

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

(a) Business combinations

From 1 January 2010 the Bank has applied IFRS 3 *Business Combinations* (2008) in accounting for business combinations.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Bank.

The Bank measures goodwill as the fair value of the consideration transferred and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Bank incurs in connection with a business combination are expensed as incurred.

(i) Acquisitions of entities under common control

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder of the Bank are accounted for as a business combintion except in cases when control by the controling shareholder over the acquired entity is transitory.

(b) Foreign currency

Transactions in foreign currencies are translated to the respective functional currency 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. 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. 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.

(c) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBA and other banks. The mandatory 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.

(d) 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 Bank has an intention and ability to hold it for the foreseeble 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 recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the trade 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 amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

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

(iv) 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 amortized based on the effective interest rate of the instrument.

(v) 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 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.

(vi) Gains and losses on subsequent measurement

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

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

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

(vii) 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.

(viii) 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 recognized 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.

(ix) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(x) 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 recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(e) Precious metals

Precious metals are stated at the lower of net realizable value and costs. The net realizable value of precious metals is estimated based on quoted market prices. The cost of precious metals is assigned using the first-in, first-out cost formula. Precious metals are recorded within other assets.

(f) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for land and buildings, which are stated at revalued amounts as described below.

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) Leased assets

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Revaluation

Land and buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the land or buildings being revalued. A revaluation increase on a land and building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a land and building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

Management uses independent valuation firms to estimate the fair value of land and buildings. The valuation firms typically use the income approach or the comparable sales approach or a combination of the two, depending on availability and reliability of information.

(iv) 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	20 years
-	leasehold improvements	5-10 years
-	computers and communication equipment	1 to 7 years
-	fixtures and fittings	3 to 5 years
-	motor vehicles	5 years

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

(g) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation 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.

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

(h) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Bank's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

(i) 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 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 recognised 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 recognised.

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 can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

(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 goodwill is estimated at each reporting date. 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 recognised 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 amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

(j) Provisions

A provision is recognised 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.

(k) 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, and provides other forms of credit insurance.

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 recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised 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.

(l) Share capital

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

(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 Armenian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared and such decision is effective according to legislation of the Republic of Armenia.

(m) Taxation

Income tax comprises current and deferred tax. Income tax is recognised 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.

(n) 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 recognised in gains (losses) from financial instruments at fair value through profit or loss.

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

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

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

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(o) 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 2015. 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 the 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.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The Bank has not yet analysed the likely impact of the new standard on its financial position or performance.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

- Amendment to IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011. The Bank does not believe the impact of the amendment on its financial position or performance will be significant.

- 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 does not believe the impact of the amendment on its financial position or performance will be significant.

4 Net interest income

	2011 AMD'000	2010 AMD'000
Interest income		
Loans to customers	13,811,035	9,248,966
Available-for-sale financial assets	1,422,894	1,024,988
Loans and advances to banks	421,639	269,029
Amounts receivable under reverse repurchase agreements	254,441	115,132
Receivables from finance leases	234,151	161,648
Other	124,688	19,695
	16,268,848	**10,839,458**
Interest expense		
Current accounts and deposits from customers	4,002,038	2,949,913
Other borrowed funds	2,465,357	1,309,990
Deposits and balances from banks	799,606	312,246
Amounts payable under repurchase agreements	211	5,016
Other	198,889	79,979
	7,466,101	**4,657,144**
Net interest income	**8,802,747**	**6,182,314**

Included within various line items under interest income for the year ended 31 December 2011 is a total of AMD 22,152 thousand (2010: AMD 21,269 thousand) accrued on impaired financial assets.

5 Fee and commission income

	2011 AMD'000	2010 AMD'000
Credit card maintenance	586,600	265,757
Money transfers	265,871	175,141
Guarantee and letter of credit issuance	231,617	345,092
Cash withdrawal and account service	175,387	103,668
Settlement operations	13,595	9,941
Other	51,659	25,098
	1,324,729	**924,697**

6 Fee and commission expense

	2011 AMD'000	2010 AMD'000
Guarantee and letter of credit issuance	252,920	138,930
Credit card maintenance	124,005	77,709
Money transfers	57,992	31,330
Other	16,491	26,702
	451,408	**274,671**

7 Net foreign exchange income

	2011 AMD'000	**2010 AMD'000**
Net gain on spot transactions	959,377	868,183
Net gain (loss) from revaluation of financial assets and liabilities	137,248	(70,792)
	1,096,625	**797,391**

8 Impairment losses

	2011 AMD'000	**2010 AMD'000**
Loans to customers	**304,900**	**309,944**

9 Personnel expenses

	2011 AMD'000	**2010 AMD'000**
Employee compensation	2,630,221	2,190,606
Payroll related taxes	168,196	130,194
	2,798,417	**2,320,800**

10 Other general administrative expenses

	2011 AMD'000	**2010 AMD'000**
Advertising and marketing	546,664	360,410
Operating lease expense	535,926	376,926
Depreciation and amortization	516,852	378,494
Repairs and maintenance	132,877	102,635
Communications and information services	118,084	117,322
Travel expenses	79,689	54,617
Security	45,815	35,402
Charity and sponsorship	42,430	106,510
Professional services	41,645	49,158
Electricity and utilities	37,949	22,836
Representation expenses	31,625	32,968
Insurance	31,018	30,108
Office supplies	27,063	26,775
Taxes other than on payroll and income	9,156	20,185
Other	172,584	113,436
	2,369,377	**1,827,782**

11 Income tax expense

	2011 AMD'000	2010 AMD'000
Current tax expense		
Current year	1,091,341	785,898
Deferred tax expense		
Deferred taxation movement due to origination and reversal of temporary differences	9,136	(103,066)
Total income tax expense	**1,100,477**	**682,832**

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

Reconciliation of effective tax rate:

	2011 AMD'000	%	2010 AMD'000	%
Profit before tax	5,155,822		3,862,803	
Income tax at the applicable tax rate	1,031,443	20.0	772,561	20.0
Non-deductible costs (non-taxable income)	69,034	1.3	(89,729)	(2.3)
	1,100,477	**21.3**	**682,832**	**17.7**

(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 assets as at 31 December 2011 and 2010. These deferred tax assets are recognised in these financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Bank's ability to claim the deductions in future periods.

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

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

2011 AMD'000	Balance 1 January 2011	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2011
Available-for-sale financial assets	(4,495)	-	(11,074)	(15,569)
Loans and advances to banks	(42,602)	(5,244)	-	(47,846)
Loans to customers	-	(102,624)	-	(102,624)
Property and equipment	3,620	10,695	-	14,315
Other assets	13,207	-	-	13,207
Other liabilities	104,404	88,037	-	192,441
	74,134	**(9,136)**	**(11,074)**	**53,924**

2010 **AMD'000**	**Balance 1 January 2010**	**Acquired**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Balance 31 December 2010**
Financial instruments at fair value through profit or loss	-	(8,541)	8,541	-	-
Available-for-sale financial assets	31,552	-	-	(36,047)	(4,495)
Loans and advances to banks	(49,401)	(508)	7,307	-	(42,602)
Loans to customers	-	(14,643)	14,643	-	-
Property and equipment	-	-	3,620	-	3,620
Other assets	15,786	(521)	(2,058)	-	13,207
Other liabilities	18,536	14,855	71,013	-	104,404
	16,473	**(9,358)**	**103,066**	**(36,047)**	**74,134**

(b) Income tax recognised in other comprehensive income

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

	2011			**2010**		
AMD'000	**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	86,820	(17,364)	69,456	164,844	(32,969)	131,875
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(31,452)	6,290	(25,162)	15,391	(3,078)	12,313
Other comprehensive income	**55,368**	**(11,074)**	**44,294**	**180,235**	**(36,047)**	**144,188**

12 Cash and cash equivalents

	2011 AMD'000	**2010 AMD'000**
Cash on hand	7,446,811	4,860,674
Nostro accounts with the CBA	16,003,708	17,557,734
Nostro accounts with other banks		
- rated AA- to AA+	470,384	2,300,102
- rated A- to A+	8,459,661	2,779,849
- rated from BB- to BBB+	1,403,186	869,171
- not rated	417,107	40,962
Total nostro accounts with other banks	**10,750,338**	**5,990,084**
Total cash and cash equivalents	**34,200,857**	**28,408,492**

The nostro accounts represent balances with the CBA related to settlement activity and are available for withdrawal at the year-end.

None of cash and cash equivalents are impaired or past due. The above ratings are per Fitch rating agency ratings.

As at 31 December 2011 the Bank has one bank (2010: no banks) whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2011 is AMD 4,907,239 thousand (2010: nil).

13 Financial instruments at fair value through profit or loss

	2011 AMD'000	2010 AMD'000
ASSETS		
Equity investments		
Corporate shares	30,100	-
Derivative financial instruments		
Foreign currency contracts	8,396	115,220
Other contracts	13,910	17,439
	52,406	**132,659**
LIABILITIES		
Derivative financial instruments		
Foreign currency contracts	343,066	22,402
Interest rate swaps	45,933	-
Other contracts	1,252	-
	390,251	**22,402**

Financial instruments at fair value through profit or loss comprise financial instruments held for trading.

None of financial assets at fair value through profit or loss are past due or impaired.

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2011 AMD'000	2010 AMD'000	2011	2010
Buy AMD sell USD				
Between 3 and 12 months	1,930,700	-	386.14	-
More than 1 year	-	1,930,700	-	386.33
Buy AMD sell EUR				
Less than 3 months	-	955,260	-	477.63
Buy EUR sell USD				
Less than 3 months	2,493,600	3,368,120	1.38	1.33
Between 3 and 12 months	2,493,600	1,443,480	1.38	1.32
Buy Euros sell CHF				
Less than 3 months	-	73,767	-	1.44
	6,917,900	**7,771,327**		

Interest rate swaps

The table below summarizes the contractual amounts of interest rate swap contracts outstanding as at 31 December 2011 and 2010 with details of the fair values and notional amounts. Foreign currency amounts presented below are translated at rates effective at the reporting date. The resultant unrealized gains and losses on these unmatured contracts are recognized in the profit and loss and in derivative financial instruments, as appropriate.

	Fair value		Notional amount	
	2011	**2010**	**2011**	**2010**
	AMD'000	**AMD'000**	**AMD'000**	**AMD'000**
Pay fixed in USD, receive floating in USD	45,933	-	11,573,100	-

As at 31 December 2011 the Bank has two interest rate swap contracts with USD 15,000,000 notional amount each. Under these contracts the Bank pays 2.1350% and 1.3125% fixed rates, each and receives 6-month USD-LIBOR-BBA (British Bankers' Association) floating rates for each contract. The contractual maturity of outstanding interest rate swap contracts is 2018.

14 Available-for-sale financial assets

	2011 AMD'000	2010 AMD'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government bonds		
Government securities of the Republic of Armenia	13,122,874	12,731,503
Equity investments		
- Unquoted equity securities at cost	103,113	90,321
	13,225,987	**12,821,824**

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

Name	Country of incorporation	Main activity	% Controlled 2011	% Controlled 2010	2011 AMD'000	2010 AMD'000
ArCa	Republic of Armenia	Payment system	3.89%	3.72%	34,826	22,562
Artsakh bank cjsc	Republic of Armenia	Banking	1.10%	1.20%	67,508	66,980
SWIFT	Belgium	Money transfer	0.00%	0.00%	779	779
					103,113	**90,321**

Investments 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 Loans and advances to banks

	2011 AMD'000	**2010 AMD'000**
Due from the CBA		
Term deposit with the CBA	-	1,500,349
Credit card settlement deposit with the CBA	366,162	415,034
	366,162	**1,915,383**
Loans and deposits with other banks		
Foreign banks (not rated)	6,641,105	6,270,582
Largest 5 Armenian banks	-	3,406,777
Small and medium size Armenian banks	385,844	1,918,726
OECD banks	1,242,735	489,055
Total loans and deposits with other banks	**8,269,684**	**12,085,140**
Total loans and advances to banks	**8,635,846**	**14,000,523**

Included in loans and deposits with OECD banks and other foreign banks is AMD 145,550 thousand (2010: AMD 194,013 thousand) which represents deposits pledged for letters of credit, guarantees and credit cards.

Concentration of loans and advances to banks

As at 31 December 2011 the Bank has one bank (2010: two banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2011 is AMD 6,341,874 thousand (2010: AMD 9,589,614 thousand).

16 Amounts receivable under reverse repurchase agreements

	2011 AMD'000	**2010 AMD'000**
Amounts receivable from a medium size Armenian bank	-	1,077,876
Amounts receivable from medium and small Armenian financial institutions	922,519	1,287,027
	922,519	**2,364,903**

Collateral

As of 31 December 2011 amounts receivable under reverse repurchase agreements were collateralised by securities with the following fair values:

	2011 AMD'000	**2010 AMD'000**
Government securities of the Republic of Armenia	**921,000**	**2,362,432**

17 Loans to customers

	2011 AMD'000	2010 AMD'000
Loans to corporate customers		
Loans to large corporates	93,582,596	67,248,244
Loans to small and medium size companies	19,256,826	7,996,702
Total loans to corporate customers	**112,839,422**	**75,244,946**
Loans to retail customers		
Mortgage loans	7,406,033	5,262,695
Credit cards	5,807,609	4,139,396
Business loans	5,733,852	1,100,417
Auto loans	2,369,009	2,458,535
Consumer loans	660,470	1,130,785
Other	335,597	200,021
Total loans to retail customers	**22,312,570**	**14,291,849**
Gross loans to customers	**135,151,992**	**89,536,795**
Impairment allowance	(1,098,530)	(957,162)
Net loans to customers	**134,053,462**	**88,579,633**

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	792,150	165,012	957,162
Net charge	144,426	160,474	304,900
Recovery of loans previously written off	26,450	38,558	65,008
Write-offs	(125,493)	(103,047)	(228,540)
Balance at the end of the year	**837,533**	**260,997**	**1,098,530**

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	444,542	97,753	542,295
Effect of the acquisition	126,446	17,052	143,498
Net charge	244,755	65,189	309,944
Write-offs	(23,593)	(14,982)	(38,575)
Balance at the end of the year	**792,150**	**165,012**	**957,162**

(a) Credit quality of loans to customers

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

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Loans corporate customers				
Loans to large corporate				
Not impaired loans	93,255,228	460,410	92,794,818	0.5%
Impaired loans:				
- overdue more than 90 days and less than 180 days	327,368	196,421	130,947	60.0%
Total impaired loans	**327,368**	**196,421**	**130,947**	**60.0%**
Total loans to large corporate	**93,582,596**	**656,831**	**92,925,765**	**0.7%**
Loans to small and medium size companies				
Not impaired loans	19,136,145	142,339	18,993,806	0.7%
Impaired loans:				
- not overdue	1,812	378	1,434	20.9%
- overdue less than 90 days	66,976	6,849	60,127	10.2%
- overdue more than 90 days and less than 180 days	51,893	31,136	20,757	60.0%
Total impaired loans	**120,681**	**38,363**	**82,318**	**31.8%**
Total loans to small and medium size companies	**19,256,826**	**180,702**	**19,076,124**	**0.9%**
Total loans to corporate customers	**112,839,422**	**837,533**	**112,001,889**	**0.7%**
Loans to retail customers				
Mortgage loans				
Loans without individual signs of impairment	7,365,735	74,071	7,291,664	1.0%
- overdue less than 30 days	18,224	1,822	16,402	10.0%
- 91-180 days overdue	22,074	5,297	16,777	24.0%
Total mortgage loans	**7,406,033**	**81,190**	**7,324,843**	**1.1%**
Credit cards				
- not overdue	5,776,902	65,125	5,711,777	1.1%
- overdue less than 30 days	8,453	1,014	7,439	12.0%
- 30-90 days overdue	13,813	5,335	8,478	38.6%
- 91-180 days overdue	8,441	2,673	5,768	31.7%
Total credit cards	**5,807,609**	**74,147**	**5,733,462**	**1.3%**
Business loans				
- not overdue	5,719,896	56,889	5,663,007	1.0%
- overdue less than 30 days	308	31	277	10.1%
- overdue more than 180 days	13,648	6,824	6,824	50.0%
Total business loans	**5,733,852**	**63,744**	**5,670,108**	**1.1%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Auto loans				
- not overdue	2,352,026	27,502	2,324,524	1.2%
- overdue less than 30 days	7,159	716	6,443	10.0%
- 90-180 days overdue	9,824	3,644	6,180	37.1%
Total auto loans	**2,369,009**	**31,862**	**2,337,147**	**1.3%**
Consumer loans				
- not overdue	660,470	6,614	653,856	1.0%
Total consumer loans	**660,470**	**6,614**	**653,856**	**1.0%**
Other loans to retail customers				
- not overdue	335,597	3,440	332,157	1.0%
Total other loans to retail customers	**335,597**	**3,440**	**332,157**	**1.0%**
Total loans to retail customers	**22,312,570**	**260,997**	**22,051,573**	**1.2%**
Total loans to customers	**135,151,992**	**1,098,530**	**134,053,462**	**0.8%**

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

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Loans corporate customers				
Loans to large corporates				
Loans without individual signs of impairment	**67,248,244**	**665,499**	**66,582,745**	**1.0%**
Loans to small and medium size companies				
Not impaired loans	7,834,082	77,764	7,756,318	1.0%
Impaired loans:				
- not overdue	28,338	3,142	25,196	11.1%
- overdue less than 90 days	80,797	19,683	61,114	24.4%
- overdue more than 90 days and less than 1 year	53,485	26,062	27,423	48.7%
Total impaired loans	**162,620**	**48,887**	**113,733**	**30.1%**
Total loans to small and medium size companies	**7,996,702**	**126,651**	**7,870,051**	**1.6%**
Total loans to corporate customers	**75,244,946**	**792,150**	**74,452,796**	**1.1%**
Loans to retail customers				
Mortgage loans				
- not overdue	5,259,425	54,941	5,204,484	1.0%
- overdue 30-89 days	3,270	325	2,945	9.9%
Total mortgage loans	**5,262,695**	**55,266**	**5,207,429**	**1.1%**
Credit cards				
- not overdue	4,115,742	41,157	4,074,585	1.0%
- overdue less than 30 days	4,757	464	4,293	9.8%
- overdue 30-89 days	5,223	783	4,440	15.0%
- overdue 90-179 days	6,052	2,176	3,876	36.0%
- overdue 180-360 days	7,622	4,323	3,299	56.7%
Total credit cards	**4,139,396**	**48,903**	**4,090,493**	**1.2%**

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Business loans				
- not overdue	1,100,417	11,004	1,089,413	1.0%
Total business loans	**1,100,417**	**11,004**	**1,089,413**	**1.0%**
Auto loans				
- not overdue	2,436,260	24,196	2,412,064	1.0%
- overdue less than 30 days	5,085	507	4,578	10.0%
- overdue 30-89 days	13,409	1,825	11,584	13.6%
- overdue 180-360 days	3,781	1,717	2,064	45.4%
Total auto loans	**2,458,535**	**28,245**	**2,430,290**	**1.1%**
Consumer loans				
- not overdue	1,086,255	11,289	1,074,966	1.0%
- overdue less than 30 days	43,348	4,259	39,089	9.8%
- overdue 30-89 days	1,182	111	1,071	9.4%
Total consumer loans	**1,130,785**	**15,659**	**1,115,126**	**1.2%**
Other loans to retail customers				
- not overdue	199,413	5,875	193,538	2.9%
- overdue 30-89 days	608	60	548	9.9%
Total other loans to retail customers	**200,021**	**5,935**	**194,086**	**3.0%**
Total loans to retail customers	**14,291,849**	**165,012**	**14,126,837**	**1.2%**
Total loans to customers	**89,536,795**	**957,162**	**88,579,633**	**1.1%**

As at 31 December 2011 included in the loan portfolio are renegotiated loans to corporate and retail customers that would otherwise be past due or impaired of AMD 444,161 thousand and AMD 6,389 thousand, respectively (2010: AMD 115,195 thousand and AMD 49,620 thousand, respectively). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the renegotiated terms.

(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 or 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 makes the following key assumptions:

- for non-impaired loans the Bank creates a collective provision of 0.5% - 0.7% considering the economic environment and market loss experience
- a discount of between 20% and 30% to the originally appraised value if the property pledged is sold
- a delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2011 would be up to AMD 1,120,019 thousand lower/higher (2010: AMD 744,528 thousand lower/higher).

(ii) Loans to retail customers

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

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 24 months
- historic annual loss rate of 1.0% applied in respect of mortgage and business loans, loss rate of 1.1% applied on credit card loans and loss rate of 1.2% applied on auto loans.

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 three percent, the impairment allowance on loans to retail customers as at 31 December 2011 would be up to AMD 661,547 thousand lower/higher (2010: AMD 423,805 thousand).

(c) Analysis of collateral

(i) Loans to corporate customers

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

	2011 AMD'000	**2010 AMD'000**
Real estate and movable property	81,563,973	61,292,504
Secured by guarantee	10,194,272	1,210,621
Secured by State guarantee	7,143,624	4,460,874
Corporate securities	5,696,064	2,774,791
Finished goods	5,556,567	4,279,833
Cash	821,826	231,957
Other collateral	1,025,563	202,216
	112,001,889	**74,452,796**

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 a fair value of AMD 213,265 thousand (2010: AMD 113,733 thousand), excluding the effect of overcollateralisation.

Loans to corporate customers that are not impaired

As at 31 December 2011 the cash balances serving as collateral for loans to corporate customers, are AMD 821,826 thousand (2010: AMD 231,957 thousand).

As at 31 December 2011, loans to two corporate customers with a carrying amount of AMD 3,108,959 thousand (2010: nil), which are classified neither past due nor impaired, are collateralized with real estate and moveable properties; however, these loans would have been classified as impaired, if the collateral had not been pledged under these loans. Management estimates that as at 31 December 2011 the fair values of the collateral are significantly higher than the net carrying amounts of these loans.

As at 31 December 2011 loans to a corporate customer with a carrying amount of AMD 527,867 thousand was overdue 180-360 days. These loans were collateralized with real estate and would have been classified as impaired if the collateral had not been pledged under these loans. Management estimates that as at 31 December 2011 the fair values of the collateral are significantly higher than the net carrying amounts of these loans. Subsequent to 31 December 2011 the loans were fully repaid.

As at 31 December 2011 loans to corportate customers with a carrying amount of AMD 10,194,272 thousand (2010: AMD 1,210,621 thousand) were collaterlised by guarantees provided by private companies and/or individuals. Subsequent to 31 December 2011, out of the AMD 10,194,272 thousand, loans to corportate customers with a net carrying amount of AMD 5,212,906 thousand were collateralized with real estate in addition to the guarantees. Management estimates that the fair values of this collateral are at least equal to the carrying amounts of the loans.

For remaining loans to corporate customers with a carrying amount of AMD 97,135,700 thousand (2010: AMD 72,896,485 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.

Collateral obtained

During the year ended 31 December 2011 the Bank obtained certain assets by taking possession of collateral for loans to corporate customers. As at 31 December 2011, the carrying amount of such assets was AMD 2,234,280 thousand (2010: AMD 60,283 thousand). The Bank’s policy is to sell these assets as soon as it is practicable. As at 31 December 2011 the collateral obtained with a carrying amount of AMD 2,234,280 thousand is classified as assets held for sale (2010: nil).

(ii) *Loans to retail customers*

Mortgage loans are secured by the underlying housing real estate. Credit card overdrafts are secured by salary and cash deposits. Business loans are secured by real estate and corporate shares. Auto loans are secured by the underlying cars. Approximately 68% of consumer loans are secured by real estate, 18% are secured by salary and cash and 14% are secured by guarantees. Other retail loans are mainly secured by gold.

The fair values of the collateral were estimated at inception of the loans and were not adjusted for subsequent changes to the reporting date, excluding the effect of overcollaterization.

Management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

Collateral obtained

During the year ended 31 December 2011 the Bank did not obtain any assets by taking possession of collateral for loans to retail customers (2010: AMD 16,864 thousand).

(d) Industry and geographical analysis of the loan portfolio

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

	2011 AMD'000	**2010 AMD'000**
Trade	38,833,098	18,007,768
Power generation	10,753,046	11,063,434
Food and beverage	10,518,559	10,688,940
Manufacturing	10,313,963	8,682,871
Transportation	9,312,399	10,423,665
Mining/metallurgy	8,908,448	2,329,517
Construction	8,114,344	4,420,723
Gemstone manufacturing	2,280,469	2,564,402
Real estate	2,263,604	1,737,091
Agriculture, forestry and timber	2,048,211	1,418,283
Communication services	1,843,843	25,296
Municipal authorities	1,359,263	363,938
Finance	185,490	234,075
Other	6,104,685	3,284,943
Loans to retail customers	22,312,570	14,291,849
	135,151,992	**89,536,795**
Impairment allowance	(1,098,530)	(957,162)
	134,053,462	**88,579,633**

(e) Significant credit exposures

As at 31 December 2011 the Bank has nine borrowers or groups of connected borrowers (2010: five), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2011 is AMD 41,177,063 thousand (2010: AMD 25,026,519 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in note 26 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

18 Receivables from finance leases

	2011 AMD'000	2010 AMD'000
Gross investment in finance leases receivables:		
Less than one year	656,804	516,650
Between one and five years	1,518,886	1,528,694
	2,175,690	**2,045,344**
Unearned finance income	(359,904)	(386,338)
Net investment in finance leases	**1,815,786**	**1,659,006**
The net investment in finance leases comprises:		
Less than one year	619,761	478,859
Between one and five years	1,196,025	1,180,147
	1,815,786	**1,659,006**

As at 31 December 2011 and 31 December 2010 there are no contractually overdue finance lease receivables.

(a) Concentration of receivables from finance leases

As at 31 December 2011 the Bank has no customer whose balances exceed 10% of equity (2010: nil).

(b) Finance lease maturities

The maturity of the Bank's finance lease portfolio is presented in note 26 (d), which shows the remaining period from the reporting date to the contractual maturity of the receivables from finance leases.

(c) Geographical analysis of the finance lease portfolio

The majority of finance leases are with customers located within the Republic of Armenia and operating in the mining sector. The leased assets represent mainly mining equipment.

19 Property, equipment and intangible assets

AMD'000	Land and buildings	Leasehold improvement	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost/Revalued amount							
Balance at 1 January 2011	736,189	761,844	1,205,695	213,985	161,824	374,928	3,454,465
Additions	-	313,397	517,370	112,562	33,928	142,466	1,119,723
Disposals/write-offs	(736,189)	(32,787)	(47,869)	(22,257)	(24,426)	(48,993)	(912,521)
Balance at 31 December 2011	**-**	**1,042,454**	**1,675,196**	**304,290**	**171,326**	**468,401**	**3,661,667**
Depreciation							
Balance at 1 January 2011	12,978	57,420	466,841	30,164	82,690	79,114	729,207
Depreciation for the year	7,887	89,418	263,773	57,880	29,054	68,840	516,852
Disposals/write-offs	(20,865)	(5,895)	(43,245)	(19,027)	(3,765)	(38,327)	(131,124)
Balance at 31 December 2011	**-**	**140,943**	**687,369**	**69,017**	**107,979**	**109,627**	**1,114,935**
Carrying amount							
At 31 December 2011	**-**	**901,511**	**987,827**	**235,273**	**63,347**	**358,774**	**2,546,732**

AMD'000	Land and buildings	Leasehold improvement	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost/Revalued amount							
Balance at 1 January 2010	-	476,684	847,661	269,999	114,748	285,201	1,994,293
Additions through business combinations	736,189	28,957	12,834	123,320	21,673	47,520	970,493
Additions	-	256,203	178,744	92,223	25,403	45,806	598,379
Disposals/write-offs	-	-	(42,558)	(62,543)	-	(3,599)	(108,700)
Transfers	-	-	209,014	(209,014)	-	-	-
Balance at 31 December 2010	**736,189**	**761,844**	**1,205,695**	**213,985**	**161,824**	**374,928**	**3,454,465**
Depreciation							
Balance at 1 January 2010	-	8,355	218,033	135,540	55,808	40,162	457,898
Depreciation for the year	12,978	49,065	186,186	61,463	26,882	41,920	378,494
Disposals/write-offs	-	-	(42,372)	(61,845)	-	(2,968)	(107,185)
Transfers	-	-	104,994	(104,994)	-	-	-
Balance at 31 December 2010	**12,978**	**57,420**	**466,841**	**30,164**	**82,690**	**79,114**	**729,207**
Carrying amount							
At 31 December 2010	**723,211**	**704,424**	**738,854**	**183,821**	**79,134**	**295,814**	**2,725,258**

There are no capitalised borrowing costs related to the acquisition or construction of property or equipment during 2011 (2010: nil).

20 Other assets

	2011 AMD'000	2010 AMD'000
Brokerage accounts	1,127,795	185,548
Receivables from factoring	569,743	376,450
Receivables from banking services	278,890	155,827
Frozen accounts with clearing houses	138,677	131,453
Total other financial assets	**2,115,105**	**849,278**
Prepayments to suppliers	497,530	348,146
Standard bullions of precious metals	455,854	379,612
Repossessed assets	112,167	143,183
Small value assets	62,970	27,209
Prepaid interest on deposits	501	143,875
Other	22,695	11,550
Impairment allowance	(66,036)	(66,036)
Total other non-financial assets	**1,085,681**	**987,539**
Total other assets	**3,200,786**	**1,836,817**

Analysis of movements in the impairment allowance

Movements in the impairment allowance for other non-financial assets for the years ended 31 December 2011 and 2010 are as follows:

	2011 AMD'000	2010 AMD'000
Balance at the beginning of the year	66,036	78,935
Write-offs	-	(12,899)
Balance at the end of the year	**66,036**	**66,036**

21 Deposits and balances from banks

	2011 AMD'000	2010 AMD'000
Loans and term deposits from commercial banks	12,196,505	3,962,677
Loans from CBA	7,325,500	7,325,500
Vostro accounts	1,410,453	1,698,565
	20,932,458	**12,986,742**

As at 31 December 2011 the Bank has three banks (2010: two banks) whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2011 is AMD 18,421,235 thousand (2010: AMD 10,742,594 thousand).

22 Current accounts and deposits from customers

	2011 AMD'000	2010 AMD'000
Current accounts and demand deposits		
- Retail	9,309,054	5,137,732
- Corporate	19,467,056	19,314,288
Term deposits		
- Retail	34,127,461	26,355,629
- Corporate	28,429,250	16,780,435
	91,332,821	**67,588,084**

As at 31 December 2011, the Bank maintained customer deposit balances of AMD 4,602,254 thousand (2010: AMD 2,402,971 thousand) that serve as collateral for loans and unrecognized credit instruments granted by the Bank.

As at 31 December 2011, the Bank has two customers (2010: one customer) whose balances exceed 10% of equity. These balances as at 31 December 2011 are AMD 13,075,240 thousand (2010: AMD 4,942,959 thousand).

23 Other borrowed funds

	2011 AMD'000	2010 AMD'000
Borrowings from international financial institutions	38,226,380	26,033,775
Borrowings from the Government of Armenia	11,365,196	11,624,365
	49,591,576	**37,658,140**

(a) Concentration of borrowings from international financial institutions

As at 31 December 2011, the Bank has five financial institutions (2010: four) whose balances exceed 10% of equity. These balances as at 31 December 2011 are AMD 37,415,608 thousand (2010: AMD 25,745,301 thousand).

(b) Borrowings from the Government of Armenia

The loans from the Government of Armenia include amounts lent under an agreement with the CBA (acting as the agent of the Government of Armenia) and the Bank. According to the agreement the CBA provides loans to the Bank, which in turn grants loans to qualifying borrowers. The monitoring and administration of the loans is performed by the "Directing Office of the "German Armenian Foundation" program".

The loans are in AMD, bear interest rates of 7-7.75%, are granted for period of up to five years and are to be repaid at maturity.

24 Other liabilities

	2011 AMD'000	2010 AMD'000
Payables to staff	879,387	441,147
Liabilities on letters of credit	829,983	1,073,371
Accrued expenses	221,386	177,191
Other financial liabilities	162	195,050
Total other financial liabilities	**1,930,918**	**1,886,759**
Deferred income	284,574	191,057
Other taxes payable	80,129	62,483
Total other non-financial liabilities	**364,703**	**253,540**
Total other liabilities	**2,295,621**	**2,140,299**

25 Share capital

(a) Issued capital and share premium

The authorised, issued and outstanding share capital comprises 636,191 ordinary shares (2010: 636,191). All shares have a nominal value of AMD 40 thousand.

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 31 December 2011 reserves available for distribution amount to AMD 5,801,605 thousand (2010: AMD 3,870,478 thousand).

During 2011 dividends declared and payable by the Bank as at the reporting date amounted to AMD 1,315,054 thousand (2010: nil).

26 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, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse 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 Management Board 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 Risk Management Center is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Management Center is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank has established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Center monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(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 is vested in the ALCO, which is chaired by the General Director of the Bank. Market risk limits are approved by the Management Board based on recommendations of the Risk Management Center.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions. These are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

(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						
Available-for-sale financial assets	485,662	1,037,639	695,702	10,357,043	546,828	13,122,874
Loans and advances to banks	385,844	6,341,874	-	-	-	6,727,718
Amounts receivable under reverse repurchase agreements	922,519	-	-	-	-	922,519
Loans to customers	6,838,968	19,962,894	16,447,688	81,153,485	9,650,427	134,053,462
Receivables from finance leases	163,113	153,488	303,160	1,196,025	-	1,815,786
	8,796,106	**27,495,895**	**17,446,550**	**92,706,553**	**10,197,255**	**156,642,359**
LIABILITIES						
Deposits and balances from banks	(6,486,765)	(5,474,432)	(260,808)	(7,300,000)	-	(19,522,005)
Current accounts and deposits from customers	(20,656,773)	(12,464,653)	(28,133,268)	(1,239,204)	(62,813)	(62,556,711)
Other borrowed funds	(18,823,560)	(23,145,025)	(70,065)	(7,552,926)	-	(49,591,576)
	(45,967,098)	**(41,084,110)**	**(28,464,141)**	**(16,092,130)**	**(62,813)**	**(131,670,292)**
Effect of derivatives	11,573,100	-	-	(10,082,625)	(1,490,475)	-
Net position	**(25,597,892)**	**(13,588,215)**	**(11,017,591)**	**66,531,798**	**8,643,967**	**24,972,067**

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2010						
ASSETS						
Available-for-sale financial assets	1,155,299	1,315,373	929,617	9,093,734	237,480	12,731,503
Loans and advances to banks	7,208,639	-	-	6,182,837	-	13,391,476
Amounts receivable under reverse repurchase agreements	2,364,903	-	-	-	-	2,364,903
Loans to customers	4,656,217	4,052,119	16,216,738	56,596,422	7,058,137	88,579,633
Receivables from finance leases	117,738	120,252	240,694	1,180,322	-	1,659,006
	15,502,796	**5,487,744**	**17,387,049**	**73,053,315**	**7,295,617**	**118,726,521**
LIABILITIES						
Deposits and balances from banks	(3,442,595)	-	(545,582)	(7,300,000)	-	(11,288,177)
Current accounts and deposits from customers	(17,706,001)	(10,188,367)	(14,360,967)	(857,897)	(22,832)	(43,136,064)
Other borrowed funds	(16,648,978)	(9,320,988)	(3,893,520)	(7,757,586)	(37,068)	(37,658,140)
	(37,797,574)	**(19,509,355)**	**(18,800,069)**	**(15,915,483)**	**(59,900)**	**(92,082,381)**
Net position	**(22,294,778)**	**(14,021,611)**	**(1,413,020)**	**57,137,832**	**7,235,717**	**26,644,140**

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2011 and 2010. These interest rates are an approximation of the yields to maturity of these assets and liabilities, except for loans included in other borrowed funds of AMD 36,703,584 thousand (AMD 25,745,301 thousand), the interest rates on which are repriced on a semi-annual basis based on LIBOR as follows:

Interest rate repricing date	2011 AMD'000
2 February 2012	799,450
15 February 2012	11,389,098
15 March 2012	5,721,611
17 May 2012	1,070,882
18 May 2012	1,881,640
29 May 2012	3,811,266
4 June 2012	512,044
16 June 2012	11,517,593
	36,703,584

Interest rate repricing date	2010 AMD'000
15 February 2011	11,078,331
15 March 2011	5,518,039
17 May 2011	1,968,625
18 May 2011	914,290
4 June 2011	806,455
16 June 2011	5,459,561
	25,745,301

	2011 Average effective interest rate, %			2010 Average effective interest rate, %		
	AMD	**USD**	**Other currencies**	**AMD**	**USD**	**Other currencies**
Interest bearing assets						
Available-for-sale financial assets	13.13%	-	-	11.73%	-	-
Loans and advances to banks	-	3.03%	-	5.38%	3.56%	3.00%
Amounts receivable under reverse repurchase agreements	12.37%	-	-	7.95%	-	-
Loans to customers	13.08%	11.50%	11.46%	12.93%	11.77%	13.30%
Receivables from finance leases	15.81%	13.04%	12.00%	16.63%	13.35%	18.00%
Interest bearing liabilities						
Deposits and balances from banks						
- Term deposits	7.50%	4.65%	1.83%	7.50%	2.83%	-
Current accounts and deposits from customers						
- Term deposits	9.58%	7.34%	5.79%	9.53%	8.23%	6.95%
Other borrowed funds	7.07%	5.15%	-	7.02%	5.11%	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is suplemented 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 rates (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 2010 is as follows:

	2011 AMD'000	**2010 AMD'000**
100 bp parallel fall	418,424	222,375
100 bp parallel rise	(418,424)	(222,375)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2011		**2010**	
	Profit or loss AMD'000	**Equity AMD'000**	**Profit or loss AMD'000**	**Equity AMD'000**
100 bp parallel fall	457	207,523	1,156	197,789
100 bp parallel rise	(457)	(207,523)	(1,156)	(197,789)

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

	USD	EUR	Other currencies	Total
	AMD'000	**AMD'000**	**AMD'000**	**AMD'000**
ASSETS				
Cash and cash equivalents	10,282,962	3,614,713	1,653,641	15,551,316
Financial instruments at fair value through profit or loss (net of foreign currency derivatives)	44,010	-	-	44,010
Loans and advances to banks	6,873,267	1,396,417	-	8,269,684
Loans to customers	98,835,581	2,505,941	119,121	101,460,643
Receivables on finance lease	1,538,564	40,636	-	1,579,200
Other financial assets	1,457,604	3,096	7,967	1,468,667
Total assets	**119,031,988**	**7,560,803**	**1,780,729**	**128,373,520**
LIABILITIES				
Deposits and balances from banks	13,541,873	4,981	59,737	13,606,591
Current accounts and deposits from customers	58,989,227	12,522,263	2,246,653	73,758,143
Other borrowed funds	39,213,488	-	-	39,213,488
Other financial liabilities	906,695	2,423	1,831	910,949
Total liabilities	**112,651,283**	**12,529,667**	**2,308,221**	**127,489,171**
Net position	**6,380,705**	**(4,968,864)**	**(527,492)**	**884,349**
The effect of derivatives held for risk management	**(6,917,900)**	**4,987,200**	**-**	**(1,930,700)**
Net position after derivatives held for risk management purposes	**(537,195)**	**18,336**	**(527,492)**	**(1,046,351)**

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	13,556,196	5,920,003	2,655,318	22,131,517
Financial instruments at fair value through profit or loss (net of foreign currency derivatives)	17,439	-	-	17,439
Loans and advances to banks	8,451,635	2,522,527	10,560	10,984,722
Loans to customers	54,388,479	708,634	-	55,097,113
Receivables on finance lease	1,420,764	7,419	-	1,428,183
Other financial assets	531,664	43,464	7,271	582,399
Total assets	**78,366,177**	**9,202,047**	**2,673,149**	**90,241,373**
LIABILITIES				
Deposits and balances from banks	3,974,312	17,585	1,664,170	5,656,067
Current accounts and deposits from customers	39,258,387	13,027,031	1,361,072	53,646,490
Other borrowed funds	27,608,245	-	-	27,608,245
Other financial liabilities	1,109,088	8,511	765	1,118,364
Total liabilities	**71,950,032**	**13,053,127**	**3,026,007**	**88,029,166**
Net position	**6,416,145**	**(3,851,080)**	**(352,858)**	**2,212,207**
The effect of derivatives held for risk management	**(6,742,300)**	**3,930,107**	**(73,767)**	**(2,885,960)**
Net position after derivatives held for risk management purposes	**(326,155)**	**79,027**	**(426,625)**	**(673,753)**

A strengthening of the AMD, as indicated below, against the following currencies at 31 December 2011 and 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.

	2011		**2010**	
	Profit or loss AMD'000	**Equity AMD'000**	**Profit or loss AMD'000**	**Equity AMD'000**
10% appreciation of AMD against USD	53,720	53,720	32,616	32,616
10% appreciation of AMD against EUR	(1,834)	(1,834)	(7,903)	(7,903)

A weakening of the AMD against the above currencies at 31 December 2011 and 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 policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee and Risk Management Center, which actively monitor credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing control and monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports 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 Center and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department. Individual transactions are also reviewed by the Legal department depending on the specific risks and pending final approval of the Credit 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. Retail loan credit applications are reviewed by the Retail Lending Subdivisions.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Management Center 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 commitment amounts. 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:

	2011 AMD'000	2010 AMD'000
ASSETS		
Cash and cash equivalents	26,754,046	23,547,818
Financial instruments at fair value through profit or loss	22,306	132,659
Available-for-sale debt assets	13,122,874	12,731,503
Loans and advances to banks	8,635,846	14,000,523
Amounts receivable under reverse repurchase agreements	922,519	2,364,903
Loans to customers	134,053,462	88,579,633
Receivables from finance leases	1,815,786	1,659,006
Other financial assets	2,115,105	849,278
Total maximum exposure	**187,441,944**	**143,865,323**

The Bank holds collateral against loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activities.

For the analysis of collateral held against loans to customers and 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 28.

As at 31 December 2011 the Bank has no debtors or groups of connected debtors (2010: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

(d) Liquidity risk

Liquidity risk is the risk that the Bank may encounter difficulty in 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 liquidty risk.

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 liquidity policy is reviewed and approved by the Management Board.

The Bank seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks and international financial organisations, 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 debt financing plans
- 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 Assets and Liabilities Department receives information from structural subdivisions regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Assets and Liabilities Department 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.

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 Assets and Liabilities Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Assets and Liabilities Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment.

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 (inflow) outflow	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	7,824,810	274,294	5,645,737	537,770	7,587,257	21,869,868	20,932,458
Current accounts and deposits from customers	39,143,635	10,442,969	12,799,959	29,776,932	1,542,060	93,705,555	91,332,821
Other borrowed funds	-	1,077,051	5,068,314	854,773	51,430,194	58,430,332	49,591,576
Other financial liabilities	21,877	367,554	765,753	-	775,734	1,930,918	1,930,918
Derivative liabilities							
- Inflow	-	-	(2,493,600)	(2,493,600)	(5,008)	(4,992,208)	(4,992,208)
- Outflow	1,252	-	2,770,021	2,560,245	50,941	5,382,459	5,382,459
Total liabilities	**46,991,574**	**12,161,868**	**24,556,184**	**31,236,120**	**61,381,178**	**176,326,924**	**164,178,024**
Credit related commitments	**22,020,172**	**-**	**-**	**-**	**-**	**22,020,172**	**22,020,172**

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
Non-derivative liabilities							
Deposits and balances from banks	5,189,749	91,559	137,001	815,582	8,141,500	14,375,391	12,986,742
Current accounts and deposits from customers	37,275,893	4,996,581	10,499,522	15,420,874	1,080,807	69,273,677	67,588,084
Other borrowed funds	-	294,462	518,608	4,323,570	40,597,508	45,734,148	37,658,140
Other financial liabilities	316,142	198,746	512,902	145,718	775,734	1,949,242	1,836,817
Derivative liabilities							
- Outflow	22,402	-	-	-	-	22,402	22,402
Total liabilities	**42,804,186**	**5,581,348**	**11,668,033**	**20,705,744**	**50,595,549**	**131,354,860**	**120,092,185**
Credit related commitments	**13,205,196**	**-**	**-**	**-**	**-**	**13,205,196**	**13,205,196**

In accordance with Armenian legislation, individuals can withdraw their term deposits at any time, forfeiting, in most cases, the accrued interest. These deposits are classified in the table above in accordance with their stated maturity dates. The principal amount of such deposits, by each time band as at 31 December, is as follows:

- less than 1 month: AMD 3,828,642 thousand (2010: AMD 4,399,479 thousand)
- from 1 to 3 months: AMD 5,372,975 thousand (2010: AMD 2,871,098 thousand)
- from 3 to 6 months: AMD 9,738,091 thousand (2010: AMD 6,210,225 thousand)
- from 6 to 12 months: AMD 13,387,348 thousand (2010: AMD 11,826,250 thousand)
- more than 1 year: AMD 1,065,960 thousand (2010: AMD 531,737 thousand)

The table below shows an analysis, by expected maturities, of the non-derivative amounts recognised in the statement of financial position as at 31 December 2011.

AMD'000	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**No maturity**	**Overdue**	**Total**
Non-derivative assets								
Cash and cash equivalents	34,200,857	-	-	-	-	-	-	34,200,857
Financial instruments at fair value through profit or loss	-	-	-	-	-	30,100	-	30,100
Available-for-sale financial assets	138,000	347,662	1,733,341	10,357,043	546,828	103,113	-	13,225,987
Loans and advances to banks	1,782,259	19,103	6,322,771	-	-	511,713	-	8,635,846
Amounts receivable under reverse repurchase agreements	922,519	-	-	-	-	-	-	922,519
Loans to customers	2,457,624	4,048,024	36,410,582	81,153,485	9,650,427	-	333,320	134,053,462
Receivables from finance leases	61,824	101,289	456,648	1,196,025	-	-	-	1,815,786
Assets held for sale	-	-	2,234,280	-	-	-	-	2,234,280
Property, equipment and intangible assets	-	-	-	-	-	2,546,732	-	2,546,732
Deferred tax asset	-	-	-	-	-	53,924	-	53,924
Other assets	2,101,182	596,407	20,215	224,307	-	258,675	-	3,200,786
Total assets	**41,664,265**	**5,112,485**	**47,177,837**	**92,930,860**	**10,197,255**	**3,504,257**	**333,320**	**200,920,279**
Non-derivative liabilities								
Deposits and balances from banks	7,751,960	145,258	5,735,240	7,300,000	-	-	-	20,932,458
Current accounts and deposits from customers	39,118,328	10,314,555	40,597,921	1,239,204	62,813	-	-	91,332,821
Other borrowed funds	-	1,072,785	5,746,995	37,751,764	5,020,032	-	-	49,591,576
Current tax liability	-	312,861	-	-	-	-	-	312,861
Dividends payable	1,315,054	-	-	-	-	-	-	1,315,054
Other liabilities	102,005	382,017	842,866	948,144	20,589	-	-	2,295,621
Total liabilities	**48,287,347**	**12,227,476**	**52,923,022**	**47,239,112**	**5,103,434**	**-**	**-**	**165,780,391**
Net position	**(6,623,082)**	**(7,114,991)**	**(5,745,185)**	**45,691,748**	**5,093,821**	**3,504,257**	**333,320**	**35,139,888**

The table below shows an analysis, by expected maturities, of the non-derivative amounts recognised in the statement of financial position as at 31 December 2010.

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	28,408,492	-	-	-	-	-	-	28,408,492
Available-for-sale financial assets	181,254	974,045	2,244,989	9,093,734	237,480	90,322	-	12,821,824
Loans and advances to banks	6,899,667	308,970	-	6,182,839	-	609,047	-	14,000,523
Amounts receivable under reverse repurchase agreements	2,364,903	-	-	-	-	-	-	2,364,903
Loans to customers	2,174,715	2,435,730	20,268,857	56,596,422	7,058,138	-	45,771	88,579,633
Receivables from finance leases	37,819	79,920	360,947	1,180,320	-	-	-	1,659,006
Property, equipment and intangible assets	-	-	-	-	-	2,725,258	-	2,725,258
Deferred tax asset	-	-	-	-	-	74,134	-	74,134
Other assets	830,022	570,495	197,247	55,431	-	183,622	-	1,836,817
Total assets	**40,896,872**	**4,369,160**	**23,072,040**	**73,108,746**	**7,295,618**	**3,682,383**	**45,771**	**152,470,590**
Non-derivative liabilities								
Deposits and balances from banks	5,141,159	-	545,583	7,300,000	-	-	-	12,986,742
Current accounts and deposits from customers	33,631,954	5,554,972	27,452,850	925,477	22,831	-	-	67,588,084
Other borrowed funds	-	277,141	4,624,451	24,743,593	8,012,955	-	-	37,658,140
Current tax liability	-	220,224	-	-	-	-	-	220,224
Other liabilities	332,064	230,588	801,912	775,735	-	-	-	2,140,299
Total liabilities	**39,105,177**	**6,282,925**	**33,424,796**	**33,744,805**	**8,035,786**	**-**	**-**	**120,593,489**
Net position	**1,791,695**	**(1,913,765)**	**(10,352,756)**	**39,363,941**	**(740,168)**	**3,682,383**	**45,771**	**31,877,101**

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, 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 as at 31 December and during the reporting period are as follows:

	2011 AMD'000	**2010 AMD'000**
At 31 December (unaudited)	156%	158%
Average for December (unaudited)	266%	178%

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

27 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 and 2010, this minimum level was 12%. The Bank is in compliance with the statutory capital ratios during the years ended 31 December 2011 and 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 AMD'000 Unaudited	**2010 AMD'000 Unaudited**
Tier 1 capital		
Share capital	25,447,640	25,447,640
Share premium	29,691	29,691
General reserve	3,227,962	3,089,535
Retained earnings	5,547,402	2,727,502
Deductions	(1,042,256)	(295,814)
Total tier 1 capital	**33,210,439**	**30,998,554**
Tier 2 capital		
Revaluation reserve for available-for-sale financial assets	62,278	17,984
Total capital	**33,272,717**	**31,016,538**
Total risk weighted assets	**220,842,268**	**145,340,610**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**15.1%**	**21.3%**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**15.0%**	**21.3%**

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.

28 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 five years. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

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 recognised at the reporting date if counterparties failed completely to perform as contracted.

	2011 AMD'000	**2010 AMD'000**
Contracted amount		
Guarantees and letters of credit	9,229,274	6,991,882
Credit card commitments	4,896,248	3,033,181
Undrawn overdraft facilities	4,511,015	370,078
Loan and credit line commitments	3,383,635	2,810,055
	22,020,172	**13,205,196**

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 3,570,965 thousand (2010: AMD 2,704,175 thousand) are to two customers as at 31 December 2011 (2010: two customers). Bank is exposed to significant credit risk with respect to these commitments.

29 Operating leases

Leases as lessee

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2011 AMD'000	2010 AMD'000
Less than 1 year	568,575	464,277
Between 1 and 5 years	1,668,897	1,389,810
More than 5 years	693,872	661,630
	2,931,344	**2,515,717**

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

30 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 4,901,601 thousand coverage for each type of insurance including for its premises and equipment, business interruption, third party liability in respect of accidents on the Bank's property or related to operations.

(b) Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(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 the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

31 Related party transactions

(a) Control relationships

The Bank's parent company is Ameria Group (CY) Limited, which owns 99.9% of the share capital. The party with ultimate control over the Bank is Ruben Vardanyan.

No publicly available financial statements are produced by the Bank's parent company.

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

Total remuneration included in personnel expenses for the years ended 31 December are as follows:

	2011 AMD'000	2010 AMD'000
Short-term employee benefits	**399,925**	**374,705**

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

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

	2011 AMD'000	Average interest rate, %	2010 AMD'000	Average interest rate, %
Statement of financial position				
Loans issued (gross)	411,645	6.8%	443,146	6.4%
Loan impairment allowance	(4,098)		(4,431)	
Deposits received	990,200	7.9%	1,065,050	7.2%
Guarantees	44,459	0.0%	66,288	0.0%

The loans and guarantees are in Armenian Drams and repayable by 2023.

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

	2011 AMD'000	2010 AMD'000
Profit or loss		
Interest income	26,046	25,802
Interest expense	(89,592)	(39,071)
Other general administrative expenses	-	(5,395)

(c) Transactions with other related parties

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		**Other subsidiaries of the parent company**		**Other**		
	AMD'000	**Average interest rate, %**	**AMD'000**	**Average interest rate, %**	**AMD'000**	**Average interest rate, %**	**Total AMD'000**
Statement of financial position							
ASSETS							
Loans to customers							
- Principal balance	-	-	-	-	489,215	12.2%	489,215
- Impairment allowance	-		-		(4,887)		(4,887)
LIABILITIES							
Current accounts and deposits from customers							
- Current accounts and demand deposits	334	0.0%	77,684	0.0%	475,770	0.0%	553,788
- Term deposits	-	-	19,651	5.0%	2,528,645	4.7%	2,548,296
Other liabilities	1,315,014	0.0%	6,124	0.0%	1,776	0.0%	1,322,914
Items not recognised in the statement of financial position							
Guarantees given	-	-	-	-	74,502	0.0%	74,502
Profit (loss)							
Interest income	-		1,518		53,427		54,945
Interest expense	-		(2,571)		(52,171)		(54,742)
General administrative expenses	-		-		(34,633)		(34,633)

The outstanding balances and the related average interest rates as at 31 December 2010 and related profit or loss amounts of transactions for the year ended 31 December 2010 with other related parties are as follows.

	Parent company		**Other subsidiaries of the parent company**		**Other related parties**		
	AMD'000	**Average interest rate, %**	**AMD'000**	**Average interest rate, %**	**AMD'000**	**Average interest rate, %**	**Total AMD'000**
Statement of financial position							
ASSETS							
Financial instruments at fair value through profit or loss	115,219	0.3%	-	-	-	-	115,219
Loans to customers							
- Principal balance	-	-	569	11.9%	464,232	12.8%	464,801
- Impairment allowance	-		(6)		(4,642)		(4,648)
LIABILITIES							
Current accounts and deposits from customers							
- Current accounts and demand deposits	14,743	0.0%	95,468	0.0%	1,331,164	0.0%	1,441,375
- Term deposits	-	-	38,333	6.0%	1,004,283	5.5%	1,042,616
Items not recognised in the statement of financial position							
Guarantees given	-	-	-	-	70,914	0.0%	70,914
Letter of credit issued	-	-	-	-	327,930	2.0%	327,930
Profit (loss)							
Interest income	-		7,223		30,187		37,410
Interest expense	(5,111)		(2,940)		(318,032)		(326,083)
Fee and commission income	424		933		7,694		9,051
Foreign exchange trading gain/(loss)	13,941		(4,208)		14,837		24,570

32 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2011:

AMD'000	Trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	34,200,857	-	-	34,200,857	34,200,857
Financial instruments at fair value through profit or loss	52,406	-	-	-	52,406	52,406
Available-for-sale financial assets	-	-	13,122,874	-	13,122,874	13,122,874
Loans and advances to banks	-	8,635,846	-	-	8,635,846	8,635,846
Amounts receivable under reverse repurchase agreements	-	922,519	-	-	922,519	922,519
Loans customers:						
Loans to corporate customers	-	112,001,889	-	-	112,001,889	112,001,889
Loans to retail customers	-	22,051,573	-	-	22,051,573	22,051,573
Receivables from finance leases	-	1,815,786	-	-	1,815,786	1,815,786
Other financial assets	-	2,115,105	-	-	2,115,105	2,115,105
	52,406	**181,743,575**	**13,122,874**	**-**	**194,918,855**	**194,918,855**
Financial instruments at fair value through profit or loss	390,251	-	-	-	390,251	390,251
Deposits and balances from banks	-	-	-	20,932,458	20,932,458	20,932,458
Current accounts and deposits from customers	-	-	-	91,332,821	91,332,821	91,332,821
Other borrowed funds	-	-	-	49,591,576	49,591,576	49,591,576
Other financial liabilities	-	-	-	1,930,918	1,930,918	1,930,918
	390,251	**-**	**-**	**163,787,773**	**164,178,024**	**164,178,024**

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2010:

AMD'000	Trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	28,408,492	-	-	28,408,492	28,408,492
Financial instruments at fair value through profit or loss	132,659	-	-	-	132,659	132,659
Available-for-sale financial assets	-	-	12,731,503	-	12,731,503	12,731,503
Loans and advances to banks	-	14,000,523	-	-	14,000,523	14,000,523
Amounts receivable under reverse repurchase agreements	-	2,364,903	-	-	2,364,903	2,364,903
Loans customers:						
Loans to corporate customers	-	74,452,796	-	-	74,452,796	74,452,796
Loans to retail customers	-	14,126,837	-	-	14,126,837	14,126,837
Receivables from finance leases	-	1,659,006	-	-	1,659,006	1,659,006
Other financial assets	-	849,278	-	-	849,278	849,278
	132,659	**135,861,835**	**12,731,503**	**-**	**148,725,997**	**148,725,997**
Financial instruments at fair value through profit or loss	22,402	-	-	-	22,402	22,402
Deposits and balances from banks	-	-	-	12,986,742	12,986,742	12,986,742
Current accounts and deposits from customers	-	-	-	67,588,084	67,588,084	67,588,084
Other borrowed funds	-	-	-	37,658,140	37,658,140	37,658,140
Other financial liabilities	-	-	-	1,886,759	1,886,759	1,886,759
	22,402	**-**	**-**	**120,119,725**	**120,142,127**	**120,142,127**

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 3.5% and 10% - 15% are used for discounting future cash flows from loans and advances to banks and loans to customers, respectively
- discount rates of 5.5% - 12% are used for discounting future cash flows from liabilities.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

The estimated fair values of all financial instruments except for unquoted equity securities available-for-sale approximate their carrying values. As at 31 December 2011 fair value of unquoted equity securities available-for-sale with a carrying value of AMD 103,113 thousand (2010: AMD 90,321 thousand) cannot be determined.

(b) Fair value hierarchy

The Bank 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**	**Total**
Financial instruments at fair value through profit or loss			
- Equity investments	30,100	-	30,100
- Derivative assets	-	22,306	22,306
- Derivative liabilities	-	(390,251)	(390,251)
Available-for-sale financial assets			
- Debt instruments	-	13,122,874	13,122,874
	30,100	**12,754,929**	**12,785,029**

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**	**Total**
Financial instruments at fair value through profit or loss			
- Derivative assets	-	132,659	132,659
- Derivative liabilities	-	(22,402)	(22,402)
Available-for-sale financial assets			
- Debt instruments	-	12,731,503	12,731,503
	-	**12,841,760**	**12,841,760**

33 Acquisitions

On 10 April 2010 the parent company of the Bank acquired all of the shares in Cascade Bank cjsc and shortly after the acquisition legally merged Cascade Bank cjsc with the Bank. The acquisition was settled in cash by the parent company. In preparing these financial statements the transaction is accounted for as a business combination.

Cascade Bank cjsc opeated in the retail and corporate banking sector. Taking control of Cascade Bank cjsc will enable the Bank to broaden its banking operations.

In acquiring the shares, transaction costs consisting mainly of legal and due diligence costs were incurred entirely by the parent company. The impact of acquiring Cascade Bank cjsc was an increase in interest and other revenue by AMD 1,455,303 thousand (unaudited) and profit for the year by AMD 159,430 thousand (unaudited).

If the acquisition had occurred on 1 January 2010, the combined interest and other revenue for the year would have been AMD 12,249,255 thousand (unaudited) and the profit for the year would have been AMD 3,368,026 thousand (unaudited). In determining these figures it has been assumed that the fair value adjustments at 1 January 2010 would have been the same as the fair value adjustments that arose on the date of acquisition.

The fair values of assets and liabilities of the acquired bank recognised in the financial statements were as follows at the date of acquisition:

AMD'000	**Recognised amounts on acquisition**
ASSETS	
Cash and cash equivalents	2,899,927
Financial instruments at fair value through profit or loss	2,106,772
Loans and advances to banks	1,106,225
Amounts receivable under reverse repurchase agreements	102,408
Loans to customers	10,268,931
Receivables from finance leases	141,290
Held-to-maturity investments	90,132
Property, equipment and intangible assets	970,493
Other assets	134,704
LIABILITIES	
Deposits and balances from banks	(32,755)
Current accounts and deposits from customers	(4,857,255)
Other borrowed funds	(4,973,031)
Current tax liability	(13,515)
Deferred tax liability	(9,358)
Other liabilities	(239,608)
Net identifiable assets and liabilities	**7,695,360**