



ANNUAL
REPORT
2007

ARM SWISS BANK
Private & Investment Banking

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MAIN ACHIEVEMENTS OF THE BANK IN 2007

- January The official page of ARMSWISSBANK CJSC in the Bloomberg system (code ASWI) was launched where the Bank's rates for main financial instruments.
- February ARMSWISSBANK was elected a Partner Bank of the German-Armenian Fund's Renewable Energy program.
For the first time in the financial market of the Republic of Armenia a REPO transaction with corporate bonds was carried out between "ARMSWISSBANK" CJSC and the Central Bank of Armenia.
- May The share capital of ARMSWISSBANK CJSC increased by AMD 750 million to AMD 3.75 billion.
"ARMSWISSBANK" CJSC became the first bank in the Armenian financial market to be granted a license for brokerage and custody activities.
- June "ARMSWISSBANK" CJSC carried out the first forward transaction with government securities.
- July The Bank started trading in standardized bullions of precious metals.
The Bank acted as a lead manager and underwriter of "VALLETTA" LLC bonds for a total face value of AMD 350 million.
- September "ARMSWISSBANK" CJSC became a member of the Armenian Stock Exchange.
The Bank acted as a lead manager and underwriter of "Armenian Copper Programme" CJSC bonds for a total face value of AMD 500 million.
- October The Management Board was created in the Bank.
Correspondent relations were established with "Ukrsotsbank" joint-stock commercial bank (member of "UniCreditGroup").
- January 2008 The Bank became a member of FCI (Factors Chain International), the global network of leading factoring companies.
"ARMSWISSBANK" CJSC acted as a lead manager and underwriter of the second issue of "VALLETTA" LLC bonds for a total face value of AMD 500 million.

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Our vision is to be a leading universal banking institution in Armenia combining the advantages of corporate, investment and private banking to generate superior results for our clients, partners and stakeholders.

Our mission is to contribute to our corporate and private clients' prosperity by providing them tailor-made high-quality solutions generally accepted in international banking practice and meeting their requirements.

Client Focus
Professionalism
Prudence
Partnership
Confidentiality
Integrity



MESSAGE OF THE CHAIRMAN OF THE BOARD

Dear Ladies and Gentlemen,

It is the third year ARMSWISSBANK is maintaining and fortifying its positions in the Armenian market of banking services. We are pleased to report that we had another year of new achievements. The Bank expanded its business and growth opportunities, thus producing better than expected financial results. It has also accumulated enough expertise to preserve its rapid growth.

A dynamic entrepreneurial spirit combined with strong promotion of our professional skills has equipped us to offer customers appealing propositions. Motivating our dedicated employees we successfully continue to pursue our strategic goal, outlined three years ago, to become Armenia's leading private and investment bank.

Being loyal to our sound corporate principles of client focus, integrity, confidentiality, professionalism, partnership, and prudence as well as incorporating the best international practice of private banking we direct all our efforts at keeping the existing clients, through widening the scope of cooperation, and attracting new ones. In 2008 we plan to introduce Customer relationship management system which will enhance the responsiveness and flexibility of the Bank by building a better understanding of client's individual and business needs. As a result, stable and reliable long-term relations will be constructed. All this will enable us to deliver sustainable stakeholder value.

The Management Board, was created to improve risk management and corporate governance. Certain functions of the Executive Director and collective management bodies were delegated to the Management Board.

In 2007 the Bank increased its statutory capital by AMD 750 million, which will enhance the reliability and financial capacities of the Bank. The share capital is planned to raise to more than AMD 5 billion.

On behalf of the Board I extend my gratitude to the Bank's management and employees for their efforts, loyalty and achievements.

With respect and in anticipation of further cooperation.

Sincerely yours,
Vartan Sirmakes
Chairman of the Board



MESSAGE OF THE EXECUTIVE DIRECTOR

Dear Ladies and Gentlemen,

It is the third year I have the honour to lead the professional team of ARMSWISSBANK and present you the annual report of the Bank for 2007.

The year 2007 was a year of challenges and achievements for the Bank. Analysing the Bank's performance for the past year I can state that, as previously, the Bank continued remaining loyal to private banking philosophy. This circumstance and provision of non-traditional banking services, not so widely-spread in Armenia yet, along with traditional services is binding and drives to continuous innovations and improvement. As in previous years, during 2007 the Bank has concentrated its efforts on issues related to improvement of infrastructure, clarification of existing bank technologies, development of new services, establishment and reinforcement of partner relationships.

Herein noteworthy are the contracts signed with partner banks and financial organizations which open new horizons for our clients. Mutually beneficial cooperation was established with new partners.

Licenses for brokerage and custody services were granted to the Bank by the Central Bank of RA which didn't have its precedent in the banking system of Armenia.

In 2007 ARMSWISSBANK became a member of Armenian Stock Exchange and began its active transactions with corporate securities. Due to its active participation in the securities market the Bank maintained the status of the RA government securities primary market agent.

Owing to its financial role in the securities market the Bank acted as a lead manager and underwriter a of securities of two large companies. Organization of the issuance of third company's securities is in preparatory stage.

Due to its loyalty to the tradition of offering flexible alternative instruments to the market the Bank began to offer its clients new investment instruments among others: commodity and financial futures quoted on American, European and Russian exchanges, as well as marginal transactions with foreign securities enabling its clients to diversify their investment and enhance returns.

Konstantin Saroyan
Director of Development and
Administration Department

Gevorg Machanyan
Executive Director

Gevorg Khachatryan
Director of Customer
Service Department

Grigor Movsisyan
Financial Director



Larisa Martirosyan
Chief Accountant

Ani Sargsyan
Head of Risk Management
Division

Highly appreciating the relations with international institutions the Bank has widened the scope of cooperation with them. Joint seminars were organized to raise client awareness of the services provided by the Bank.

Due to the Bank's consistent work, authority and business reputation in the market the number of clients has almost doubled.

The Bank's activities and developmental challenges have compelled us to realize adjustments in the organizational structure of the Bank. During 2007 the system of recruitment has improved. Experienced and promising young specialists joined the Bank. All specialists of the Bank have higher education,

six of them have PhD in Economics, and some of them have many years of teaching practice. Staff training is in the center of the Bank's attention all the time to be ensured that the services provided and the ones expected are properly organized and rendered.

In 2008 the Bank will continue to move ahead of market needs providing genuine solutions to its clients. In particular asset management services will be introduced which will enable attraction of new customers.

On behalf of the Bank's staff I would like to express my gratitude to our Clients and Partners for their reliance and mutually beneficial cooperation.

Executive Director
Gevorg Machanyan

CLIENTS AND PARTNERS

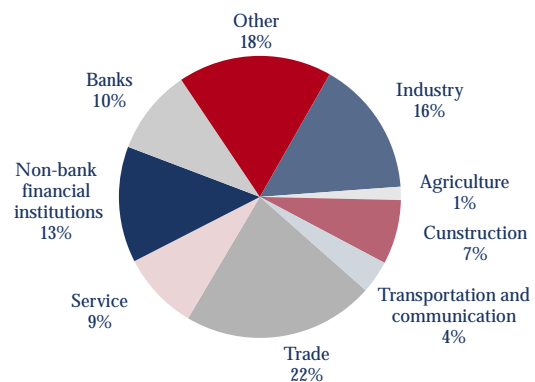
At the inception of ARMSWISSBANK sound business values, proven by international practice, were set forth that direct the Bank's activities up to date. For the third year ARMSWISSBANK's devotion to those values, which are: client focus, professionalism, integrity, partnership, confidentiality, and prudence, helped to establish business culture leading to prosperity.

ARMSWISSBANK continues to conduct its activity in three main directions, specializing in corporate, investment and private banking guided by the vision of becoming the leading bank of its type.

Recent performance of Armenia's economy, intensifying competition and favourable investment climate has created fertile ground for corporate segment expansion. ARMSWISSBANK provides its corporate clients a wide array of services ranging from traditional (payment, credit services, flexible deposit schemes, trade financing) to non-traditional services (alternative financing, financial derivatives, financial consulting). Trade financing products, as well as commodity and financial futures are mainly designed for clients engaged in importing and exporting activities. Their purpose is to maintain competitiveness in local and international markets, enable to enter new markets. In January of 2008 ARMSWISS-BANK became a member of Factors Chain International, which capacitates us to provide factoring services in approximately 70 countries. To diversify their risks and execute

effective cash flow management our clients may choose from financial instruments and derivatives.

To cope with the rapidly changing market challenges and successfully accomplish investment projects ARMSWISSBANK offers underwriting services to its corporate clients. In 2007 we established client-partner relations with "VALLETA" Ltd and "Armeian Copper Programme" CJSC.



The number of clients increased twice compared with 2006

ARMSWISSBANK, being one of the leaders in Armenian government securities market and Government's agent for internal state debt management, acts as a market maker to enhance liquidity of Armenian securities market.

During the past two years ARMSWISS-BANK has actively participated in initiatives to reform RA securities market and financial intermediation related legislation. As a result it became the first bank in the Armenian financial market that in 2007 was given licenses for brokerage and custody services from the Central Bank of Armenia.

ARMSWISSBANK attaches importance to becoming an intermediary for banks and non-bank financial institutions: credit organizations, insurance and brokerage companies, by rendering services in Armenian, as well as international financial markets and giving an opportunity to invest in various financial instruments.

ARMSWISSBANK offers to cooperate in allocating its clients' bonds becoming a member of allocation group.

Net-worth clients, who need to manage their wealth effectively and grow it, are the primary target group of our private banking services. Even though it is early to speak of substantial success here, the Bank takes consistent steps towards introduction of new services given the growth potential in that segment.

Close relations with clients are the key in our business to build long-lasting relations with them. Our professional, skilled and experienced personnel works to identify and forecast their needs and come up with quality financial solutions. The Bank offers a wide range of tailor-made products: the construction of individual securities

portfolios, brokerage and custody services. The flexibility of our work with clients ensures the development of the Bank and promotion of "ARMSWISSBANK" brand. The fact of doubling of the number of our clients compared with 2006 proves that.

BANKING SERVICES

The Bank offers its clients a wide range of both traditional and non traditional services best suited to their personal needs.

To become a client of the Bank

Opening an account with ARMSWISSBANK is the first step to make use of the services offered by the Bank. It allows clients to choose from numerous solutions that meet their financial needs.

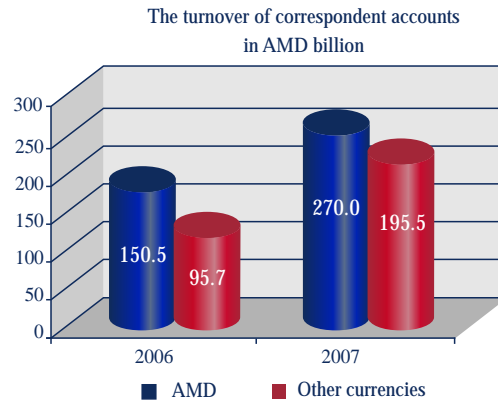
On the basis of its Client Service policy and "Know Your Customer" rules, the Bank offers services only to account holders.

Multicurrency accounts allow the Bank's clients to carry out payments and make use of investment instruments.

Payment services

The participation in the CBANet interbank electronic and SWIFT international payment systems and partnership relations with a number of prominent financial institutions, such as UBS AG, Raiffeisen Zentralbank Osterreich AG, Commerzbank AG, UniCreditBank, Promsvyazbank JSC, Norvik Bank JSC and others, enable to execute domestic and international payments of our clients in the least time-consuming and the most cost-effective way. Along with the provision of new services and increase of the number of clients the turnover of correspondent accounts both in AMD and foreign currencies has increased noticeably. The turnover of correspondent accounts in AMD increased by AMD 119.5 billion to AMD 270 billion, and the turnover of correspondent currency accounts, denominated in AMD, increased by AMD 99.8 billion to AMD 195.5 billion in 2007.

Using the network of its correspondent banks ARMSWISSBANK offers competitive exchange rates to its clients in local and international markets, demonstrating individual approach and exchange efficiency.



Deposits

The Bank offers deposit programs with wide investment capabilities, which guarantee stable return and allow choosing deposits as to the type of currency, maturity and frequency of interest payment. In particular, short-term deposits (starting from 7 days) are of interest to legal entities. In step with the changes in the financial market the Bank reviews deposit rates, offering more competitive ones. ARMSWISSBANK is one of the rare banks in the Armenian market that pays competitive interest rates to its corporate clients on the balance of their demand accounts. The volume of deposits has sharply increased in 2007 to AMD 7 billion compared with AMD 1.6 billion in 2006.

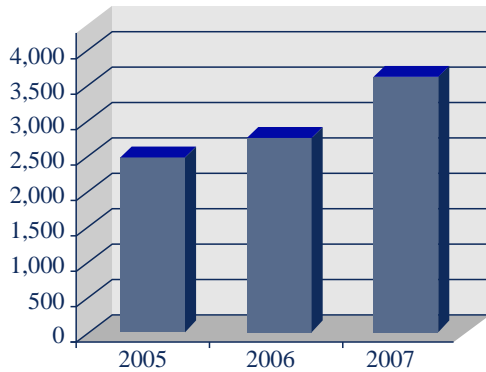
Lending

Adhering to fundamental principles defined at foundation and being guided by credit policy confirmed by the Bank's Board, the Bank continues to finance its corporate clients' business programs and current financial needs.

In 2007 the Bank extended loans in amount of about AMD 4 billion. As of 31.12.2007 the total loan portfolio increased by 34% to AMD 3.4 billion.

Interest income from extended loans increased by 17 %. The average yield of loan portfolio did not change substantially remaining at 14.6 % (instead of

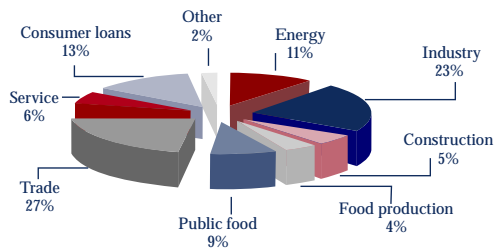
Dynamics of loan portfolio in AMD million



14.5 % in previous year). It is noteworthy that the loan portfolio entirely consisted of standard assets.

To mitigate and manage credit risks, diversification of the loan portfolio is taken into serious consideration.

The structure of loan portfolio



In 2007 the Bank extended the first loan within the framework of German-Armenian Fund's Renewable energy program the amount of which composed AMD 167.5 million.

Factoring

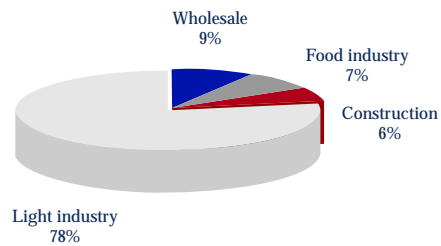
To satisfy the short-term needs of our clients and taking into consideration the demand presented by them, at the end of 2006 the Bank took steps towards factoring service introduction. The Bank's employees participated in trainings organized by international organizations both in Armenia and abroad, where they had an opportunity not only to

The loan portfolio wholly consisted of standard assets

exchange the experience in domestic factoring, but also to get acquainted with the international practice. As a result of the above-mentioned steps the Bank worked out factoring and risk assessment regulations. At the same time Bank initiated a market research for revealing the most perspective segments of the domestic market.

The volume of factoring operations have increased beginning from the second half of 2007 as a result of growing interest in factoring services by new clients. During 2007 the volume of factoring operations composed about AMD 322 million, and the portfolio at the end of December was about AMD 137.3 million.

The factoring portfolio's structure by sectors of economy as of 31.12.2007



During 2007, together with international and state organizations, the Bank had organized trainings for prospective clients to highlight the advantages of factoring services, introduce the general factoring scheme and achievements of the Bank in that area. After participation at the FCI conference in August 2007, the Bank applied for FCI membership, which was granted in January, 2008. The FCI membership gives an opportunity not only to provide factoring services in about 70 countries without time consuming search of partner banks, harmonization of contract basis and document circulation, but also to avoid obstacles arising from the legislative differences between countries.

Letters of credit and guarantees

ARMSWISSBANK offers its clients international trade finance instruments (documentary letters of credit, collections, guarantees) which are advantageous both for importers and exporters and allow them to reduce commercial risks and simplify payment processes. Moreover, qualified personnel, comprehensive network of partner-banks and awareness of technologies make the Bank a reliable intermediary in international trade activities. In 2007 ARMSWISSBANK provided performance and tender guarantees for AMD 24 million.

Dealing activities

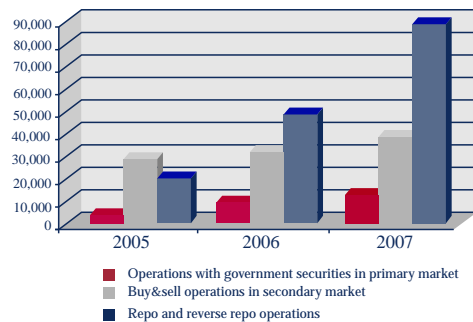
In 2007 the Bank continued to engage actively in operations with Armenian government securities in the domestic financial market. During the year the trading activities of the Bank with government securities in the secondary market amounted to AMD 34.1 billion in nominal values, which exceeded the figure of the previous year by almost 25%. The total volume of repo transactions amounted to more than AMD 82.5 billion exceeding the figure of the previous year by almost 80%. Simultaneously, the Bank remained active in the primary market, buying AMD 8.2 billion's worth of government securities in nominal values at the primary allocation auctions which exceeded the figure of the previous year by more than 173%. As a result of its active participation in the government securities market in 2007 the Bank maintained its position of Government's Agent for internal state debt management.

During the year the Bank has continued to trade foreign currencies on the Armenian Stock

In January of 2008 "ARMSWISSBANK" CJSC became a member of Factors Chain International, the global network of leading factoring companies

In 2007 the Bank maintained its position of Government's Agent for internal state debt management

Volumes of transactions with Armenian government securities in AMD million

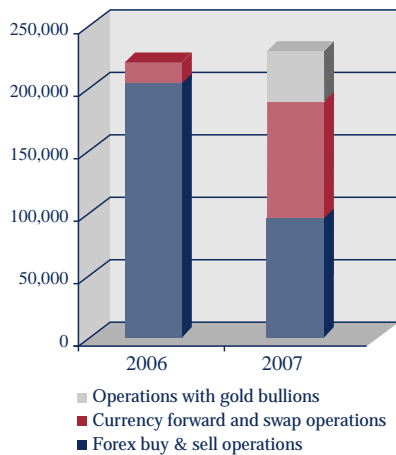


Exchange, as well as to participate in interbank non cash foreign exchange market by trading in major currencies for a total amount of about AMD 85.5 billion. In 2007 the Bank traded foreign exchange forward instruments in an amount of AMD 250 million exceeding the figure of the previous year by approximately 5 times. As for currency swap transactions, during the reporting year the Bank has carried out operations in the total amount of approximately AMD 100 billion exceeding the figure of the previous year by more than 10 times. It is worth mentioning that a considerable share of these operations was carried out by the Bank in foreign markets. Besides, the Bank also began implementing currency swap operations with its clients, the total amount of which equaled to AMD 2.8 billion in 2007.

In the second half of the year the Bank started to implement trading operations with gold bullion bars. The total volume of the transactions for 2007 amounted to AMD 30.5 billion.

ARMSWISSBANK is one of the rare banks in Armenia that quotes Armenian dram against the world major currencies, foreign exchange forward and swap rates, as well as Armenian government

Forex operation (in AMD million)



securities in the Reuters international financial information system. Besides, the quotations for the Armenian dram and world major currencies, foreign exchange forward, interbank deposit and repo rates, as well as for the Armenian government and corporate securities are available on the Bank's official page in the Bloomberg international financial information system.

The Bank operates actively both in the local interbank and international money markets by attracting and allocating short-term and mid-term deposits and placing deposits with foreign first-class banks. The deposits, placed with foreign banks during the reporting year, amounted to 171 billion in AMD.

The Bank continued to invest in the securities issued by the Government and the Central Bank of Armenia, corporate debt securities issued by the companies rated by the Central Bank of Armenia, fixed income securities of developed countries, particularly the USA, European countries, Russian Federation, as well as other government and corporate investment grade securities within the range of the prudential standards set by the Central Bank of Armenia and

“ARMSWISSBANK” CJSC was the first in the banking system of Armenia which was granted licenses to conduct custodial and brokerage activities

risk level acceptable by the Board of the Bank.

In 2007 the Bank added investments in international investment funds' shares, as well as concluded contracts for difference (CFD's) on international indices and stocks for an amount of AMD 290 million. The latter is not considered a long-term investment instrument for the Bank, but expands the investment instruments' basket and is designed to offer clients new investment opportunities.

Brokerage activities in securities markets

Investment banking, including brokerage services in the securities markets, is considered one of the Bank's main strategic activities. For that purpose from the very day of its foundation the Bank has been implementing activities directed to ensure the integrity of the provided services in the above mentioned area. First of all, the Bank worked towards obtaining corresponding licenses from the Central Bank of Armenia. Particularly, more than ten employees of the Bank obtained appropriate certificates, significant infrastructures were put in, and partnership relations were established with both local and foreign financial institutions.

Furthermore, the Bank participated in initiatives for legal reforms related to the securities market regulation and financial intermediation in the Republic of Armenia. Specifically, the Bank established wide cooperation with the Central Bank of Armenia, as well as with different international organizations and institutions (OMX, FSDP, World Bank) by coming forth with suggestions and views at the organized conferences.

As a result on May 30 of 2007 the Bank was granted special licenses by the Central Bank of Armenia to conduct custodial and brokerage activities. This was unprecedented in the banking system of the Republic of Armenia.

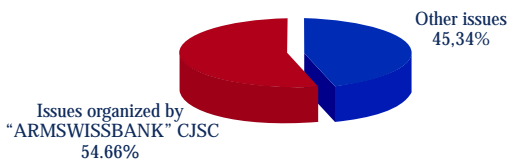
Obtained licenses allowed the Bank to offer its clients new investment instruments, particularly, shares of American, European and Russian companies and investment funds, government and corporate debt securities, commodity futures as well as a complete package of investment services including marginal and repurchase agreements with foreign securities, and custody services for both Armenian and foreign securities.

The Bank was also the first in Armenian banking system to become a member of the Armenian stock exchange in 2007. It started quoting corporate bonds in appropriate platforms emphasizing its distinctive role in the field of investment banking services.

Corporate Bond Issues

The year of 2007 was decisive both for corporate bonds market and for the Bank regarding the implementation of corporate bond issue projects. During 2007 seven corporate bond issues have been organized by 4 Armenian non-financial organizations and one commercial bank with overall face value of AMD 2.72 billion.

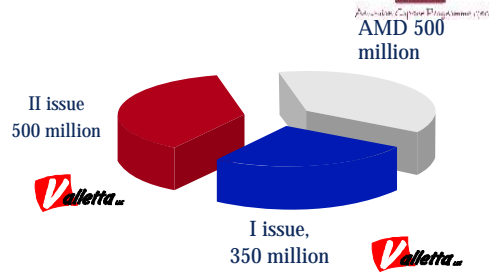
Bonds issued by non-financial organizations, 2007



During 2007 the Bank has organized three issues with total amount of AMD 1.35 billion, which comprised the majority that is 54.67% of bonds issued by non-financial organizations. It is worth mentioning that the Bank started its underwriting activities after obtaining appropriate professional licenses from the Central Bank of Armenia.

When allocating bond issues, the Bank used modern technologies common in developed

Bond Issues Organized by "ARMSWISSBANK" CJSC in 2007



The Bank organized bond issues of two prominent companies and was the chief underwriter

financial markets; particularly firm commitment underwriting was applied to these 3 projects that is the Bank committed to buy the entire issue of the bonds regardless of the results of allocation. Moreover, bond issues were allocated both by forming underwriting syndicates and organizing subscriptions. In particular, about 85% of bonds or AMD 1.15 billion was allocated among the members of the syndicate, and about 15% of bonds or AMD 200 million was allocated by subscription enabling small investors to participate directly in the process.

The Bank became a member of Armenian stock exchange

During the organization of the mentioned bond issues the Bank had cooperated with issuers in marketing activities; particularly 2 road-shows were organized for leading participants of the financial market and prospective investors. The Bank also participated in the activities of public disclosure of information concerning bonds issue and allocation preparing press releases, publicizing articles, booklets and other explanatory materials, giving interviews, as well as disclosing the significant information on the Bank's web site.

After allocation of the bonds the Bank also realized activities to activate the bonds' secondary market; particularly the bonds are listed at Armenian Stock Exchange, where the Bank also acts as market-maker for these bonds. Moreover, the Bank has quoted the bonds on the Bank's official page ASWI in the Bloomberg information system.

CORPORATE GOVERNANCE

The Bank emphasises the importance of an effective corporate governance system adopting the generally accepted principles of 'checks and balances', which are expressed in the application of the following provisions:

- Clear segregation of authorities and responsibilities
- Efficient cooperation between Shareholder, Board, Executive Management, Internal and External Auditors
- Existence of a reliable internal control system, which ensures continuous monitoring of the risks
- Collective nature of decision making in the most risk bearing spheres
- Application of "Four eyes" principle to the execution of transactions and risk bearing operations
- Availability of reliable reporting and information systems
- Adherence to corporate conduct values
- Availability of a clearly formulated strategic plan.

The Management Board was created in the Bank

In order to improve the decision making process a collective decision making body, the Management Board, was created in the Bank in 2007. The functions of the previously operating Asset and Liability Management and Budget

Committees were delegated to the Management Board. The Management Board discusses and submits to the approval of the Board the Strategic plan of the Bank, the Bank's procedures and regulations, organizational structure, paysheets, approves commissions and fees for the services rendered by the Bank, discusses reports and researches implemented by the Bank's units, etc.

In January, 2008 the Bank introduced the Financial Director's function to ensure an integrated approach to the planning, coordination and reporting issues of financial operations.

HUMAN RESOURCES MANAGEMENT

Parallel to the growth of the Bank's operations the Bank underwent structural changes and collected new staff. During 2007 a new system of recruiting employees has been worked out and introduced. The Bank has recruited both experienced personnel and young specialists (21 new employees) who have been actively involved in the Bank's activities and implemented projects. All employees of the Bank have higher education, six of them have PhD degree, and the majority speaks foreign languages. The staff excels not only in its experience, but also in rich professional knowledge and personal integrity. The employees' average age is 29 years old.

The Bank constantly pays attention to the training of its personnel to ensure proper organization and implementation of both the services already provided and the ones expected. In the course of the year the Bank's employees participated in 73 local and 7 foreign conferences and trainings and made 14 foreign business trips. Besides, 14 home seminars were organized by the experienced personnel of the Bank to raise the awareness and possession of necessary knowledge by the new employees.

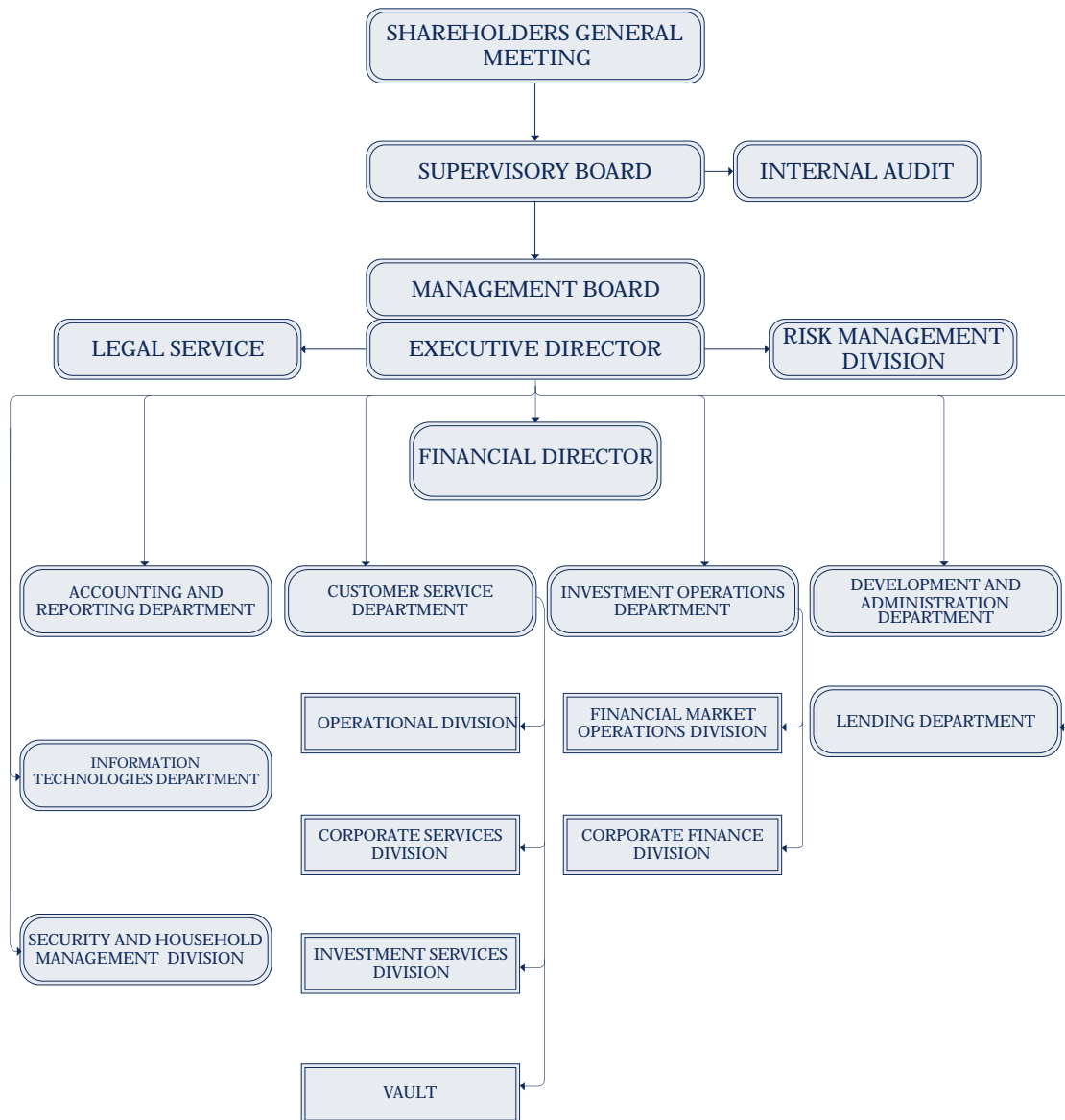
The Bank encourages the employees to improve their professional qualities. It's worth mentioning that during the reporting year 14 employees of the Bank were granted certificates of general professional and custodian specialist's qualifications in the Securities Market by the Central Bank of Armenia.

In 2007 the Bank announced a competition for the best analytical paper among its employees. The authors of the winning papers were given diplomas and money awards.

The Bank's organizational structure was reviewed twice in line with the Bank's activities and development stages.

Skilled and experienced personnel works to identify and forecast the needs of clients and come up with genuine financial solutions

“ARMSWISSBANK” CJSC
 ORGANIZATION CHART



RISK MANAGEMENT

From the moment of its inception the management of the Bank has assigned great importance to effective and continuous risk management mechanisms. The Bank's Board, the Executive Director and each employee are involved in the risk management process. Risk analysis is an inseparable part of the Bank's strategic planning and investment evaluation processes.

The Bank has a Risk Management Division, which is independent from units executing transactions and exercises daily and periodic control over the Bank's operations, examining risk bearing transactions and monitoring the set benchmarks and internal normative environment of the Bank.

An effective system of credit, market, liquidity and operational risk management is developed and implemented in the Bank based on contemporary methods and technologies of risk assessment and mitigation. The Risk Management Division makes suggestions on reviewing the existing guideline of investment benchmarks and investment limits according to the situation prevailing in the financial markets. Stress test models are periodically exercised for observing the risks typical of the Bank. Methodological guidelines for credit risk assessment as well for defining benchmarks for currency (exchange and derivative) operations are used in the Bank. One of key elements of interest rate risk management, namely the term structure

of GAP model, is used for market risk assessment.

An Internal Audit Division operates in the Bank to control the compliance of the Bank activities with the internal policies, procedures and regulations adopted by the Board and the Executive body as well as to identify risks via investigation.

Collective decision making and consultative bodies operate in the Bank, namely, Credit, Investment, Anti-Money Laundering, Compliance and Client Relations Management committees and since 2008 also the Management Board.

The risk management process is regulated by the Board, which establishes limits, investment guidelines, borrower and counterparty selection criteria, pledge requirements, etc., which aim to reduce the Bank's exposure to credit and market risks.

In order to mitigate operational risks, all operations in the Bank are executed with participation of at least two employees ("four eyes" principle). There are internal regulative documents clearly segregating the authorities and responsibilities of the staff, as well as a 'cross-checking' reporting system.

INFORMATION TECHNOLOGIES

“ARMSWISSBANK” CJSC attaches great importance to the sound technical support and information systems and since its foundation has constantly worked towards joining local and international payment and information systems (BankMail, CBANet, SWIFT, Bloomberg and Reuters). Currently the Bank continues to cooperate with companies providing the above-mentioned financial information systems in accordance with its development stages.

In 2007 a growth in the Information Technologies' infrastructure (installation of new systems, acquisition of new technical equipments, broadening of telephone network, etc.) was observed. All present servers have been upgraded thus increasing the speed of payment services provision, the work of all systems and ensuring the secure and continuous operation of every system within the Bank. New versions of the existing software were launched.

Lotus clusters were created to ensure the continuous operation and distribution of the capacity of the server.

Activities have been undertaken towards the improvement of online banking services, which allow the Bank's clients to receive information on their account balance, executed transactions, as well as implement money transfer and foreign

exchange transactions any time and from any place.

A new version of the Bank's website has been prepared. It is consonant with the Bank's present-day development stage and contains more detailed information.

In 2007 in the IT department a position of IT security officer was created which allowed separating the IT security functions from those of the administrative. That contributes to the increase of control and the decrease of risks. Thanks to the IT security officer the IT department operation regulations were reviewed and brought into compliance with international “COBIT” standards, and a schedule of the future actions was prepared, according to which all the processes in the Bank must be matched with international standards.

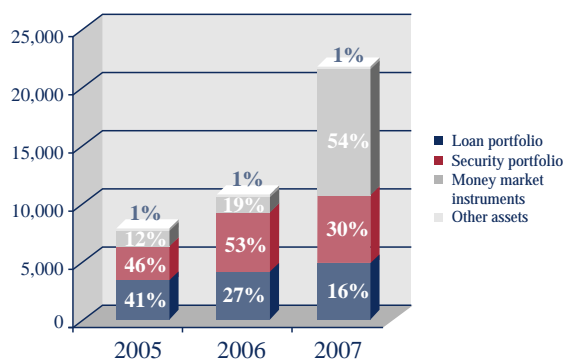
FINANCIAL RESULTS

“ARMSWISSBANK” CJSC completed its third year recording substantial growth in all main indicators.

In 2007 the Bank's assets increased by AMD 11.5 billion or 122% to AMD 20.9 billion. Growth in money market instruments to about AMD 8.4 billion accounted for the main share of total asset increase. The loan portfolio increased by 34% to AMD 3.4 billion. The securities portfolio composed AMD 6.2 billion as of the end of December, 2007 increasing by AMD 1.2 billion or 24% compared with the previous year. As a result, the share of loans and securities in total assets were respectively 16% and 30%.

The total capital of the Bank amounted to AMD 3.94 billion increasing by 29% compared to 2006, and the growth of statutory capital by 25%, to AMD 3.75 billion, accounted for the greater share of that growth.

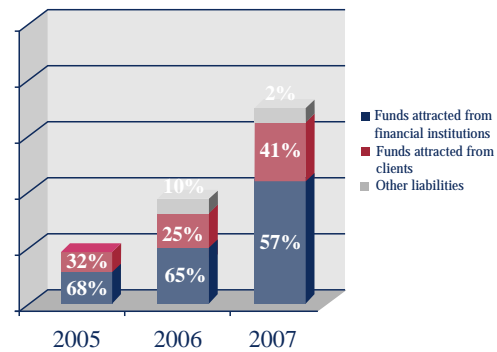
The structure and dynamics of assets
AMD million



In the reporting year the total liabilities increased by AMD 10.6 billion or 167% to AMD 17 billion. The increase of liabilities is equally attributable to the growth of funds attracted from financial institutions and clients. Funds attracted from financial institutions increased by AMD 5.6 billion or 136% to AMD 9.8 billion, and funds attracted from clients increased by AMD 5.4 billion or more than four times amounting to AMD 7 billion. Moreover, funds attracted from legal persons increased by more than 16 times, and their share in the funds attracted from clients was 80%.

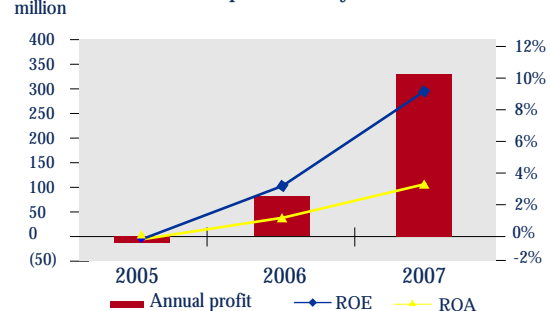
Net interest income increased by AMD 136.1 billion or 35% to AMD 527.7 million, and net non-interest income remained negative, AMD 139.5 million, but decreased by 46% on the previous year. The largest share of non-interest income, 56%, was of income from purchase and sale of government bonds. The growth of interest income was mainly due to increase of income from loans by 17% and investments in securities by more than 6 times. They constituted 87% of interest income.

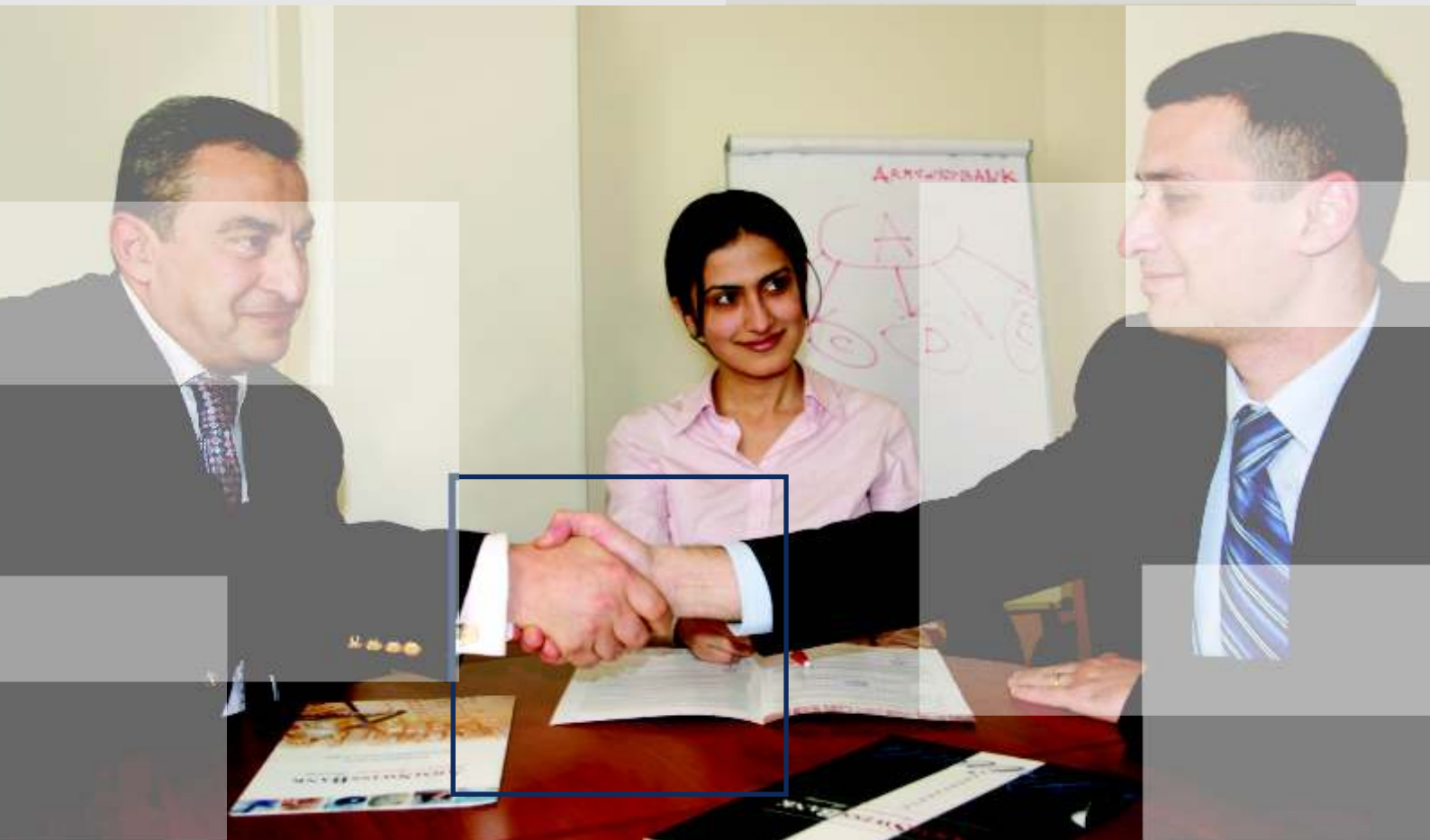
The structure and dynamics of liabilities
AMD million



Net profit of the Bank reached AMD 334 million in 2007. Profit growth was recorded by about 5 times or more than AMD 267.4 million. As a result, cumulative net income for the period from the beginning of Bank's operations till December 31 of 2007 composed AMD 380 million, AMD 20 million of which was directed to main reserve.

Dynamics of annual profit and indicators of profitability





PARTNERSHIP

We value sustainable and mutual cooperation with clients and partners to achieve win-win results



Financial Statements and Independent Auditor's
Report

ARMSWISSBANK CJSC

31 December 2007

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Independent auditor's report

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To the Shareholder and Board of Directors of Closed Joint Stock Company Armswissbank:

We have audited the accompanying financial statements of Armswissbank CJSC (the “Bank”) which comprise the balance sheet as at December 31, 2007, the financial performance, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of December 31, 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

4 March 2008
Yerevan
Grant Thornton Amyot LLC

Income statement

In thousand Armenian drams	Notes	Year ended December 31, 2007 (audited)	Year ended December 31, 2006 (audited)
Interest and similar income	6	807,373	625,864
Interest and similar expense	6	(279,685)	(234,285)
Net interest income		527,688	391,579
Fee and commission income	7	37,554	14,007
Fee and commission expense	7	(12,853)	(6,217)
Net fee and commission income		24,701	7,790
Net trading income	8	35,364	15,251
Gains less losses on investments available for sale		163,162	17,157
Other income	9	78,351	5,505
(Impairment charge)/ recovery of impairment for credit losses	10	8,793	(56,117)
Staff costs	11	(267,061)	(161,611)
Depreciation of property and equipment	18	(22,740)	(17,212)
Amortization of intangible assets	19	(3,314)	(3,133)
Other expenses	12	(135,076)	(114,973)
Profit before income tax		409,868	84,236
Income tax expense	13	(75,719)	(17,512)
Profit for the year		334,149	66,724

The accompanying notes on pages 7 to 45 are an integral part of these financial statements.

Balance sheet

In thousand Armenian drams	Notes	As of December 31, 2007 (audited)	As of December 31, 2006 (audited)
ASSETS			
Cash and balances with CBA	14	962,795	684,244
Amounts due from other financial institutions	15	9,105,933	1,063,395
Loans and advances to customers	16	4,509,799	2,572,866
Investments available for sale	17	2,554,627	1,691,984
Investments held to maturity	17	-	18,374
Securities pledged under repurchase agreements	25	3,667,165	3,288,538
Property, plant and equipment	18	58,038	63,783
Intangible assets	19	26,109	25,432
Deferred income tax assets	13	42,480	-
Other assets	20	9,982	9,182
TOTAL ASSETS		20,936,928	9,417,798
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to financial institutions	21	9,772,661	4,142,293
Amounts due to customers	22	6,969,347	1,604,721
Trading liabilities	23	177,974	590,054
Current income tax liabilities		55,668	10,853
Deferred income tax liabilities	13	-	1,407
Other liabilities	24	21,457	10,366
Total liabilities		16,997,107	6,359,694
Equity			
Share capital	26	3,750,000	3,000,000
Statutory general reserve		20,000	-
Other reserves		(189,534)	12,898
Retained earnings		359,355	45,206
Total equity		3,939,821	3,058,104
TOTAL LIABILITIES AND EQUITY		20,936,928	9,417,798

The financial statements from pages 3 to 45 were approved by the management of the Bank on 4 March 2008 and signed by the Bank's Executive Director and Chief Accountant. The accompanying notes on pages 7 to 45 are an integral part of these financial statements.

G. MACHANYAN

Executive Director

L. MARTIROSYAN

Chief accountant

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Revaluation reserve of sale investments	Retained earnings(accumulated loss)	Total
Balance as of January 1, 2006 (audited)	3,000,000	-	409	(21,518)	2,978,891
Net unrealized gains from changes in fair value	-	-	45,702	-	45,702
Net gains realized to net profit on disposal of available-for-sale instruments	-	-	(30,091)	-	(30,091)
Effect of deferred taxes	-	-	(3,122)	-	(3,122)
Total income and expense recognized directly in equity	-	-	12,489	-	12,489
Profit for the year	-	-	-	66,724	66,724
Total income and expense for the year	-	-	12,489	66,724	79,213
Balance as of December 31, 2006 (audited)	3,000,000	-	12,898	45,206	3,058,104
Net unrealized loss from changes in fair value	-	-	(141,599)	-	(141,599)
Net gains realized to net profit on disposal of available for sale instruments	-	-	(111,441)	-	(111,441)
Effect of deferred taxes	-	-	50,608	-	50,608
Total income and expense recognized directly in equity	-	-	(202,432)	-	(202,432)
Profit for the year	-	-	-	334,149	334,149
Total income and expense for the year	-	-	(202,432)	334,149	131,717
Increase in share capital	750,000	-	-	-	750,000
Distribution to reserve	-	20,000	-	(20,000)	-
Balance as of December 31, 2007 (audited)	3,750,000	20,000	(189,534)	359,355	3,939,821

Statement of cash flows

In thousand Armenian drams	Year ended December 31, 2007 (audited)	Year ended December 31, 2006 (audited)
Cash flows from operating activities		
Interest received	752,998	602,211
Interest paid	(269,309)	(224,627)
Fees and commissions received	37,554	14,007
Fees and commissions paid	(12,853)	(6,217)
Gains less losses from trading securities	(8,328)	(4,958)
Realised gains less losses from dealing in foreign currencies	43,692	20,209
Recovery of previously written off loans	18,296	17,259
Salaries and benefits paid	(234,824)	(160,159)
Other operating income received	55,533	-
Other operating expenses paid	(133,172)	(116,020)
Cash flows from operating activities before changes in operating assets and liabilities	249,587	141,705
<i>(Increase)/decrease in operating assets</i>		
Securities available for sale	(1,460,203)	(2,285,917)
Amounts due from other financial institutions	(5,116,350)	(553,122)
Loans and advances to customers	(2,358,030)	(278,406)
Other assets	(2,829)	485
<i>Increase/(decrease) in operating liabilities</i>		
Amounts due to financial institutions	89,237	(305,631)
Amounts due to customers	5,674,537	782,411
Other liabilities	1,536	1,024
Net cash used in operating activities before income tax	(2,922,515)	(2,497,451)
Income tax paid	(24,183)	(3,976)
Net cash flow used in operating activities	(2,946,698)	(2,501,427)
Cash flows from investing activities		
Purchase of investment securities	-	(18,355)
Dividends received	245	59
Proceeds from sale and redemption of investment securities	20,000	-
Purchase of property and equipment	(17,016)	(33,938)
Proceeds from sale of property and equipment	-	23
Purchase of intangible assets	(3,991)	(1,681)
Net cash used in investing activities	(762)	(53,892)
Cash flow from financing activities		
Proceeds from issue of share capital	750,000	-
Loans received from financial institutions	5,856,352	3,006,343
Net cash flow from financing activities	6,606,352	3,006,343
Effect of exchange rate changes on cash changes and cash equivalents	(247,925)	5,344
Net increase in cash and cash equivalents	3,410,967	456,368
Cash and cash equivalents at the beginning of the year	876,030	419,662
Cash and cash equivalents at the end of the year (Note 14)	4,286,997	876,030

Accompanying notes to the financial statements

1 Principal activities

Armswissbank CJSC (the “Bank”) incorporated in the Republic of Armenia (RA) in 2004 is a closed joint stock company regulated by the legislation of RA. The Bank conducts its business under license number 84, granted on 07.10.2004 by the Central Bank of Armenia (the “CBA”).

The Bank’s main activities include provision of corporate, investment and private banking services – investments in financial instruments, accepting deposits from physical and legal entities, provision of other service in the field of finance and banking. Its head office is located in Yerevan. The registered office of the Bank is located at: Khanjyan 13/2, Yerevan.

2 Business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. Consequently, operations carried out in Armenia involve certain risks that are not typically associated with those in developed countries.

The Bank could be affected, for the foreseeable future, by these risks and their consequences. The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Bank’s financial statements in the period when they become known and estimable.

In addition, economic conditions continue to limit the volume of activity in the financial markets. Market quotations in generally illiquid markets may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving many willing buyers and willing sellers.

3 Basis of preparation

3.1 Statement of compliance

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Reclassifications

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

3.5 New standards and interpretations

Certain new IFRSs became effective for the Bank from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies.

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007).

The IFRS 7 introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The adoption of IFRS 7 and the amendment to IAS 1 had no impact on the reported profits or financial position of the Bank. The new disclosures are made in these financial statements and in accordance with the transitional requirements of the standards, the Bank has provided full comparative information.

Other new standards or interpretations. The Bank has adopted the following other new standards or interpretations:

- IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006);
- IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006);
- IFRIC 9, *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006).

The effect of these changes on the financial statements of the Bank is not significant.

At the date of authorization of these financial statements, the following Standards and Interpretations to the Bank were issued but not yet effective:

- IFRIC 12 *Service Concession Arrangement* (effective January 1, 2008)
- IFRIC 13 *Customer Loyalty Programmes* (effective July 1, 2008)
- IFRIC 14 *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective January 1, 2008)
- IAS 23 *Borrowing Costs (revised 2007)* (effective January 1, 2009)
- IFRS 8 *Operating Segments* (effective January 1, 2009)

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Interest income and expense

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

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

Fee and commission income and expense

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts.

Dividend income

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

Net trading income

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

4.2 Foreign currency translation

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

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

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

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

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

	December 31, 2007	December 31, 2006
AMD/1 US Dollar	304.22	363.50
AMD/1 Euro	446.96	478.73

4.3 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Republic of Armenia also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of other expenses in the statement of income.

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia and amounts due from other banks, which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

4.5 Precious metals

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

4.6 Amounts due from other financial institutions

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

4.7 Derivative financial assets

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

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

4.8 Financial instruments

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

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

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

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

Financial assets at fair value through profit or loss

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

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

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

Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the statement of income.

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than insignificant amount of held-to-maturity assets not close to their maturity, the entire category would be reclassified as available-for-sale. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

Loans and receivables

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

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

Available-for-sale financial instruments

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

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

4.9 Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

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

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

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

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

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

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

Available-for-sale financial assets

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

4.10 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

4.11 Repurchase and reverse repurchase agreements

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The

corresponding liability is presented within amounts due to financial institutions or customers. Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized on the balance sheet. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

4.12 Securities lending and borrowing

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

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

4.13 Leases

Operating - Bank as leasee

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

4.14 Property, plant and equipment

Property, plant and equipment (“PPE”) are recorded at historical cost less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

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

	Useful life (years)	Rate (%)
Computers and communication	4	25
Vehicles	5	20
Office inventory	5	20
Other fixed assets	3-5	33.33-20

Repairs and maintenance are charged to the income statement during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Bank. Major renovations are depreciated over the remaining useful life of the related asset.

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

4.15 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

4.16 Borrowings

Borrowings, which include amounts due to the financial institutions and customers, are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the liabilities are derecognised as well as through the amortisation process.

4.17 Pensions

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Armenia, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

4.18 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value, in “Other liabilities”, being the premium received. Subsequently to initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

4.19 Share capital

Share capital

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

Treasury shares

Where the Bank purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

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

4.20 Offsetting

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

5 Critical accounting estimates and judgements

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

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

Classification of investment securities

Securities owned by the Bank comprise Armenian state and corporate bonds, securities issued by the Central Bank of Armenia and corporate shares. Upon initial recognition, the Bank designates securities as financial assets with recognition of changes in fair value through profit or loss, held to maturity financial assets or available-for-sale financial assets recognition of changes in fair value through equity.

Related party transactions

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

Allowance for Impairment of loans and receivables

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

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

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 27.

Impairment of available-for-sale equity investments

The Bank determined that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged required judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.

6 Interest and similar income and expense

In thousand Armenian drams	2007	2006
Loans and advances to customers	422,425	360,659
Debt investment securities available for sale	278,279	213,318
Amounts due from other financial institutions	66,462	21,029
Reverse repurchase transactions	31,120	30,858
Factoring	7,467	-
Other interest income	1,620	-
Total interest and similar income	807,373	625,864

In thousand Armenian drams	2007	2006
Amounts due to customers	155,593	104,812
Amounts due to financial institutions	48,120	77,397
Repurchase transactions	75,972	52,076
Total interest and similar expense	279,685	234,285

7 Fee and commission income and expense

In thousand Armenian drams	2007	2006
Cash collection	16,999	4,182
Wire transfer fees	12,254	4,776
Brokerage operations	4,275	-
Guarantees and letters of credit	2,526	2,996
Other fees and commissions	1,500	2,053
Total fee and commission income	37,554	14,007

In thousand Armenian drams	2007	2006
Wire transfer fees	5,969	5,882
Cash operations	-	259
Foreign currency translation operations	5,422	-
Guarantees and letters of credit	276	-
Other expenses	1,186	76
Total fee and commission expense	12,853	6,217

8 Net trading income

In thousand Armenian drams	2007	2006
Gains less losses from trading in foreign currencies	43,692	20,209
Gains less losses on trading and from changes in fair value of equity instruments	(8,328)	(4,958)
Total net trading income	35,364	15,251

9 Other income

In thousand Armenian drams	2007	2006
Fines and penalties received	1,538	2
Gains from operations of precious metals	49,809	-
Net gains from foreign currency translation of non-trading assets	22,818	5,344
Dividend income	245	59
Other income	3,941	100
Total other income	78,351	5,505

10 Impairment charge/(recovery of impairment) for credit losses

In thousand Armenian drams	2007	2006
Amounts due from other financial institutions (Note 15)	-	(2,246)
Loans and advances to customers (Note 16)	(8,793)	58,449
Other assets (Note 20)	-	(86)
Total impairment charge for credit losses	(8,793)	56,117

11 Staff costs

In thousand Armenian drams	2007	2006
Wages and salaries	245,444	147,310
Social security contributions	21,617	14,301
Total staff costs	267,061	161,611

12 Other expenses

In thousand Armenian drams	2007	2006
Fixed assets maintenance	7,498	5,747
Advertising expenses	2,463	1,590
Business trip expenses	10,152	5,675
Communications	29,743	32,108
Operating lease	36,023	28,620
Taxes, other than income tax, duties	11,357	12,372
Consulting and other services	5,842	4,002
Security	4,091	4,525
Loss on disposal of PPE	20	21
Representative expenses	10,552	8,930
Office supplies	7,167	2,280
Penalties paid	557	2,641
Other expenses	9,611	6,462
Total other expense	135,076	114,973

13 Income tax expense

In thousand Armenian drams	2007	2006
Current tax expense	68,614	16,000
Adjustments of current income tax of previous years	384	-
Deferred tax	6,721	1,512
Total income tax expense	75,719	17,512

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2006: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%. Numerical reconciliation between the tax expenses and accounting profit is provided below:

In thousand Armenian drams	2007	Effective rate (%)	2006	Effective rate (%)
Profit before tax	409,868		84,236	
Income tax at the rate of 20%	81,974	20	16,847	20
Non-taxable income	(49)	-	(12)	-
Non-deductible expenses	4,091	1	2,995	4
Foreign exchange gains	(8,481)	(2)	(1,069)	(1)
Other	(1,816)	-	(1,249)	(1)
Income tax expense	75,719	19	17,512	22

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2006	Recognized in income statement	Recognized in equity	2007
Accrued expenses and other liabilities	797	1269	-	2,066
Fair value measurement of the trading investments	1,522	(1,522)	-	-
Fair value measurement of the securities available for sale	-	-	47,384	47,384
Gross deferred tax assets	2,319	(253)	47,384	49,450
Allowances for impairment and provisions for other losses	(502)	(6,468)	-	(6,970)
Fair value measurement of the securities available for sale	(3,224)	-	3,224	-
Total deferred tax liability	(3,726)	(6,468)	3,224	(6,970)
Total deferred tax asset/(liability)	(1,407)	(6,721)	50,608	42,480

In thousand Armenian drams	2005	Recognized in income statement	Recognized in equity	2006
Accrued expenses and other liabilities	846	(49)	-	797
Fair value measurement of the trading investments	-	1,522	-	1,522
Accrued tax loss	2,628	(2,628)	-	-
Gross deferred tax assets	3,474	(1,155)	-	2,319
Allowances for impairment and provisions for other losses	(145)	(357)	-	(502)
Fair value measurement of the securities available for sale	(102)	-	(3,122)	(3,224)
Total deferred tax liability	(247)	(357)	(3,122)	(3,726)
Total deferred tax asset/(liability)	3,227	(1,512)	(3,122)	(1,407)

14 Cash, cash equivalents and balances with CBA

In thousand Armenian drams	2007	2006
Cash on hand	109,802	5,203
Correspondent accounts with the CBA	852,993	679,041
Included in cash and cash equivalents	962,795	684,244
Cash and balances with the CBA, included in cash flow	962,795	684,244
Placements with other banks (note 15)	3,324,202	191,786
Total cash and cash equivalents	4,286,997	876,030

As at 31 December 2007 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 8% of certain obligations of the Bank denominated in Armenian drams and 12% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 547,252 thousand (2006: AMD 142,603 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Mandatory reserve deposits are non-interest bearing.

15 Amounts due from other financial institutions

In thousand Armenian drams	2007	2006
Correspondent accounts with financial institutions	1,680,574	191,786
Deposits for less than 90 days	1,643,628	-
Included in cash and cash equivalents	3,324,202	191,786
Loans and deposits	115,411	20,049
Repos	558,630	851,560
Other accounts	5,107,690	-
	5,781,731	871,609
Total amounts due from other financial institutions	9,105,933	1,063,395

The movement in allowance for impairment losses on amounts due from other financial institutions was as follows:

In thousand Armenian drams	Total
January 01, 2006	2,246
Recovery	(2,246)
December 31, 2006	-
December 31, 2007	-

As at 31 December 2007 item “Deposits and loans in financial institutions” includes balance at the amount of AMD 37,981 thousand (2006: AMD 20,049 thousand), which is guarantee amount for making trade operations in international markets and the amount of AMD 21,295 thousand as security for banking guarantee.

As at 31 December 2007 the amount due from other financial institutions in amount of AMD 3,220,894 thousand (55 %) were due from one bank, which represent significant concentration.

Other accounts include short-term funds in various currencies signed by 24 contracts with banks and other financial institutions. The Bank placed with and simultaneously received short-term funds in various currencies, which presented in Note 21. These accounts include the accrued interest of the above-mentioned deposits at AMD 4,207 thousand.

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December are presented as follows:

In thousand Armenian drams	2007		2006	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Securities issued by the RA Ministry of Finance and Economy	559,490	558,630	844,492	851,560
Total assets pledged and loans under reverse repurchase agreements	559,490	558,630	844,492	851,560

The information on related parties is presented in Note 28.

16 Loans and advances to customers

In thousand Armenian drams	2007	2006
Loans to customers	3,360,069	2,500,051
Factoring	137,293	-
Loans granted under reverse repurchase agreements	369,779	98,017
Other amounts	677,363	-
	4,544,504	2,598,068
Less allowance for loan impairment	(34,705)	(25,202)
Total loans and advances to customers	4,509,799	2,572,866

As of 31 December 2007 accrued interest income included in loans and advances to customers amounted to AMD 30,138 thousand (2006: AMD 17,293 thousand).

As of December 31, 2007 the Bank had a concentration of loans represented by AMD 2,518,385 thousand due from the ten largest third party entities and parties related with them (55% of gross loan portfolio) (2006: AMD 2,283,728 thousand due from the eight largest third party entities and parties related with them or 88 %). An allowance of AMD 25,183 thousand (2006: AMD 22,152 thousand) was made against these loans. Other amounts include 2 deposits at the amount of USD

2,221 thousand due to legal entity with the maturity period for one year and the half, which cover the accrued interests at the amount of AMD 1,522 thousand, for which AMD 708,000 thousand has been attracted (the mentioned amount is included in Note 22).

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

In thousand Armenian drams	State owned enterprises	Privately held companies	Individuals	Sole proprietors	2007 Total
At 1 January 2007	70	21,063	4,069	-	25,202
Charge for the year/(recovery)	(70)	(15,561)	4,765	2,073	(8,793)
Recoveries	-	18,296	-	-	18,296
At 31 December 2007	-	23,798	8,834	2,073	34,705
Collective impairment	-	23,798	8,834	2,073	34,705

In thousand Armenian drams	State owned enterprises	Privately held companies	Individuals	Sole proprietors	2006 Total
At 1 January 2006	200	19,134	4,258	-	23,592
Charge/(recovery) for the year	(130)	58,768	(189)	-	58,449
Amounts written off	-	(56,839)	-	-	(56,839)
At 31 December 2006	70	21,063	4,069	-	25,202
Collective impairment	70	21,063	4,069	-	25,202

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

In thousand Armenian drams	2007	2006
State owned enterprises	-	7,000
Privately held companies	3,055,658	2,106,301
Individuals	1,251,423	467,474
Sole proprietors	207,285	-
Accrued interest	30,138	17,293
	4,544,504	2,598,068
Less allowance for loan and advances impairment	(34,705)	(25,202)
Total loans and advances to customers	4,509,799	2,572,866

Loans to individuals comprise the following products:

In thousand Armenian drams	2007	2006
Mortgage loans	415,593	38,957
Consumer loans	43,756	9,259
Car loans	-	970
Other	792,074	418,288
Total loans and advances to individuals (gross)	1,251,423	467,474

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December 2007 are presented as follows:

In thousand Armenian drams	2007		2006	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Securities issued by the Ministry of Finance of RA	348,525	369,779	101,363	98,017
Total assets pledged and loans under reverse repurchase agreements	348,525	369,779	101,363	98,017

As of 31 December 2007 out of total accepted securities AMD 162,016 thousand (2006: AMD 101,363 thousand) were repledged or lent to third parties for periods not exceeding three months from the transfer.

At 31 December 2007 and 2006 the estimated fair value of loans and advances to customers approximates its carrying value. Refer to Note 29.

Credit, currency, liquidity and interest rate analyses of loans and advances to customers are disclosed in Note 31. The information on related party balances is disclosed in Note 28.

17 Investment securities

In thousand Armenian drams	2007			2006
	Available-for-sale	Available-for-sale	Held-to-maturity	Total
Quoted investments				
Equity securities	4,538	1,906	-	1,906
Corporate bonds of other countries	44,773	392,070	-	392,070
	<u>49,311</u>	<u>393,976</u>	<u>-</u>	<u>393,976</u>
Unquoted investments				
Shares of Armenian companies	19,575	-	-	-
Securities issued by the Ministry of Finance of Armenia	2,081,097	1,298,008	-	1,298,008
Securities issued by the CBA	27,939	-	-	-
Corporate bonds of RA	376,705	-	18,374	18,374
	<u>2,505,316</u>	<u>1,298,008</u>	<u>18,374</u>	<u>1,316,382</u>
Total investments	<u><u>2,554,627</u></u>	<u><u>1,691,984</u></u>	<u><u>18,374</u></u>	<u><u>1,710,358</u></u>

All debt securities have fixed coupons.

The fair value of unquoted available-for-sale debt securities is measured using a valuation technique, which is based on available observable market data.

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

In thousand Armenian drams	2007		2006	
	%	Maturity	%	Maturity
Securities issued the Ministry of Finance of RA	6-14%	2008-2020	5-10%	2007-2021
Securities issued by the CBA	6%	2008	-	-
RA corporate shares	9-10.5%	2008-2009	-	-
Corporate bonds of other countries	8.25%	2010	4-8.25%	2010-2015

The RA debt securities available for sale at fair value of AMD 3,667,165 thousand (2006: AMD 3,288,538 thousand) were pledged to third parties for periods not exceeding one month. These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet (Note 25).

As of 31 December 2007 securities available for sale amounted to AMD 623, 235 thousand (2006: AMD 643,961 thousand) were pledged as collateral under deposit received from another bank (Note 21).

Held-to-maturity investments

In thousand Armenian drams	2007	2006
Nominal value	-	20,000
Discount	-	(1,626)
Total investments held to maturity	-	18,374

Held-to-maturity securities upon profitability and maturity terms:

In thousand Armenian drams	2007		2006	
	%	Maturity	%	Maturity
RA corporate shares	-	-	9%	2007

18 Property, plant and equipment

In thousand Armenian drams

	Computers	Vehicles	Office equipment	Total
COST				
Initial cost at January 1, 2006	41,084	5,073	12,327	58,484
Additions	13,959	16,998	2,981	33,938
Disposals	(56)	-	-	(56)
At December 31, 2006	54,987	22,071	15,308	92,366
Additions	11,831	-	5,185	17,016
Disposals	-	-	(60)	(60)
At December 31, 2007	66,818	22,071	20,433	109,322
DEPRECIATION				
At January 1, 2006	8,339	1,117	1,927	11,383
Depreciation charge	11,237	3,003	2,972	17,212
Disposals	(12)	-	-	(12)
At December 31, 2006	19,564	4,120	4,899	28,583
Depreciation charge	14,576	4,453	3,711	22,740
Disposals	-	-	(39)	(39)
At December 31, 2007	34,140	8,573	8,571	51,284
CARRYING VALUE				
At December 31, 2007	32,678	13,498	11,862	58,038
At December 31, 2006	35,423	17,951	10,409	63,783

Fully depreciated items

As at 31 December 2007 fixed assets included fully depreciated and amortized assets in amount of AMD 1,510 thousand.

Fixed assets in the phase of installation

As at 31 December 2007 fixed assets included assets in the phase of installation in amount of AMD 3,791 thousand (2006: AMD 1,500 thousand), which are not amortized and are classified in accordance with their type.

19 Intangible assets

In thousand Armenian drams	Trademarks, licenses and patents	Acquired software licenses	Other	Total
COST				
At January 1, 2006	529	27,875	316	28,720
Additions	-	1,681		1,681
Disposals	-	(274)	(316)	(590)
At December 31, 2006	529	29,282	-	29,811
Additions	-	3,991	-	3,991
Disposals	(529)	-	-	(529)
At December 31, 2007	-	33,273	-	33,273
AMORTISATION				
At January 1, 2006	216	1,049	19	1,284
Amortisation charge	313	2,812	8	3,133
Disposals	-	(11)	(27)	(38)
At December 31, 2006	529	3,850	-	4,379
Amortisation charge	-	3,314	-	3,314
Disposals	(529)	-	-	(529)
At December 31, 2007	-	7,164	-	7,164
CARRYING VALUE				
At December 31, 2007	-	26,109	-	26,109
At December 31, 2006	-	25,432	-	25,432

20 Other assets

In thousand Armenian drams	2007	2006
Prepayments and other debtors	2,702	1,819
Accounts receivable	4,500	4,500
Other prepaid taxes	1,574	2,494
Stock	1,206	364
Settlements with employees	-	5
Total other assets	9,982	9,182

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

In thousand Armenian drams	Total
At January 1, 2006	86
Reverse	(86)
At December 31, 2006	-
At December 31, 2007	-

21 Amounts due to financial institutions

In thousand Armenian drams	2007	2006
Obligations of the CBA (repurchase agreements, loans)	2,321,899	401,047
Correspondent accounts of other banks	151,688	99,901
Current accounts of other financial institutions	6,720	9,598
Deposits from financial institutions	620,548	727,363
Loans under repurchase agreements	1,515,115	2,904,384
Other amounts	5,156,691	-
Total amounts due to financial institutions	9,772,661	4,142,293

Obligations of CBA include loans in the amount of AMD 169,826 thousand received within the scope of “Small and medium business loan project” of German-Armenian fund and loans under repurchase agreements in the amount of AMD 2,152,073 thousand (2006: AMD 401,047 thousand).

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

As of 31 December 2007 for the securities available for sale amounted to AMD 623, 235 thousand (2006: AMD 643,961 thousand) were pledged as collateral under deposits received from a resident bank in the amount of USD 775,000 and EUR 850,000 (Note 17).

During 2007, the Bank placed with and received short-term funds from banks and financial institutions in various currencies (these amounts are included in other amounts, refer to Note 15).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2006: nil).

22 Amounts due to customers

In thousand Armenian drams	2007	2006
Legal entities		
Current/Settlement accounts	2,541,034	93,953
Time deposits	2,352,386	257,055
Other liabilities	708,000	-
	<u>5,601,420</u>	<u>351,008</u>
Individuals		
Current/Settlement accounts		
Time deposits	157,828	61,537
	<u>1,210,099</u>	<u>1,192,176</u>
	<u>1,367,927</u>	<u>1,253,713</u>
Total amounts due to customers	<u><u>6,969,347</u></u>	<u><u>1,604,721</u></u>

All customer deposits carry fixed interest rates.

As at 31 December 2007 included in amounts due to customers are deposits amounting to AMD 135,757 thousand held as security against loans and guarantees issued (2006: AMD 145,000 thousand). The fair value of those deposits approximates the carrying amount.

At 31 December 2007 the aggregate balance of top four customers of the Bank (2006: 1 customer) amounts to AMD 4,432,095 thousand (2006: AMD 987,880 thousand) or 64% of total customer accounts (2006: 58%) and the balance of clients of the Bank (the shareholder and two related parties) amounts to AMD 2,774,144 thousand (40%), while in 2006 it was AMD 987,880 thousand (2006: 58%) (Note 28).

Other liabilities are the amount of AMD 780,000 thousand attracted from a legal entity, against which deposits in the amount of USD 2,221 thousand have been placed (Refer to Note 16)

23 Trading liabilities

The trading liabilities have been designed in the result of sale of state securities purchased by the Bank from the financial institutions and individuals. The Bank intends to repurchase them in a short period of time.

24 Other liabilities

In thousand Armenian drams	2007	2006
Accounts payables	5,788	3,776
Tax payable, other than income tax	3,545	2,292
Revenues of future periods	1,250	-
Due to personnel	10,253	3,986
Other	621	312
Total other liabilities	<u><u>21,457</u></u>	<u><u>10,366</u></u>

25 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	2007	2006	2007	2006
Investment securities (Note 17)	3,667,165	3,288,538	3,667,188	3,305,431

26 Equity

As at 31 December 2007 the Bank's registered and paid-in share capital was AMD 3,750,000 thousand. In accordance with the Bank's statutes, the share capital consists of 6,250 ordinary shares, all of which have a par value of AMD 600,000 each.

The only shareholder of the Bank is Swiss businessman Vardan Sirmakes.

In 2007 the shareholders of the Bank increased its share capital by AMD 750,000 thousand. This increase has been performed in AMD and the shareholder has the right to receive a share and distribute the profit in AMD.

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

27 Contingent liabilities and commitments

Tax and legal matters

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

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

As of 31 December 2007 there were no legal actions and complaints taken against the Bank.

Therefore, the Bank has not made any respective provision related to such tax and legal matters. Subsequently no reserves concerning legal and tax liabilities were formed.

Loan commitment, guarantee and other financial facilities

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	2007	2006
Undrawn loan commitments	64,106	73,948
Guarantees provided	69,318	21,411
Total credit related commitments	133,424	95,359

Operating lease commitments – Bank as a leasee

In the normal course of business the Bank enters into commercial lease agreements for office equipment, central office and branch facilities.

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

In thousand Armenian drams	2007	2006
Not later than 1 year	36,000	31,200
Later than 1 year and not later than 5 years	102,700	117,000
Total operating lease commitments	138,700	148,200

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Armenia at present.

Starting from 2005 the Bank is member of the obligatory deposit insurance system. The system operates under the Armenian laws and regulations and is governed by the Law on Guarantee of Physical Persons Deposits. Insurance covers Bank's liabilities to individual depositors for the amount up to AMD 2,000 thousand (up to AMD 1,000 thousand for deposits in foreign currency) for each individual in case of business failure and revocation of the banking license.

28 Transactions with related parties

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

The ultimate controlling party of the Bank is the only shareholder Swiss businessman Vardan Sirmakes.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	2007		2006	
	Shareholders and related parties	Key management and related parties	Shareholders and related parties	Key management and related parties
Loans				
Loans outstanding at January 1, gross	-	22,554	-	6,415
Loans issued during the year	-	180,185	-	21,659
Loan repayments during the year	-	(166,874)	-	(5,520)
Loans outstanding at December 31, gross	-	35,865	-	22,554
Less: allowance for loan impairment	-	(357)	-	(225)
Loans outstanding at December 31	-	35,508	-	22,329
Interest income on loans	-	4,498	-	1,462
Deposits				
Deposits at January 1	988,336	25,554	731,615	183
Deposits received during the year	8,931,818	996,770	767,014	255,087
Deposits paid during the year	(7,109,263)	(997,571)	(510,293)	(229,726)
Deposits at December 31	2,810,891	24,753	988,336	25,544
Interest expense on deposits	83,616	1,238	(83,700)	(573)
Amounts due from other financial institutions	122	-	17,313	-
Liabilities to other financial institutions	8,075	-	8,259	-
Interest expense	-	-	853	-
Guarantees issued	30,422	500	-	-
Income statement items				
Fee and commission income	431	608	5	106
Other income	360	60	-	-
Fee and commission expense	-	-	170	-

The loans issued to directors and other key management personnel are repayable within the period from 1 to 9 years and have average weighted interest rates of 14 % (2006: 12 %).

Compensation of key management was comprised of the following:

In thousand Armenian drams	2007	2006
Salaries and other short-term benefits	162,322	106,713
Contributions to the pension fund	10,782	7,888
Total key management compensation	173,104	114,601

29 Fair value of financial instruments

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Fair value approximates carrying amounts as current interest rates for new instruments reflect interest rate for instruments originated previously.

30 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 31.3 for the Bank's contractual undiscounted repayment obligations.

In thousand Armenian drams								2007
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Cash and balances with CBA	962,795	-	-	962,795	-	-	-	962,795
Amounts due from other financial institutions	8,597,418	440,133	25,141	9,062,692	43,241	-	43,241	9,105,933
Loans and advances to customers	553,918	563,839	621,754	1,739,511	2,429,612	340,676	2,770,288	4,509,799
Investments available for sale	72,528	72,733	380,523	525,784	1,466,947	561,896	2,028,843	2,554,627
Securities pledged under repurchase agreements	3,667,165	-	-	3,667,165	-	-	-	3,667,165
	<u>13,853,824</u>	<u>1,076,705</u>	<u>1,027,418</u>	<u>15,957,947</u>	<u>3,939,800</u>	<u>902,572</u>	<u>4,842,372</u>	<u>20,800,319</u>
LIABILITIES								
Amounts due to financial institutions	8,923,338	458,343	223,480	9,605,161	74,535	92,965	167,500	9,772,661
Amounts due to customers	3,018,223	365,959	509,460	3,893,642	3,075,705	-	3,075,705	6,969,347
Trading liabilities	177,974	-	-	177,974	-	-	-	177,974
	<u>12,119,535</u>	<u>824,302</u>	<u>732,940</u>	<u>13,676,777</u>	<u>3,150,240</u>	<u>92,965</u>	<u>3,243,205</u>	<u>16,919,982</u>
Net position	<u>1,734,289</u>	<u>252,403</u>	<u>294,478</u>	<u>2,281,170</u>	<u>789,560</u>	<u>809,607</u>	<u>1,599,167</u>	<u>3,880,337</u>
Accumulated gap	<u>1,734,289</u>	<u>1,986,692</u>	<u>2,281,170</u>		<u>3,070,730</u>	<u>3,880,337</u>		

In thousand Armenian drams

2006

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Cash and balances with CBA	684,244	-	-	684,244	-	-	-	684,244
Amounts due from other financial institutions	963,143	100,252	-	1,063,395	-	-	-	1,063,395
Loans and advances to customers	182,546	171,848	1,159,928	1,514,322	1,053,507	5,037	1,058,544	2,572,866
Investments available for sale	30,443	148,626	419,564	598,633	779,694	313,657	1,093,351	1,691,984
Investments held to maturity	-	-	18,374	18,374	-	-	-	18,374
Securities pledged under repurchase agreements	3,288,538	-	-	3,288,538	-	-	-	3,288,538
	<u>5,148,914</u>	<u>420,726</u>	<u>1,597,866</u>	<u>7,167,506</u>	<u>1,833,201</u>	<u>318,694</u>	<u>2,151,895</u>	<u>9,319,401</u>
LIABILITIES								
Amounts due to financial institutions	3,735,955	-	406,338	4,142,293	-	-	-	4,142,293
Amounts due to customers	123,239	236,253	1,071,023	1,430,515	174,206	-	174,206	1,604,721
Trading liabilities	590,054	-	-	590,054	-	-	-	590,054
	<u>4,449,248</u>	<u>236,253</u>	<u>1,477,361</u>	<u>6,162,862</u>	<u>174,206</u>	<u>-</u>	<u>174,206</u>	<u>6,337,068</u>
Net position	<u>699,666</u>	<u>184,473</u>	<u>120,505</u>	<u>1,004,644</u>	<u>1,658,995</u>	<u>318,694</u>	<u>1,977,689</u>	<u>2,982,333</u>
Accumulated gap	<u>699,666</u>	<u>884,139</u>	<u>1,004,644</u>		<u>2,663,639</u>	<u>2,982,333</u>		

31 Risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by a Risk Management Department under policies approved by the Board of Directors. The Risk Management Department identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

31.1 Credit risk

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

31.1.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below represents a worse case scenario of credit risk exposure to the Bank at 31 December 2007 and 2006, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

In thousand Armenian drams	Notes	Gross maximum exposure as of December 31, 2007	Gross maximum exposure as of December 31, 2006
Cash and balances with CBA	14	962,795	684,244
Amounts due from other financial institutions	15	9,105,933	1,063,395
Loans and advances to customers	16	4,509,799	2,572,866
Investments available for sale	17	2,554,627	1,691,984
Investments held to maturity	17	-	18,374
Securities pledged under repurchase agreements	25	3,667,165	3,288,538
Total		20,800,319	9,319,401
Commitments and contingent liabilities	27	133,424	95,359
Total credit risk exposure		20,933,743	9,414,760

When financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

31.1.2 Risk concentrations of the maximum exposure to credit risk

Geographical sectors

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

In thousand Armenian drams	Armenia	Other non-OECD countries	OECD countries	Total
Cash and balances with CBA	962,795	-	-	962,795
Amounts due from other financial institutions	2,757,105	3,316,097	3,032,731	9,105,933
Loans and advances to customers	4,479,431	30,368	-	4,509,799
Investments available for sale	2,505,316	4,538	44,773	2,554,627
Securities pledged under repurchase agreements	3,667,165	-	-	3,667,165
As at 31 December 2007	14,371,812	3,351,003	3,077,504	20,800,319
As at 31 December 2006	8,521,180	624,191	174,030	9,319,401

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

Industry sectors

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

In thousand Armenian drams	Financial institutions	Manufacturing	Trade	Service	Transport	Consumer sector	Other	Total
Cash and balances with CBA	962,795	-	-	-	-	-	-	962,795
Amounts due from other financial institutions	9,105,933	-	-	-	-	-	-	9,105,933
Loans and advances to customers	-	933,750	188,136	402,566	453,419	1,495,084	1,036,844	4,509,799
Investments available for sale	2,177,925	202,908	-	-	-	173,794	-	2,554,627
Securities pledged under repurchase agreements	3,667,165	-	-	-	-	-	-	3,667,165
As at 31 December 2007	15,913,818	1,136,658	188,136	402,566	453,419	1,668,878	1,036,844	20,800,319
As at 31 December 2006	6,760,088	1,021,959	247,938	399,885	49,102	372,446	467,983	9,319,401

31.1.3 Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of the Bank.

The Board has defined criteria for choosing counterparties in the framework of credit risk based on the rating of famous credit rating agencies such as S&P's and Moody's Credit Rating agencies. The Board of the Bank exceptionally specifies corresponding limits of credit risk if a necessity arises to collaborate with a counterparty which does not have investment reputation.

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

Some other specific control and mitigation measures are outlined below.

Collateral

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

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

The analysis of loan portfolio by collateral is represented as follows:

In thousand Armenian drams	2007	2006
Loans collateralized by real estate	2,884,138	1,927,615
Loans collateralized by movable property	364,255	209,831
Loans collateralized by guarantees of enterprises	181,428	132,416
Loans collateralized by shares of other companies	8,336	82,765
Loans collateralized by cash	708,135	130,859
Other collateral	368,074	97,289
Interest	30,138	17,293
Total loans and advances to customers	4,544,504	2,598,068

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

31.1.4 Impairment and provisioning policies

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

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Loans and advances neither past due or impaired

The table below shows the credit quality by class of asset for loans and advances neither past due or impaired, based on the historical counterparty default rates.

In thousand Armenian drams	2007	2006
Loans and advances to customers		
Privately held companies	-	-
Individuals	0.9%	0.9%
Sole proprietors	-	-

Past due but not impaired loans

As of 31.12.2007 and 31.12.2006 the Bank has not had any past due loans.

Reviewed loans

As of 31.12.2007 and 31.12.2006 the Bank has not had any reviewed loans.

31.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The market risk for the trading portfolio is managed and monitored based on a VaR methodology. Non-trading positions are managed and monitored based on hedging strategies and positions management.

31.2.1 Market risk – Non-trading**Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2007, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, at 31 December 2007 for the effects of the assumed changes in interest rates. At 31 December 2007 the Bank has no floating interest rate financial instruments. The sensitivity of equity is analysed by maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

In thousand Armenian drams						2007
Currency	Change in basis points	Sensitivity of equity				Total
		Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	
AMD	+1	561	1,272	33,383	22,631	57,846
USD	+1	-	-	5	36	41
AMD	-1	567	1,293	34,764	24,406	61,228
USD	-1	-	-	5	38	43

In thousand Armenian drams						2006
Currency	Change in basis points	Sensitivity of equity				Total
		Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	
AMD	+1	170	565	13,137	30,297	44,169
USD	+1	-	-	5	36	41
AMD	-1	172	574	13,655	30,297	47,871
USD	-1	-	-	5	38	43

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency. Positions are monitored

on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2007 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges, and equity instruments). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams		2007		2006
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	+5%	(1,712)	+12%	(6,884)
EUR	+5%	2,530	+12%	184

The Bank's exposure to foreign currency exchange risk is as follows:

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
ASSETS				
Cash and balances with the CBA	962,795	-	-	962,795
Amounts due from other financial institutions	2,757,105	3,316,097	3,032,731	9,105,933
Loans and advances to customers	4,479,431	30,368	-	4,509,799
Investments available for sale	2,505,316	4,538	44,773	2,554,627
Securities pledged under repurchase agreements	3,667,165	-	-	3,667,165
	14,371,812	3,351,003	3,077,504	20,800,319
LIABILITIES				
Amounts due to financial institutions	6,792,713	-	2,979,948	9,772,661
Amounts due to customers	2,235,789	4,680,546	53,012	6,969,347
Trading liabilities	177,974	-	-	177,974
	9,206,476	4,680,546	3,032,960	16,919,982
Net position as at 31 December 2007	5,165,336	(1,329,543)	44,544	3,880,337
Credit related commitments as at 31 December 2007	133,424	-	-	133,424
Total financial assets	8,521,180	624,191	174,030	9,319,401
Total financial liabilities	5,228,421	1,101,760	6,887	6,337,068
Net position as at 31 December 2006	3,292,759	(477,569)	167,143	2,982,333
Credit related commitments as at 31 December 2006	95,359	-	-	95,359

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

31.3 Liquidity risk

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

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

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

- General liquidity ratio (N_2^1), which is calculated monthly as the daily average ratio of highly-liquid assets to total assets; the ratio was 49% at 31 December 2007 (2006: 25%).
- Current liquidity ratio (N_2^2), which is calculated monthly as the daily average ratio of highly-liquid assets to on-demand liabilities; the ratio was 181% at 31 December 2007 (2006: 842%).

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2007 based on contractual undiscounted repayment obligations. See note 30 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

						2007
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
FINANCIAL LIABILITIES						
Amounts due to financial institutions	8,923,338	458,343	223,480	74,535	92,965	9,772,661
Amounts due to customers	3,018,223	365,959	509,460	3,075,705	-	6,969,347
Trading liabilities	177,974	-	-	-	-	177,974
Total undiscounted financial liabilities	<u>12,119,535</u>	<u>824,302</u>	<u>732,940</u>	<u>3,150,240</u>	<u>92,965</u>	<u>16,919,982</u>
Credit related commitments	<u>25,155</u>	<u>26,453</u>	<u>10,044</u>	<u>71,783</u>	<u>-</u>	<u>133,424</u>

In thousand Armenian drams						2006
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
FINANCIAL LIABILITIES						
Amounts due to financial institutions	3,735,955	-	406,338	-	-	4,142,293
Amounts due to customers	123,239	236,253	1,071,023	174,206	-	1,604,721
Trading liabilities	590,054	-	-	-	-	590,054
Total undiscounted financial liabilities	4,449,248	236,253	1,477,361	174,206	-	6,337,068
Credit related commitments	1,000	-	38,892	55,467	-	95,359

The deposits received from the Bank related parties are significant which is based on the gradual formation of depositary database. The Management of the Bank believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

32 Capital adequacy

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

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

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

In thousand Armenian drams	2007		2006	
	Actual	Required	Actual	Required
Tier 1 capital	4,086,981	-	3,056,302	-
Tier 2 capital	(89,849)	-	6,414	-
Total capital	3,997,132	2,400,000	3,062,716	2,400,000
Risk weighted assets	4,357,841	-	2,866,114	-
Tier 1 capital ratio	92%	8%	107%	8%
Total capital ratio	94%	12%	107%	12%

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit and general reserve. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves.

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

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

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

Bank Details

Full name:	"ARMSWISSBANK" CJSC
Licenses:	Banking License N 84 granted by the Central Bank of Armenia on February 25, 2005 Brokerage License N BG0064 granted by the Central Bank of Armenia on May 30, 2007 Custodian License N PG0065 granted by the Central Bank of Armenia on May 30, 2007
Address:	13/2 Khanjyan Str., Yerevan 0010, Republic of Armenia
Tax Code:	02574955
Correspondent account at the Central Bank of RA:	103002102509
SWIFT code:	ARSJAM22
Reuters page:	ARSJ, ARSI
Bloomberg page:	ASWI
Telephone:	+374 10 529593, 584419
Fax:	+374 10 529591
E-mail:	info@armswissbank.am
URL:	www.armswissbank.am, www.armswissbank.com
Service hours:	9:30 - 17:30 (weekdays)

Main clearing accounts for international payments as of 31.12.2007

Austria			
Vienna	Raiffeisen Zentralbank Osterreich AG	EUR	RZBA AT WW
		USD	
		Custody Acc	
Switzerland			
Zurich	UBS AG	CHF	UBSW CH ZH80A
		EUR	
		USD	
Germany			
Frankfurt am Main	Commerzbank AG	EUR	COBA DE FF
		USD	
Russian Federation			
Moscow	UniCreditBank	RUB	IMBK RU MM
		EUR	
		USD	
		GBP	
		CHF	
Moscow	Promsvyazbank JSCB	CHF	PRMSRUMM
		EUR	
		USD	
Latvia			
Riga	Rietumu Banka	EUR	RTMBLV2X
		USD	
		LVL	
		RUB	
Riga	Norvik Bank JSC	EUR	LATBLV22
		USD	
Ukraine			
Kiev	UkrSotsbank JS CB	EUR	UKRSUAUX
		USD	
		UAH	
Republic of Armenia			
Yerevan	Central Bank of Armenia	EUR	CBRA AM 22
		USD	
		AMD	
		Custody Acc	

Membership to Associations and Professional Bodies:

Union of Banks of Armenia (UBA)
 Armenian stock exchange SRO
 Society for Worldwide Interbank Financial Telecommunications (SWIFT)
 American Chamber of Commerce in Armenia (AMCHAM)
 Partner Bank of the German-Armenian Fund (Renewable Energy program)
 Mortgage Market Participants Association of Armenia (MMPAA)
 Armenian Credit Reporting Agency (ACRA)

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www.armswissbank.com / www.armswissbank.am

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