Grant Thornton

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**
(Increase)/decrease in operating assets		
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
Increase/(decrease) in operating liabilities		
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 purposed, 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 leasers 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 financials 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 it 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** **Available-for-sale**	Available-for-sale	Held-to-maturity	2006 Total
Quoted investments				
Equity securities	**4,538**	1,906	-	1,906
Corporate bonds of other countries	**44,773**	392,070	-	392,070
	49,311	393,976	-	393,976
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
	2,505,316	1,298,008	18,374	1,316,382
Total investments	**2,554,627**	1,691,984	18,374	1,710,358

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**	-
	5,601,420	351,008
Individuals		
Current/Settlement accounts		
Time deposits	**157,828**	61,537
	1,210,099	1,192,176
	1,367,927	1,253,713
Total amounts due to customers	**6,969,347**	1,604,721

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	**21,457**	10,366

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 statues, 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** Shareholders and related parties	**Key management and related parties**	2006 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**
	13,853,824	1,076,705	1,027,418	***15,957,947***	3,939,800	902,572	***4,842,372***	**20,800,319**
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**
	12,119,535	824,302	732,940	***13,676,777***	3,150,240	92,965	***3,243,205***	**16,919,982**
Net position	**1,734,289**	**252,403**	**294,478**	***2,281,170***	**789,560**	**809,607**	***1,599,167***	**3,880,337**
Accumulated gap	**1,734,289**	**1,986,692**	**2,281,170**		**3,070,730**	**3,880,337**		

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**
	5,148,914	420,726	1,597,866	***7,167,506***	1,833,201	318,694	***2,151,895***	**9,319,401**
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**
	4,449,248	236,253	1,477,361	***6,162,862***	174,206	-	***174,206***	**6,337,068**
Net position	**699,666**	**184,473**	**120,505**	***1,004,644***	**1,658,995**	**318,694**	***1,977,689***	**2,982,333**
Accumulated gap	**699,666**	**884,139**	**1,004,644**		**2,663,639**	**2,982,333**		

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	Manufac-turing	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**
			Sensitivity of equity			
Currency	**Change in basis points**	**Up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
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
			Sensitivity of equity			
Currency	Change in basis points	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
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.

In thousand Armenian drams						**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	**12,119,535**	**824,302**	**732,940**	**3,150,240**	**92,965**	**16,919,982**
Credit related commitments	**25,155**	**26,453**	**10,044**	**71,783**	**-**	**133,424**

In thousand Armenian drams	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	2006 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.

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