



Financial Statements and Independent  
Auditor's Report

RENESA Closed Joint Stock Company

31 December 2007

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## Independent auditor's report

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To the Shareholders Closed Joint Stock Company "RENE SA":

We have audited the accompanying financial statements of "RENE SA" CJSC (the "Company"), which comprise the balance sheet as at December 31, 2007, and the income statement, 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 procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company's internal control.

*Income Statement*

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 Company 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.

13 March 2008  
Yerevan  
Grant Thornton Amyot LLC

*Grant Thornton Amyot LLC*



# Income statement

In thousand Armenian drams

	Notes	Year ended December 31, 2007 (audited)	Year ended December 31, 2006 (unaudited)
<b>Income</b>			
Interest and similar income	6	113,417	63,248
Gains less losses on investments available for sale		67,613	29,189
<b>Total income</b>		<b>181,030</b>	<b>92,437</b>
<b>Expenses</b>			
Interest and similar expense	6	(55,094)	(40,769)
Staff costs	7	(8,697)	(6,214)
Depreciation of property and equipment	14	(3,735)	(134)
Other expenses	8	(9,251)	(4,620)
<b>Total operating expenses</b>		<b>(76,777)</b>	<b>(51,737)</b>
<b>Profit before income tax</b>		<b>104,253</b>	<b>40,700</b>
Income tax expense	9	(20,805)	(8,140)
<b>Profit for the year</b>		<b>83,448</b>	<b>32,560</b>

The accompanying notes on pages 7 to 24 are an integral part of these financial statements.



## Statement of changes in equity

In thousand Armenian drams

	Share capital	Statutory general reserve	Revaluation reserve of securities available for sale	Retained earnings	Total
<b>Balance as of January 1, 2006 (unaudited)</b>	<b>5,000</b>	<b>750</b>	-	<b>21,698</b>	<b>27,448</b>
Net unrealized gains from changes in fair value	-	-	82,235	-	82,235
Net gains realized to net profit on disposal of available-for-sale instruments	-	-	(29,189)	-	(29,189)
Effect of deferred taxes	-	-	(10,609)	-	(10,609)
Total income and expense recognized directly in equity	-	-	<b>42,437</b>	-	<b>42,437</b>
Profit for the year	-	-	-	32,560	32,560
Total income and expense for the year	-	-	<b>42,437</b>	<b>32,560</b>	<b>74,997</b>
Dividends to shareholders	-	-	-	(21,500)	(21,500)
<b>Balance as of December 31, 2006 (unaudited)</b>	<b>5,000</b>	<b>750</b>	<b>42,437</b>	<b>32,758</b>	<b>80,945</b>
Net unrealized loss from changes in fair value	-	-	(23,438)	-	(23,438)
Net gains realized to net profit on disposal of available-for-sale instruments	-	-	(67,613)	-	(67,613)
Effect of deferred taxes	-	-	18,210	-	18,210
Total income and expense recognized directly in equity	-	-	<b>(72,841)</b>	-	<b>(72,841)</b>
Profit for the year	-	-	-	83,448	83,448
Total income and expense for the year	-	-	<b>(72,841)</b>	<b>83,448</b>	<b>10,607</b>
Increase in share capital	95,000	-	-	-	95,000
Dividends to shareholders	-	-	-	(27,700)	(27,700)
<b>Balance as of December 31, 2007 (audited)</b>	<b>100,000</b>	<b>750</b>	<b>(30,404)</b>	<b>88,506</b>	<b>158,852</b>

In thousand Armenian drams

	Share capital	Statutory general reserve	Revaluation reserve of securities available for sale	Retained earnings	Total
<b>Balance as of January 1, 2006 (unaudited)</b>	<b>5,000</b>	<b>750</b>	<b>-</b>	<b>21,698</b>	<b>27,448</b>

# Statement of cash flows

In thousand Armenian drams	Year ended December 31, 2007 (audited)	Year ended December 31, 2006 (unaudited)
<b>Cash flows from operating activities</b>		
Interest received	105,177	63,248
Interest paid	(53,788)	(40,156)
Gains less losses from securities available for sale	67,613	29,189
Salaries and benefits paid	(6,121)	(4,184)
Other operating expenses paid	(9,836)	(6,137)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>103,045</b>	41,960
<i>Net (increase)/decrease in operating assets</i>		
Advances to customers	(30,000)	-
Securities available for sale	(387,930)	(185,733)
Other receivables	(67)	-
<i>Increase/(decrease) in operating liabilities</i>		
Short term loans and advances	321,073	189,861
Accounts payable	(300)	237
<b>Net cash flow from operating activities before income tax</b>	<b>5,821</b>	46,325
Income tax paid	(10,430)	(6,936)
<b>Net cash from/(used in) operating activities</b>	<b>(4,609)</b>	39,389
<b>Cash flows from investing activities</b>		
Purchase of investment securities	(30,499)	(4,369)
<b>Net cash used in investing activities</b>	<b>(30,499)</b>	(4,369)
<b>Cash flow from financing activities</b>		
Proceeds from issue of share capital	95,000	-
Dividends paid to shareholders	(27,700)	(21,500)
<b>Net cash flow from/(used in) financing activities</b>	<b>67,300</b>	(21,500)
<b>Net increase in cash and cash equivalents</b>	<b>32,192</b>	13,520
Cash and cash equivalents at the beginning of the year	18,335	4,815
<b>Cash and cash equivalents at the end of the year (Note 10)</b>	<b>50,527</b>	18,335

# Accompanying notes to the financial statements

## 1 Principal activities

RENESA CJSC (the “Company”) is a closed joint-stock company, which was incorporated in the Republic of Armenia in 2001, and it is regulated by the legislation of RA. The Company was registered on 11.04.2001 by the State Register of Companies (registration number 286.120.04191, Certificate 02A050348), on 15.06.2001 the Company was granted a Brokerage Activity Licence by the Securities Commission of RA.

The Company’s performs professional activity in the market; particularly it executes transactions in securities in his or the customer’s name and on the account of the customer.

Its main office is in Yerevan. The registered office of the Company is located at: 16 Vardanants street, Yerevan, 0010, RA.

## 2 Armenian 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.

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 Company’s financial statements in the period when they become known and estimable.

## 3 Basis of preparation

### 3.1 Statement of compliance

The financial statements of the Company 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 historical cost.

### 3.3 Functional and presentation currency

Functional currency of the Company is the currency of the primary economic environment in which the Company operates. The Company’s functional currency and the Company’s

presentation currency is Armenian Drams (“AMD”), since this currency best reflects the economic substance of the underlying events and transactions of the Company. The Company 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 Company’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 Company 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 Company’s operations and the nature of their impact on the Company’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 Company. The new disclosures are made in these financial statements and in accordance with the transitional requirements of the standards; the Company has provided full comparative information.

*Other new standards or interpretations.* The Company 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 Company is not significant.

At the date of authorization of these financial statements, the following Standards and Interpretations to the Company 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 Company 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 Company 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.

##### 4.2 Taxation

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

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

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised 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 Company's activities. These taxes are included as a component of other expenses in the statement of income.

#### 4.3 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on accounts with in the banks.

Cash and cash equivalents are carried at amortised cost.

#### 4.4 Financial instruments

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

##### *Advances and receivables*

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

Advances granted by the Company 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 advance, for example where the advance is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the advance is recognized as a loss on initial recognition of the advance and included in the income statement as losses on origination of assets. Subsequently, the advance carrying value is measured using the effective interest method. Advances that do not have fixed maturities are

accounted for under the effective interest method based on expected maturity. Advances 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 Company'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.

#### 4.5 Impairment of financial assets

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

#### *Assets carried at amortised 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 Company 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 Company 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.

#### *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.

## 4.6 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 Company 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 Company 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 Company 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 Company'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 Company 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 Company's continuing involvement is the amount of the transferred asset that the Company 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 Company'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.

#### 4.7 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.

#### 4.8 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".

#### 4.9 Leases

##### *Operating – Company as lessee*

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor 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.

#### 4.10 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	1	100
Vehicles	5	20
Office equipment	5	20

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are not depreciated.

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 Company. 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.

#### 4.11 Pensions

The Company 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 Company has no post-retirement benefits or significant other compensated benefits requiring accrual.

#### 4.12 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

#### 4.13 Share capital

##### *Share capital*

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 Company purchases the Company'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.

#### 4.14 [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 Company comprise Armenian state and corporate bonds and corporate shares. Upon initial recognition, the Company 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 Company 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 Company reviews its problem 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.

#### *Tax legislation*

Armenian tax legislation is subject to varying interpretations. Refer to Note 19.

### 6 Interest and similar income and expense

In thousand Armenian drams	2007	2006
Advances to customers	296	-
Debt investment securities available-for-sale	111,767	63,248
Other interest income	1,354	-
<b>Total interest and similar income</b>	<b>113,417</b>	<b>63,248</b>

In thousand Armenian drams	2007	2006
Repo transactions	55,094	40,769
<b>Total interest and similar expense</b>	<b>55,094</b>	<b>40,769</b>

### 7 Staff costs

In thousand Armenian drams	2007	2006
Wages and salaries	6,995	5,457
Social security contributions	1,702	757
<b>Total staff costs</b>	<b>8,697</b>	<b>6,214</b>

### 8 Other expenses

In thousand Armenian drams	2007	2006
Communications	1,451	-
Operating lease	750	540
Taxes, other than income tax, duties	100	150
Consulting and other services	2,360	340
Representative expenses	1,093	178
Office supplies	1,301	349
Penalties paid	50	-
Other expenses	2,146	3,063
<b>Total other expense</b>	<b>9,251</b>	<b>4,620</b>

### 9 Income tax expense

In thousand Armenian drams	2007	2006
Current tax expense	21,181	8,240
Deferred tax	(376)	(100)

In thousand Armenian drams	2007	2006
Current tax expense	21,181	8,240
<b>Total income tax expense</b>	<b>21,805</b>	<b>8,140</b>

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 (%)
<b>Profit before tax</b>	<b>104,253</b>		40,700	
Income tax at the rate of 20%	20,851	20	8,140	20
Non-deductible expenses	(46)	-	-	-
<b>Income tax expense</b>	<b>20,805</b>	<b>20</b>	<b>8,140</b>	<b>20</b>

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	100	376	-	<b>476</b>
Fair value adjustments of securities	-	-	7,601	<b>7,601</b>
<b>Total deferred tax assets</b>	<b>100</b>	<b>376</b>	<b>7,601</b>	<b>8,077</b>
Fair value adjustments of securities	(10,609)	-	10,609	-
<b>Total deferred tax liability</b>	<b>(10,609)</b>	<b>-</b>	<b>10,609</b>	<b>-</b>
<b>Net deferred tax asset/(liability)</b>	<b>(10,509)</b>	<b>376</b>	<b>18,210</b>	<b>8,077</b>

In thousand Armenian drams	2006	Recognized in income statement	Recognized in equity	2006
Accrued expenses and other liabilities	-	100	-	<b>100</b>
<b>Total deferred tax assets</b>	<b>-</b>	<b>100</b>	<b>-</b>	<b>100</b>
Fair value adjustments of securities	-	-	(10,609)	<b>(10,609)</b>
<b>Total deferred tax liability</b>	<b>-</b>	<b>-</b>	<b>(10,609)</b>	<b>(10,609)</b>
<b>Net deferred tax asset/(liability)</b>	<b>-</b>	<b>100</b>	<b>(10,609)</b>	<b>(10,509)</b>

## 10 Cash and cash equivalents

In thousand Armenian drams	2007	2006
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Cash on hand	293	408
Bank accounts	50,234	17,927
<b>Total cash and cash equivalents</b>	<b>50,527</b>	<b>18,335</b>

## 11 Advances to customers

As of 31 December 2007 accrued interest income included in issued advances amounted to AMD 296 thousand.

The advance of AMD 30,000 thousand was issued to the Company's related party "Reshin" LLC, with contract maturity of 180 days and 9% annual interest rate.

At 31 December 2007 the estimated fair value of advances approximates its carrying value. Refer to Note 21.

Credit, currency, liquidity and interest rate analyses of advances are disclosed in Note 23. The information on related party balances is disclosed in Note 20.

## 12 Other receivables

In thousand Armenian drams	2007	2006
Prepayments for other taxes	67	-
<b>Total other debtors</b>	<b>67</b>	<b>-</b>

## 13 Investment securities

In thousand Armenian drams	2007	2006
	Available-for-sale	Available-for-sale
<b>Quoted investments</b>		
Corporate bonds	50,013	-
<b>Unquoted investments</b>		
Securities issued by the Ministry of Finance of Armenia	-	38,255
<b>Total investments</b>	<b>50,013</b>	<b>38,255</b>

The movement of available-for-sale investments is as follows:

In thousand Armenian drams	2007	2006
Beginning of the year	38,255	-
Addition	29,526,605	21,449,126
Decrease	29,491,409	21,493,106
Net unrealized gains/(losses) from changes in fair value	(23,438)	82,235
<b>End of the year</b>	<b>50,013</b>	<b>38,255</b>

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 Armenia	-	-	7-10 %	2011-2017
Corporate bonds	9%	2008	-	-
Securities issued the Ministry of Finance of Armenia pledged under repurchase agreements	7-10%	2009-2021	7-10 %	2011-2017

The fair value of unquoted available-for-sale debt securities is measured using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

Debt securities available for sale, including RA state bonds, at fair value of AMD 1,017,104 thousand (2006: AMD 724,040 thousand) were pledged to third parties in sale and repurchase agreements for periods not exceeding one month. These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet, in a separate line (Note 17).

## 14 Property, plant and equipment

In thousand Armenian drams	Machinery and equipment	Vehicles	Office equipment	Total
<b>COST</b>				
Cost amount at January 1, 2006	1,645	-	-	1,645
Additions	319	3,950	-	4,269
At December 31, 2006	<b>1,964</b>	<b>3,950</b>	-	<b>5,914</b>
Additions	<b>2,647</b>	<b>25,000</b>	<b>2,852</b>	<b>30,499</b>
<b>At December 31, 2007</b>	<b>4,611</b>	<b>28,950</b>	<b>2,852</b>	<b>36,413</b>
<b>DEPRECIATION</b>				

In thousand Armenian drams	Machinery and equipment	Vehicles	Office equipment	Total
<b>COST</b>				
At January 1, 2006	1,511	-	-	1,511
Depreciation charge	134	-	-	134
At December 31, 2006	<u>1,645</u>			<u>1,645</u>
Depreciation charge	<u>882</u>	<u>2,391</u>	<u>462</u>	<u>3,735</u>
<b>At December 31, 2007</b>	<b><u>2,527</u></b>	<b><u>2,391</u></b>	<b><u>462</u></b>	<b><u>5,380</u></b>
<b>CARRYING VALUE</b>				
<b>At December 31, 2007</b>	<b><u>2,084</u></b>	<b><u>26,559</u></b>	<b><u>2,390</u></b>	<b><u>31,033</u></b>
At December 31, 2006	<u>319</u>	<u>3,950</u>	<u>-</u>	<u>4,269</u>

*Fully depreciated items*

As at 31 December 2007 fixed assets included fully depreciated and amortized assets in amount of AMD 1,070 thousand.

**15 Short term loans and advances**

In thousand Armenian drams	2007	2006
Short term advances under repurchase agreements	1,011,735	689,254
<b>Total loans and advances</b>	<b><u>1,011,735</u></b>	<b><u>689,254</u></b>

**16 Accounts payable**

In thousand Armenian drams	2007	2006
Tax payable, other than income tax	11	300
Due to personnel	1,008	501
Other	1,370	-
<b>Total other liabilities</b>	<b><u>2,389</u></b>	<b><u>801</u></b>

**17 Securities pledged under repurchase agreements**

In thousand Armenian drams	Asset		Liability	
	2007	2006	2007	2006
Available for sale securities (Note 13, 15)	1,017,104	724,040	1,011,735	689,254
	<u>1,017,104</u>	<u>724,040</u>	<u>1,011,735</u>	<u>689,254</u>

## 18 Equity

As at 31 December 2007 the Company's registered and paid-in share capital was AMD 100,000,000. In accordance with the Company's statutes, the share capital consists of 2,000 shares, all of which have a par value of AMD 50,000 each.

The respective shareholdings as at 31 December 2007 and 2006 may be specified as follows:

In thousand Armenian drams	2007		2006	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Anna Hambaryan	50,000	50%	2,500	50%
Eduard Marutyan	50,000	50%	2,500	50%
	<b>100,000</b>	<b>100%</b>	<b>5,000</b>	<b>100%</b>

As at 31 December 2007, the Company did not possess any of its own shares.

In 2007 the shareholders of the Company increased its share capital by AMD 95,000 thousand.

The share capital of the Company was contributed by the shareholders in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams.

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 risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Company's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Company's share capital reported in statutory books.

## 19 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 Company 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 Company.

Therefore, the Company has not made any respective provision related to such tax and legal matters.

*Operating lease commitments – Company as a lessee*

In the normal course of business the Company enters into commercial lease agreements for land.

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	1,800	540
Later than 1 year and not later than 5 years	6,900	810
Later than 5 years	-	-
<b>Total operating lease commitments</b>	<b>8,700</b>	<b>1,350</b>

*Registration commitment*

On 11.10.2007 the RA law on “Securities market” was rectified, which enters into force on 29.02.2008. During 4 months after it’s entering into force, the professional participants that perform activity based on the licence received in accordance with the RA law on “Securities market regulation” on 06.07.2000, must reregister and renew the licence as Investment Company, according to the order specified by the law. The licences of the professional participants that are not renewed and reregistered as Investment Company 4 months after the law enters in force, will be cancelled.

**20 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 Company’s Management as well as other persons and enterprises related with and controlled by them respectively.

The Company does not have ultimate controlling party.

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

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

In thousand Armenian drams	2007	2006
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	Share- holders and their related parties	Key mana- gement personnel	Share- holders and their related parties	Key mana- gement personnel
<b>Issued advances</b>				
Advance outstanding at January 1, gross	-	-	-	-
Advances issued during the year	168,296	35,000	-	-
Advances repayments during the year	(138,000)	(35,000)	-	-
<b>Advances outstanding at December 31, gross</b>	<b>30,296</b>	<b>-</b>	<b>-</b>	<b>-</b>
Interest income on advances	296	-	-	-
<b>Income statement items</b>				
Other operating expenses (lease payments)	-	300	-	-

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2007	2006
Salaries and other short-term benefits	2,882	1,952
Social security costs	679	518
<b>Total key management compensation</b>	<b>3,561</b>	<b>2,470</b>

## 21 Fair value of financial instruments

### Advances to customers

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. As of 31.12.07 the carrying amount of issued advances approximates their fair value.

## 22 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.

In thousand Armenian drams	2007			Total
	Demand and less than 1 month	From 1 to 3 months	3 From 3 to 12 months	
<b>ASSETS</b>				
Cash and cash equivalents	50,527	-	-	50,527
Advances to customers	-	30,296	-	30,296
Investments available for sale	-	-	50,013	50,013
Securities pledged under repurchase agreements	1,017,104	-	-	1,017,104
	<b>1,067,631</b>	<b>30,296</b>	<b>50,013</b>	<b>1,047,940</b>
<b>LIABILITIES</b>				
Short term loans and advances	1,011,735	-	-	1,011,735
	<b>1,011,735</b>	<b>-</b>	<b>-</b>	<b>1,011,735</b>
<b>Net position</b>	<b>55,896</b>	<b>30,296</b>	<b>50,013</b>	<b>136,205</b>
<b>Accumulated gap</b>	<b>55,896</b>	<b>86,192</b>	<b>136,205</b>	

In thousand Armenian drams					2006
	Demand and less than 1 month	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
<b>ASSETS</b>					
Cash and cash equivalents	18,335	-	-	-	18,335
Investments available for sale	-	15,454	22,801	38,255	38,255
Securities pledged under repurchase agreements	724,040	-	-	-	724,040
	<u>742,375</u>	<u>15,454</u>	<u>22,801</u>	<u>38,255</u>	<u>780,630</u>
<b>LIABILITIES</b>					
Short term loans and advances	689,254	-	-	-	689,254
	<u>689,254</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>689,254</u>
<b>Net position</b>	<u>53,121</u>	<u>15,454</u>	<u>22,801</u>	<u>38,255</u>	<u>91,376</u>
<b>Accumulated gap</b>	<u>53,121</u>	<u>68,575</u>	<u>91,376</u>		

## 23 Risk management

Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

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.

### 23.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Company by failing to discharge an obligation.

#### 23.1.1 Risk concentrations of the maximum exposure to credit risk

##### *Geographical sectors*

All the assets of the Company are located on the territory of the Republic of Armenia.

##### *Industry sectors*

As of 31 December the advance recorded in the balance sheet of the Company is issued to "Renshin" LLC that perform activities in construction sector.

### 23.2 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 Company classifies exposures to market risk into either trading or non-trading portfolios.

#### 23.2.1 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.

In thousand Armenian drams							2007
Currency	Change in basis points	Sensitivity of equity				Total	
		Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years		
AMD	+1	-	-	(7,369)	(38,922)	(46,291)	
AMD	-1	-	-	7,634	42,704	50,338	

In thousand Armenian drams							2006
Currency	Change in basis points	Sensitivity of equity				Total	
		Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years		
AMD	+1	-	-	(12,941)	(21,888)	(34,829)	
AMD	-1	-	-	13,530	24,092	37,622	

### 23.3 Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The liquidity management of the Company requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources.

### 24 Capital adequacy

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

The equity 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 and other reserves.

The Central Bank of Armenia has set the minimal required total capital for professional participants (brokerage companies) at AMD 60,000 thousand.

From January 16, 2008 the Central Bank of Armenia has set the minimal required total capital for professional participants at AMD 100,000 thousand.