

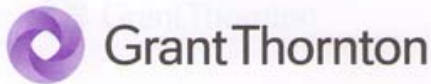
Financial Statements and Independent  
Auditor's Report

RENESA closed joint stock company

31 December 2009

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## Independent auditor's report

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To the Shareholders of Closed Joint Stock Company "RENEA":

We have audited the accompanying financial statements of "RENEA" CJSC (the "Company", which comprise the statement of financial position as at December 31, 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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.

Statement of comprehensive income

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, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gagik Gyulbudaghyan  
Managing partner



Aren Aghajanyan  
Auditor



Grant Thornton Amyot LLC  
25 March 2010  
Yerevan



## Statement of comprehensive income

In thousand Armenian drams	Notes	Year ended December 31, 2009	Year ended December 31, 2008
Interest and similar income	6	213,878	128,218
Interest and similar expense	6	(117,087)	(104,930)
<b>Net interest income</b>		<b>96,791</b>	<b>23,288</b>
Gains less losses from foreign currencies transactions		6,470	1,136
Gains less losses on investments available for sale		83,420	22,717
Other income	7	13,255	1,006
Staff costs	8	(8,077)	(7,463)
Depreciation of property and equipment	15	(6,655)	(8,343)
Other expenses	9	(15,410)	(14,622)
<b>Profit before income tax</b>		<b>169,794</b>	<b>17,719</b>
Income tax expense	10	(31,340)	(3,634)
<b>Profit for the year</b>		<b>138,454</b>	<b>14,085</b>
<b>Other comprehensive income</b>			
Net unrealized gains from changes in fair value		254,539	59,302
Net gains realized to net profit on disposal of available-for-sale instruments		(83,420)	(22,717)
Income tax relating to components of other comprehensive income		(34,224)	(7,317)
<b>Other comprehensive income for the year, net of tax</b>		<b>136,895</b>	<b>29,268</b>
<b>Total comprehensive income for the year</b>		<b>275,349</b>	<b>43,353</b>

The accompanying notes on pages 7 to 32 are an integral part of these financial statements.

## Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2009	As of December 31, 2008
<b>ASSETS</b>			
Cash and cash equivalents	11	266,591	129,535
Amounts due from financial institutions	12	113,367	-
Receivables	13	36,646	-
Investments available for sale	14	263,871	257,573
Securities pledged under repurchase agreements	21	3,298,787	505,448
Prepaid income taxes		-	11,922
Property, plant and equipment	15	17,134	23,789
Intangible assets	16	1,600	-
Deferred income tax assets	10	-	764
Other assets	17	8,008	131
<b>TOTAL ASSETS</b>		<b>4,006,004</b>	<b>929,162</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Amounts due to financial institutions	18	3,329,579	707,604
Borrowings	19	142,150	-
Current income tax liabilities		19,375	-
Deferred income tax liabilities	10	33,503	-
Other liabilities	20	2,184	2,400
<b>Total liabilities</b>		<b>3,526,791</b>	<b>710,004</b>
<b>Equity</b>			
Share capital	22	200,000	200,000
Statutory general reserve		5,000	5,000
Other reserves		135,759	(1,136)
Retained earnings		138,454	15,294
<b>Total equity</b>		<b>479,213</b>	<b>219,158</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4,006,004</b>	<b>929,162</b>

The financial statements from pages 3 to 32 were signed by the Company's Executive Director and Chief Accountant on 25 March, 2010. The accompanying notes on pages 7 to 32 are an integral part of these financial statements.

Vaghinak SAROYAN  
Executive Director



Naira MARGARYAN  
Chief accountant

# 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, 2008</b>	100,000	750	(30,404)	88,506	158,852
Increase in share capital	100,000	-	-	-	100,000
Distribution to reserve	-	4,250	-	(4,250)	-
Dividends to shareholders	-	-	-	(83,047)	(83,047)
Transactions with owners	100,000	4,250	-	(87,297)	16,953
Profit for the year	-	-	-	14,085	14,085
<b>Other comprehensive income:</b>					
Net unrealized gains from changes in fair value	-	-	59,302	-	59,302
Net gains realized to net profit on disposal of available-for-sale instruments	-	-	(22,717)	-	(22,717)
Income tax relating to components of other comprehensive income	-	-	(7,317)	-	(7,317)
Total comprehensive income for the year	-	-	29,268	14,085	43,353
<b>Balance as of December 31, 2008</b>	<b>200,000</b>	<b>5,000</b>	<b>(1,136)</b>	<b>15,294</b>	<b>219,158</b>
Dividends to shareholders	-	-	-	(15,294)	(15,294)
Transactions with owners	-	-	-	(15,294)	(15,294)
Profit for the year	-	-	-	138,454	138,454
<b>Other comprehensive income:</b>					
Net unrealized gains from changes in fair value	-	-	254,539	-	254,539
Net gains realized to net profit on disposal of available-for-sale instruments	-	-	(83,420)	-	(83,420)
Income tax relating to components of other comprehensive income	-	-	(34,224)	-	(34,224)
Total comprehensive income for the year	-	-	136,895	138,454	275,349
<b>Balance as of December 31, 2009</b>	<b>200,000</b>	<b>5,000</b>	<b>135,759</b>	<b>138,454</b>	<b>479,213</b>

# Statement of cash flows

In thousand Armenian drams

	Year ended December 31, 2009	Year ended December 31, 2008
<b>Cash flows from operating activities</b>		
Interest receivable	111,240	115,733
Interest payable	(110,351)	(104,612)
Gains less losses from securities available for sale	83,420	22,717
Realised gains less losses from dealing in foreign currencies	6,470	1,136
Salaries and benefits paid	(6,694)	(7,589)
Other operating expenses paid	(16,485)	(14,320)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>67,600</b>	<b>13,065</b>
<i>(Increase)/decrease in operating assets</i>		
Receivables	(35,000)	30,000
Securities available for sale	(2,527,588)	353,462
Other assets	(122,387)	(64)
<i>Increase/(decrease) in operating liabilities</i>		
Short term loans and borrowings	2,757,389	(304,409)
Other liabilities	(363)	136
<b>Net cash flow from operating activities before income tax</b>	<b>139,651</b>	<b>92,190</b>
Income tax paid	-	(29,702)
<b>Net cash from operating activities</b>	<b>139,651</b>	<b>62,488</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(1,600)	(1,099)
<b>Net cash used in investing activities</b>	<b>(1,600)</b>	<b>(1,099)</b>
<b>Cash flow from financing activities</b>		
Proceeds from issue of share capital	-	100,000
Dividends paid to shareholders	(15,294)	(83,047)
<b>Net cash flow from/ (used in) financing activities</b>	<b>(15,294)</b>	<b>16,953</b>
<b>Net increase in cash and cash equivalents</b>	<b>122,757</b>	<b>78,342</b>
Cash and cash equivalents at the beginning of the year	129,535	50,527
Exchange differences on cash and cash equivalents	14,299	666
<b>Cash and cash equivalents at the end of the year (Note 11)</b>	<b>266,591</b>	<b>129,535</b>

# 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.

According to the RA Law “On market of securities” the Company was reregistered and was again granted a licence under number 5 on 27.06.2008 as an investing company.

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 situated in Yerevan. The registered office of the Company is located at: 16 Vardanants street, 47th area, 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. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base, regional instability and international economic crisis.

The international economic crisis led to shortage of RA GDP, as well as the cash flow transfers from abroad upon which the economy of Armenia is significantly dependant. Though the RA Government and the CBA have undertaken a number of preventing procedures, still there are uncertainties on the capital availability and acquisition cost both for the Company and for its customers, and in times of more severe market stress the effects of the crisis may be significant both for the Armenian economy and for the Company. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Company may be affected.

Accordingly, the financial statements of the Company do not include the effects of adjustments, which might have been considered necessary.

## 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 Changes in accounting policies

In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2009. The standards and interpretations which have had effect on the financial statements are presented below:

#### *IAS 1 Presentation of Financial Statements (revised 2007)*

The Company applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. The amendment has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. This standard affects the presentation of owner changes in equity and introduces a statement of comprehensive income. The Company chooses the present income and expense and components of other comprehensive income in a single statement of comprehensive income with subtotals. The adoption of the standard does not affect the financial position or profits of the Company, but gives rise to additional disclosures.

Comparative information has been re-presented so that it also is in conformity with the revised standard.

#### *IFRS 7 (Amendment) 7 Financial Instruments: Disclosures (effective from January 1, 2009)*

The Company has implemented the improvements made to IFRS 7 in March 2009. The effective date of the amendments is 1 January 2009. The amendments extend and specify the

disclosures for the fair value of financial instruments and liquidity risk (see note 25.1). The Company selected not to provide comparative information for these expanded disclosures in the current year, in accordance with transitional relieves offered in these amendments.

### 3.6 Standards and Interpretations not yet applied by the Company

At the date of authorization of these financial statements, certain new Standards, amendments and Interpretations to the existing Standards have been published but are not yet effective. The Company has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effect date of the pronouncement. At the moment in management's estimation their possible effect on the Company's financial statements can not be material.

#### IFRS 2(Amendment) *Share-based payment-Group Cash-settled Share-based Payment Transactions*

The main purpose of the Amendments to IFRS 2 is to specify the accounting, in the financial statements of an entity that receives goods or services from its suppliers (including employees), for similar arrangements that are share-based and cash-settled when the entity itself does not have any obligation to make the required payments to its suppliers. IFRS 2 (Amendment) will be applied retrospectively for annual periods beginning on or after 1 January 2010.

#### IFRS 3 *Business Combinations* (revised 2008)

This standard is applicable for business combinations occurring in reporting periods beginning on or after July 1, 2009 and will be applied prospectively. The new standard introduces changes to the accounting requirements for business combinations, but still requires the use of the purchase method, and will have a significant effect on business combinations occurring in reporting periods beginning on or after July 1, 2009.

#### IAS 27 *Consolidated and Separate Financial Statements* (revised 2008)

The revised standard introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the entity's interest in subsidiaries.

#### IAS 32 (Amendment) *Financial instruments: Presentation-Classification of Right Issues*

The Amendment alters IAS 32 *Financial Instruments: Presentation* so that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own (non-derivative) equity instruments. Prior to the Amendment, rights issues denominated in a foreign currency 'failed' equity classification and were required to be accounted for as derivative liabilities. IAS 32 (Amendment) will be applied retrospectively for annual periods beginning on or after 1 February 2010.

#### IAS 39(Amendment) *Financial Instruments: Recognition and Measurement-Eligible hedged items*

The final amendments addressed only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situation. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. (effective from July 1, 2009).

Amendments to IFRIC 9 and IAS 39-*Embedded derivatives*. (effective from July 1, 2009).

The Amendment is consequential upon the changes made to IAS 39 in October and November 2008 permitting the reclassification of non-derivative financial assets out of the fair value through profit or loss category in some circumstances. The Amendment clarifies that:

- If an entity transfers a financial asset out of the fair value through profit or loss category in accordance with the previous IAS 39 amendments, it must assess whether the financial asset contains an embedded derivative that is required to be separated from the host contract.
- This assessment is based on circumstances that existed when the entity first became party to the contract (not the date of the reclassification).
- If the financial asset contains an embedded derivative that is required to be separated, but the entity is unable to measure the derivative reliably, it is prohibited from reclassifying the asset.

IFRIC 17 Distributions of Non-cash Assets to Owners

This Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to shareholders. This Interpretation will be effective for annual periods beginning on or after July 1, 2009.

IFRIC 18 *Transfers of Assets from Customers*

Applies to agreements in which an entity receives an item of property, plant and equipment from a customer that the entity must then use to connect the customer to a network, or to provide the customer with ongoing access to a supply of goods or services, or both. It also applies to agreements in which an entity receives cash that must be used only to construct or acquire property, plant and equipment that must be used for those purposes. IFRIC 18 will be applied prospectively to transfers of assets received on or after 1 July 2009.

### **Annual improvements 2009**

In April 2009 the IASB has published *Improvements to IFRSs* ('2009 Improvements') which makes minor amendments to a number of International Financial Reporting Standards (IFRSs). This publication completes the IASB's second round of annual improvements. Most of these improvements become effective in annual periods beginning on January 1, 2010.

IFRS 5 (Amendment) *Non-current Assets Held for Sale and Discontinued Operations*

Clarifies that IFRS 5 and other IFRSs that specifically refer to non-current assets (or disposal groups) classified as held for sale or discontinued operations set out all the disclosures required in respect of those assets or operations. IFRS 5 (Amendment) will be applied prospectively for annual periods beginning on or after 1 January 2010.

#### IFRS 8 (Amendment) *Operating Segments*

Clarifies that a measure of segment assets should be disclosed, only if that amount is regularly provided to the chief operating decision maker. IFRS 8 (Amendment) will be applied retrospectively for annual periods beginning on or after 1 January 2010.

#### IAS 1 (Amendment) *Presentation of Financial Statements*

Amendment to clarify the classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments. IAS 1 (Amendment) will be applied retrospectively for annual periods beginning on or after 1 January 2010.

#### IAS 7 (Amendment) *Statement of Cash Flows*

Amends IAS 7 to state explicitly that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. IAS 7 (Amendment) will be applied retrospectively for annual periods beginning on or after 1 January 2010.

#### IAS 17 (Amendment) *Leases*

Amendment to IAS 17 clarifying that when a lease includes both land and buildings elements, an entity assesses the classification of each element as a finance or an operating lease separately in accordance with the general guidance on lease classification in paragraphs 7-13 of IAS 17. IAS 17 (Amendment) will be applied retrospectively for annual periods beginning on or after 1 January 2010.

#### IAS 36 (Amendment) *Impairment of Assets*

Clarifies that the largest unit permitted by IAS 36 for the purpose of allocating goodwill to cash-generating units is the operating segment level defined in IFRS 8 before aggregation as permitted in that Standard. IAS 36 (Amendment) will be applied prospectively for annual periods beginning on or after 1 January 2010.

#### IAS 38 (Amendment) *Intangible Assets*

Clarifies the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. IAS 38 (Amendment) will be applied prospectively for annual periods beginning on or after 1 July 2009.

### IAS 39 (Amendment) *Financial Instruments: Recognition and Measurement*

- Aims to clarify whether embedded prepayment options, in which the exercise price represented a penalty for early repayment of the loan, are considered closely related to the host debt contract.
- Aims to clarify that the scope exemption in IAS 39.2(g) applies only to binding (forward) contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date.
- Clarifies when gains and losses on hedging instruments should be reclassified from equity to profit and loss account as a reclassification adjustment.

IAS 39 (Amendment) will be applied prospectively for annual periods beginning on or after 1 January 2010.

#### 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.

###### *Net trading income*

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 less 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.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date of transaction.

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 less losses from trading in foreign currencies in net trading income.

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

	December 31, 2009	December 31, 2008
AMD/1 US Dollar	<b>377.89</b>	306.73
AMD/1 Euro	<b>542.23</b>	435.00

#### 4.3 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.

There are also various other taxes, which are assessed on the Company's activities. These taxes are included as a component of other expenses in the statement of income.

#### 4.4 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.

#### 4.5 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, 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.

##### *Receivables*

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.

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

#### 4.6 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.

### 4.7 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.

#### 4.8 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 financial institutions or receivables 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.

#### 4.9 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”.

#### 4.10 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.

#### 4.11 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 communications	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.

#### 4.12 Intangible assets

Intangible assets include computer software.

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 on a straight-line basis 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.

#### 4.13 Borrowings

Borrowings, which include amounts due to financial institutions, amounts due to 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.

#### 4.14 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.

#### 4.15 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.

#### 4.16 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.

#### 4.17 [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 receivables*

The Company reviews its problem receivables 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 23.

### 6 Interest and similar income and expense

In thousand Armenian drams	2009	2008
Receivables	6,836	1,388
Debt investment securities available-for-sale	206,930	126,542
Other interest income	112	288
<b>Total interest and similar income</b>	<b>213,878</b>	<b>128,218</b>

In thousand Armenian drams	2009	2008
Borrowings	4,918	-
Loans	4,711	20,546
Repurchase transactions	107,304	84,384
Other interest expenses	154	-
<b>Total interest and similar expense</b>	<b>117,087</b>	<b>104,930</b>

### 7 Other income

In thousand Armenian drams	2009	2008
Foreign currency net gains from revaluation of non-trading assets and liabilities	13,094	706
Other income	161	300
<b>Total other income</b>	<b>13,255</b>	<b>1,006</b>

### 8 Staff costs

In thousand Armenian drams	2009	2008
Wages and salaries	6,841	6,359
Social security contributions	1,236	1,104
<b>Total staff costs</b>	<b>8,077</b>	<b>7,463</b>

### 9 Other expenses

In thousand Armenian drams	2009	2008
Fixed assets maintenance	1,246	1,085
Business trip expenses	1,794	-

In thousand Armenian drams	2009	2008
Communications	1,972	2,822
Operating lease	1,800	1,800
Taxes, other than income tax, duties	496	632
Consulting and other services	2,220	2,395
Representative expenses	2,461	1,461
Office supplies	296	1,267
Penalties paid	-	382
Other expenses	3,125	2,778
<b>Total other expense</b>	<b>15,410</b>	<b>14,622</b>

## 10 Income tax expense

In thousand Armenian drams	2009	2008
Current tax expense	31,297	3,638
Deferred tax	43	(4)
<b>Total income tax expense</b>	<b>31,340</b>	<b>3,634</b>

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2008: 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	2009	Effective rate (%)	2008	Effective rate (%)
<b>Profit before tax</b>	<b>169,794</b>	-	17,719	-
Income tax at the rate of 20%	33,959	20	3,544	20
Non-deductible expenses	-	-	231	1
Foreign exchange gains	(2,619)	(2)	(141)	(1)
<b>Income tax expense</b>	<b>31,340</b>	<b>18</b>	<b>3,634</b>	<b>20</b>

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2008	Recognized in comprehensive income statement	Recognized in equity	2009
Accrued expenses and other liabilities	480	(43)		437

In thousand Armenian drams	2008	Recognized in comprehensive income statement	Recognized in equity	2009
Fair value adjustments of securities	284	-	(284)	-
<b>Total deferred tax assets</b>	<b>764</b>	<b>(43)</b>	<b>(284)</b>	<b>437</b>
Fair value adjustments of securities	-	-	(33,940)	(33,940)
<b>Total deferred tax liability</b>	<b>-</b>	<b>-</b>	<b>(33,940)</b>	<b>(33,940)</b>
<b>Net deferred tax asset/(liability)</b>	<b>764</b>	<b>(43)</b>	<b>(34,224)</b>	<b>(33,503)</b>

In thousand Armenian drams	2007	Recognized in comprehensive income statement	Recognized in equity	2008
Accrued expenses and other liabilities	476	4	-	480
Fair value adjustments of securities	7,601	-	(7,317)	284
<b>Total deferred tax asset</b>	<b>8,077</b>	<b>4</b>	<b>(7,317)</b>	<b>764</b>
<b>Net deferred tax asset</b>	<b>8,077</b>	<b>4</b>	<b>(7,317)</b>	<b>764</b>

## 11 Cash and cash equivalents

In thousand Armenian drams	2009	2008
Cash on hand	4,217	2,131
Bank accounts	262,374	127,404
<b>Total cash and cash equivalents</b>	<b>266,591</b>	<b>129,535</b>

As at 31 December 2009 the accounts in the amount of AMD 218,619 thousand (83%) are concentrated in two banks (2008: AMD 100,847 thousand (79%)).

## 12 Amounts due from financial institutions

In thousand Armenian drams	2009	2008
Other amounts	113,367	-
<b>Total amounts due from financial institutions</b>	<b>113,367</b>	<b>-</b>

As at 31 December 2009 other amounts due from financial institutions included the short-term deposit with RA commercial bank in the amount of AMD 300,000 thousand against which simultaneously was received a short-term deposit in AMD (See Note 18).

## 13 Receivables

As of 31 December 2009 accrued interest income included in receivable amounted to AMD 1,646 thousand (2008: nil). The receivable was provided to the Company's related party in the amount of AMD 35,000 thousand for maturity period of 365 days and 12% interest rate per annum.

At 31 December 2009 the estimated fair value of the receivable approximates its carrying value. Refer to Note 25.

Credit, currency, liquidity and interest rate analyses of receivables are disclosed in Note 27. The information on related party balances is disclosed in Note 24.

#### 14 Investments available for sale

In thousand Armenian drams	2009	2008
<b>Unquoted investments</b>		
Securities issued by the Ministry of Finance of Armenia	<b>253,863</b>	255,830
Corporate bonds	<b>10,008</b>	1,743
<b>Total investments</b>	<b>263,871</b>	<b>257,573</b>

As at December 31, 2008 securities issued by the Ministry of Finance of Armenia were pledged at fair value in the amount of AMD 239,859 thousand (nominal value of which is AMD 221,000 thousand) by the Company held as security for borrowed loans from banks (see Note 18).

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

In thousand Armenian drams	2009	2008
As at January 01	<b>257,573</b>	50,013
Addition	<b>27,422,997</b>	27,035,519
Decrease	<b>(27,671,238)</b>	(26,887,261)
Net unrealized gains from changes in fair value	<b>254,539</b>	59,302
<b>As at December 31</b>	<b>263,871</b>	<b>257,573</b>

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

In thousand Armenian drams	2009		2008	
	%	Maturity	%	Maturity
Securities issued the Ministry of Finance of Armenia	11,1%	2014	8,5-10,5%	2014-2028
Corporate bonds	10%	2011	9%	2009
Securities issued the Ministry of Finance of Armenia pledged under repurchase agreements	7,9-11,1%	2011-2014	8,5-9,4%	2014-2018

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 3,298,787 thousand (2008: AMD 505,448 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, in a separate line (Note 21).

## 15 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Vehicles	Fixtures and fittings	Total
<b>COST</b>				
Cost at January 1, 2008	4,611	28,950	2,852	36,413
Additions	259	760	80	1,099
Adjustment	152	-	(1,139)	(987)
Reclassifications	(1,132)	-	1,132	-
At December 31, 2008	<b>3,890</b>	<b>29,710</b>	<b>2,925</b>	<b>36,525</b>
Additions	-	-	-	-
At December 31, 2009	<b>3,890</b>	<b>29,710</b>	<b>2,925</b>	<b>36,525</b>
<b>DEPRECIATION</b>				
At January 1, 2008	2,527	2,391	462	5,380
Depreciation charge	2,174	5,816	353	8,343
Adjustment	(610)	-	(377)	(987)
Reclassifications	(271)	-	271	-
At December 31, 2008	<b>3,820</b>	<b>8,207</b>	<b>709</b>	<b>12,736</b>
Depreciation charge	<b>70</b>	<b>5,999</b>	<b>586</b>	<b>6,655</b>
At December 31, 2009	<b>3,890</b>	<b>14,206</b>	<b>1,295</b>	<b>19,391</b>
<b>CARRYING VALUE</b>				
At December 31, 2009	<b>-</b>	<b>15,504</b>	<b>1,630</b>	<b>17,134</b>
At December 31, 2008	70	21,503	2,216	23,789

### *Fully depreciated items*

As at 31 December 2009 fixed assets included fully depreciated assets in amount of AMD 3,890 thousand (2008: AMD 3,720 thousand).

## 16 Intangible assets

In thousand Armenian drams	Software licenses	Total
<b>COST</b>		
At January 1, 2009	-	-
Additions	<b>1,600</b>	<b>1,600</b>
At December 31, 2009	<b>1,600</b>	<b>1,600</b>
<b>AMORTISATION</b>		
At January 1, 2009	-	-
Amortisation charge	-	-
At December 31, 2009	-	-
<b>CARRYING VALUE</b>		
At December 31, 2009	<b>1,600</b>	<b>1,600</b>
At December 31, 2008	-	-

## 17 Other assets

In thousand Armenian drams	2009	2008
Prepayments and other debtors	446	86
Settlements with employees	2,300	-
Other assets	5,247	-
Materials	15	45
<b>Total other assets</b>	<b>8,008</b>	<b>131</b>

## 18 Amounts due to financial institutions

In thousand Armenian drams	2009	2008
Loans borrowed from banks	-	206,999
Loans under repurchase agreements from banks	3,217,036	500,605
Other amounts	112,543	-
<b>Total amounts due to financial institutions</b>	<b>3,329,579</b>	<b>707,604</b>

As at December 31, 2009 other amounts of the Company represent the deposit in AMD received from RA commercial bank for which the Company provided a deposit in the amount of 300,000 US dollars. See Note 12.

As at December 31, 2008 the loans borrowed from banks in the amount of AMD 206,999 thousand (including receivable interests in the amount of AMD 1,489 thousand) represent the borrowed loans in the amount of 605,000 US dollars for which the securities issued by the Ministry of Finance of Armenia in the amount of AMD 239,859 thousand (nominal value is AMD 221,000 thousand) were pledged at fair value by the Company (see Note 14).

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2008: nil).

## 19 Borrowings

In thousand Armenian drams	2009	2008
Borrowings provided by legal entities	130,150	-
Borrowings provided by individuals	12,000	-
<b>Total borrowings</b>	<b>142,150</b>	<b>-</b>

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2008: nil).

## 20 Other liabilities

In thousand Armenian drams	2009	2008
Due to personnel	1,030	883
Other	1,154	1,517
<b>Total other liabilities</b>	<b>2,184</b>	<b>2,400</b>

## 21 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	2009	2008	2009	2008
Securities available for sale (Note 14, 18)	3,298,787	505,448	3,217,036	500,605

## 22 Equity

As at 31 December 2009 the Company's registered and paid-in share capital was AMD 200,000 thousand. In accordance with the Company's statutes, the share capital consists of 4,000 shares, all of which have a par value of AMD 50,000 each.

The respective shareholdings as at 31 December 2009 and 2008 may be specified as follows:

In thousand Armenian drams	Paid-in share capital	% of total paid-in capital
Anna Hambaryan	100,000	50%
Eduard Marutyan	100,000	50%
	<b>200,000</b>	<b>100%</b>

As at 31 December 2009, the Company did not possess any of its own shares.

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.

## 23 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 2009 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	2009	2008
Not later than 1 year	1,800	1,800
Later than 1 year and not later than 5 years	3,300	5,100
Later than 5 years	-	-
<b>Total operating lease commitments</b>	<b>5,100</b>	<b>6,900</b>

*Insurance*

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

**24** *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	2009			2008
	Shareholders and their related parties	Key management personnel	Shareholders and their related parties	Key management personnel
<b>Receivables</b>				
Receivables outstanding at January 1, gross	-	-	30,296	-
Receivables issued during the year	431,836	-	145,000	-
Receivables repayments during the year	(395,190)	-	(175,296)	-
<b>Receivables outstanding at December 31</b>	<b>36,646</b>	-	-	-
Interest income on receivables	6,836	-	1,388	-
<b>Borrowings</b>				
Borrowings issued during the year	604,918	12,000	-	-
Borrowings repayments during the year	(474,768)	-	-	-
<b>Borrowings outstanding at December 31</b>	<b>130,150</b>	<b>12,000</b>	-	-
Interest income on borrowings	4,918	-	-	-
<b>Statement of comprehensive income</b>				
Income from purchase and sale of foreign currency	-	-	955	-
Other operating expenses (lease payments)	-	1,800	-	1,800

During the year short-term advances were provided to the shareholders' related parties, the interest rate of which comprised 12%.

During the year short-term borrowings were attracted from the Company's related parties, the interest rate of which comprised 6%.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2009	2008
Salaries and other short-term benefits	3,907	3,871
Social security costs	678	803
<b>Total key management compensation</b>	<b>4,585</b>	<b>4,674</b>

*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, which are mainly the same as current interest rates.

*Receivables*

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 31.12.09 the carrying amount of receivables approximates their fair value.

*Borrowings*

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The interest rates of borrowings with fixed rates approximate the current interest rates.

**25.1 Fair value hierarchy**

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In thousand Armenian drams				2009
	Level 1	Level 2	Level 3	Total
<b>FINANCIAL ASSETS</b>				
Securities available for sale	-	263,871	-	263,871
Securities pledged under repurchase agreements	-	3,298,787	-	3,298,787
	-	3,562,658	-	3,562,658

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

**26 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 27.3 for the Company's contractual undiscounted repayment obligations.

In thousand Armenian drams								2009
	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
<b>ASSETS</b>								
Cash and cash equivalents	266,591	-	-	266,591	-	-	-	266,591
Amounts due from financial institutions	113,367	-	-	113,367	-	-	-	113,367
Receivables	-	-	36,646	36,646	-	-	-	36,646

In thousand Armenian drams								2009
	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
<b>ASSETS</b>								
Investments available for sale	12,890	8	-	12,898	250,973	-	250,973	263,871
Securities pledged under repurchase agreements	2,509,104	789,683	-	3,298,787	-	-	-	3,298,787
	<u>2,901,952</u>	<u>789,691</u>	<u>36,646</u>	<u>3,728,289</u>	<u>250,973</u>	<u>-</u>	<u>250,973</u>	<u>3,979,262</u>
<b>LIABILITIES</b>								
Amounts due to financial institutions	3,114,945	214,634	-	3,329,579	-	-	-	3,329,579
Borrowings	12,000	-	130,150	142,150	-	-	-	142,150
	<u>3,126,945</u>	<u>214,634</u>	<u>130,150</u>	<u>3,471,729</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,471,729</u>
<b>Net position</b>	<u>(224,993)</u>	<u>575,057</u>	<u>(93,504)</u>	<u>256,560</u>	<u>250,973</u>	<u>-</u>	<u>250,973</u>	<u>507,533</u>
<b>Accumulated gap</b>	<u>(224,993)</u>	<u>350,064</u>	<u>256,560</u>		<u>507,533</u>	<u>507,533</u>		

In thousand Armenian drams						2008
	Demand and less than 1 month	From 3 to 12 months	Subtotal less than 12 months	More than 5 years	Subtotal over 12 months	Total
<b>ASSETS</b>						
Cash and cash equivalents	129,535		129,535			129,535
Investments available for sale		1,743	1,743	255,830	255,830	257,573
Securities pledged under repurchase agreements	505,448		505,448			505,448
	<u>634,983</u>	<u>1,743</u>	<u>636,726</u>	<u>255,830</u>	<u>255,830</u>	<u>892,556</u>
<b>LIABILITIES</b>						
Short term loans and borrowings	707,604		707,604			707,604
	<u>707,604</u>		<u>707,604</u>			<u>707,604</u>
<b>Net position</b>	<u>(72,621)</u>	<u>1,743</u>	<u>(70,878)</u>	<u>255,830</u>	<u>255,830</u>	<u>184,952</u>
<b>Accumulated gap</b>	<u>(72,621)</u>	<u>(70,878)</u>		<u>184,952</u>		

## 27 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 Company'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 Company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

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 risks.

### 27.1 Credit risk

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

The table below represents a worst case scenario of credit risk exposure to the Company at 31 December 2009 and 2008, 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, 2009	Gross maximum exposure as of December 31, 2008
Cash and cash equivalents	11	262,374	127,404
Amounts due from financial institutions	12	113,367	-
Receivables	13	36,646	-
Investments available for sale	14	263,871	257,573
Securities pledged under repurchase agreements	21	3,298,787	505,448
<b>Total</b>		<b>3,975,045</b>	<b>890,425</b>

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.

### 27.2 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.

#### 27.2.2 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	Change in basis points	Sensitivity of equity				2009	
		Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total	
<b>Currency</b>							

AMD	+1	-	-	(84,677)	-	(84,677)
AMD	-1	-	-	88,065	-	88,065

In thousand Armenian drams		Sensitivity of equity				2008
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	-	-	-	(38,702)	(38,702)
AMD	-1	-	-	-	42,077	42,077

### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2009 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	Currency	2009		2008	
		Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
	USD	+10	(15,641)	+20	(25,914)
	USD	-10	15,641	-20	25,914

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

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Total
<b>ASSETS</b>			
Cash and cash equivalents	77,645	188,946	266,591
Amounts due from financial institutions	-	113,367	113,367
Receivables	36,646	-	36,646
Investments available for sale	263,871	-	263,871
Securities pledged under repurchase agreements	3,298,787	-	3,298,787
	<b>3,676,949</b>	<b>302,313</b>	<b>3,979,262</b>
<b>LIABILITIES</b>			
Amounts due to financial institutions	3,329,579	-	3,329,579
Borrowings	142,150	-	142,150

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Total
<b>ASSETS</b>			
	<b>3,471,729</b>	-	<b>3,471,729</b>
<b>Net position as at 31 December 2009</b>	<b>205,220</b>	<b>302,313</b>	<b>507,533</b>
Total financial assets	815,863	76,693	892,556
Total financial liabilities	500,605	206,999	707,604
Net position as at 31 December 2008	315,258	(130,306)	184,952

Freely convertible currencies represent mainly US dollar amounts.

### 27.3 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. The Company maintains a portfolio of highly marketable assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2009 based on contractual undiscounted repayment obligations. See note 26 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

In thousand Armenian drams				2009
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Total
<b>FINANCIAL LIABILITIES</b>				
Amounts due to financial institutions	3,123,624	216,662	-	3,340,286
Borrowings	12,000	-	133,847	145,847
<b>Total undiscounted financial liabilities</b>	<b>3,135,624</b>	<b>216,662</b>	<b>133,847</b>	<b>3,486,133</b>

In thousand Armenian drams				2008
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Total
<b>FINANCIAL LIABILITIES</b>				
Amounts due to financial institutions	709,827	-	-	709,827

In thousand Armenian drams	2008			Total
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	
Total undiscounted financial liabilities	<u>709,827</u>	<u>-</u>	<u>-</u>	<u>709,827</u>

## 28 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 reserve.

The Central Bank of Armenia has set the minimal required total capital for investing companies at AMD 100,000 thousand.

## 29 Subsequent events

Since 01 April 2010 the Central Bank of Armenia has estimated:

- the minimal required total capital is AMD 300,000 thousand,
- the minimal required ratio between total capital and risk weighted assets is 12%.