



Financial Statements and Independent  
Auditor's Report

RENESA Closed Joint Stock Company

31 December 2008

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# Independent auditor's report

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To the Shareholders Closed Joint Stock Company “RENESA”:

We have audited the accompanying financial statements of “RENESA” CJSC (the “Company”), which comprise the balance sheet as at December 31, 2008, 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.

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, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

27 March 2009

Yerevan

Grant Thornton Amyot LLC

# Income statement

In thousand Armenian drams	Notes	Year ended December 31, 2008 (audited)	Year ended December 31, 2007 (audited)
<b>Income</b>			
Interest and similar income	6	128,218	113,417
Gains less losses on investments available for sale		22,717	67,613
Net trading income	7	1,136	-
Other income	8	1,006	-
<b>Total income</b>		<b>153,077</b>	181,030
<b>Expenses</b>			
Interest and similar expense	6	(104,930)	(55,094)
Staff costs	9	(7,463)	(8,697)
Depreciation of property and equipment	16	(8,343)	(3,735)
Other expenses	10	(14,622)	(9,251)
<b>Total operating expenses</b>		<b>(135,358)</b>	(76,777)
<b>Profit before income tax</b>		<b>17,719</b>	104,253
Income tax expense	11	(3,634)	(20,805)
<b>Profit for the year</b>		<b>14,085</b>	83,448

The accompanying notes on pages 7 to 28 are an integral part of these financial statements.

# Balance sheet

In thousand Armenian drams	Notes	As of December 31, 2008 (audited)	As of December 31, 2007 (audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	23,789	31,033
Deferred income tax assets	11	764	8,077
<b>Total non-current assets</b>		<b>24,553</b>	39,110
<b>Current assets</b>			
Cash and cash equivalents	12	129,535	50,527
Advances to customers	13	-	30,296
Investments available for sale	15	257,573	50,013
Securities pledged under repurchase agreements	19	505,448	1,017,104
Other amounts receivable	14	131	67
Prepaid income taxes		11,922	-
<b>Total current assets</b>		<b>904,609</b>	1,148,007
<b>TOTAL ASSETS</b>		<b>929,162</b>	1,187,117
<b>LIABILITIES AND EQUITY</b>			
<b>Equity</b>			
Share capital	20	200,000	100,000
Statutory general reserve		5,000	750
Other reserves		(1,136)	(30,404)
Retained earnings		15,294	88,506
<b>Total equity</b>		<b>219,158</b>	158,852
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short term loans and advances	17	707,604	1,011,735
Current income tax liabilities		-	14,141
Accounts payable	18	2,400	2,389
<b>Total current liabilities</b>		<b>710,004</b>	1,028,265
<b>Total liabilities</b>		<b>710,004</b>	1,028,265
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>929,162</b>	1,187,117

The financial statements from pages 3 to 28 were approved by the Management of the Company on 27.03.2009 and signed by the Company's Executive Director and Chief Accountant. The accompanying notes on pages 7 to 28 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, 2007 (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	-	-	(72,841)	-	(72,841)
Profit for the year	-	-	-	83,448	83,448
Total income and expense for the year	-	-	(72,841)	83,448	10,607
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>
Net unrealized gains from changes in fair value	-	-	59,302	-	<b>59,302</b>
Net gains realized to net profit on disposal of available-for- sale instruments	-	-	(22,717)	-	<b>(22,717)</b>
Effect of deferred taxes	-	-	(7,317)	-	<b>(7,317)</b>
Total income and expense recognized directly in equity	-	-	<b>29,268</b>	-	<b>29,268</b>
Profit for the year	-	-	-	14,085	<b>14,085</b>
Total income and expense for the year	-	-	<b>29,268</b>	<b>14,085</b>	<b>43,353</b>
Increase in share capital	100,000	-	-	-	<b>100,000</b>
Increase in general statutory reserve	-	4,250	-	(4,250)	-
Dividends to shareholders	-	-	-	(83,047)	<b>(83,047)</b>
<b>Balance as of December 31, 2008 (audited)</b>	<b>200,000</b>	<b>5,000</b>	<b>(1,136)</b>	<b>15,294</b>	<b>219,158</b>

# Statement of cash flows

In thousand Armenian drams	Year ended December 31, 2008 (audited)	Year ended December 31, 2007 (audited)
<b>Cash flows from operating activities</b>		
Interest received	115,733	105,177
Interest paid	(104,612)	(53,788)
Gains less losses from securities available for sale	22,717	67,613
Realised gains less losses from dealing in foreign currencies	1,136	-
Salaries and benefits paid	(7,589)	(6,121)
Other operating expenses paid	(14,320)	(9,836)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>13,065</b>	<b>103,045</b>
<i>Net (increase)/decrease in operating assets</i>		
Loans and advances to customers	30,000	(30,000)
Securities available for sale	353,462	(387,930)
Other receivables	(64)	(67)
<i>Increase/(decrease) in operating liabilities</i>		
Short term loans and borrowings	(304,409)	321,073
Accounts payable	136	(300)
<b>Net cash flow from operating activities before income tax</b>	<b>92,190</b>	<b>5,821</b>
Income tax paid	(29,702)	(10,430)
<b>Net cash from/(used in) operating activities</b>	<b>62,488</b>	<b>(4,609)</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(1,099)	(30,499)
<b>Net cash used in investing activities</b>	<b>(1,099)</b>	<b>(30,499)</b>
<b>Cash flow from financing activities</b>		
Proceeds from issue of share capital	100,000	95,000
Dividends paid to shareholders	(83,047)	(27,700)
<b>Net cash flow from/(used in) financing activities</b>	<b>16,953</b>	<b>67,300</b>
<b>Net increase in cash and cash equivalents</b>	<b>78,342</b>	<b>32,192</b>
Cash and cash equivalents at the beginning of the year	50,527	18,335
Effect of exchange rate changes on cash and cash equivalents	666	-
<b>Cash and cash equivalents at the end of the year (Note 12)</b>	<b>129,535</b>	<b>50,527</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.

The international rating agency Moody's Investors Service has assessed Armenia’s sovereign rating *Ba2* “Stable Outlook” in its annual report produced at the end of 2008. According to the report, the country's low government debt and minimal refinancing risks are allowing its rating to maintain a stable outlook in the current environment. A weak revenue base is the main fiscal risk, although it is ameliorated by the very comfortable debt service profile, its good relations with its official creditors, and the liquidity provided by the Diaspora.

Due to smaller extent of the involvement of foreign capital in the equities of Armenian businesses, as well as the comparably small foreign investments in the Armenian economy and the isolation of its relevant sectors from the rest of the world, the ongoing financial crisis observable in more developed and mature economies is not particularly severe and observable in Armenia as of the reporting date.

The Government of Armenia is in the process of researching the causes and consequences of the crisis with the purposes of developing a set of measures to fight against those consequences when the crisis becomes inevitable for Armenia.

However, in times of more severe market stress, the Armenian economy as well as the Company may be subject to that crisis and the effects of the crisis may be significant. 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, if any, which might have been considered necessary, had the effects of the current global crisis become observable and reliably measurable in Armenia.

### 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 Adoption of new and revised standards

In the current year the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2008.

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

At the date of authorization of these financial statements, certain new Standards, amendments and Interpretations to the existing Standards have been published by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) 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.

**The new Standards, amendments and Interpretations to the existing Standards that are not yet effective but are expected to be relevant to the Company's financial statements in the future**

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

New amendments in this standard affect the presentation of owner changes in equity and introduce a statement of comprehensive income. Preparers will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Bank, but will give rise to additional disclosures. Management is currently assessing the detailed impact of this amendment on the Company's financial statements.

*IAS 23 Borrowing Costs (revised 2007)*

Amendments in this standard require the capitalization of borrowing costs, to the extent they are directly attributable to the acquisition, production or construction of qualifying assets that need a period of time to get ready for their intended use or sale. The option of immediately expensing those borrowing costs, currently used by the Company, will be removed. In accordance with the transitional provisions of the amended Standard, no changes will be made for borrowing costs incurred to this date that have been expensed. This amendment will decrease the Company's reported interest expense and increase the capitalized cost of qualifying assets under construction in future periods.

**The new Standards, amendments and Interpretations to the existing Standards that are not yet effective and are not expected to be relevant to the Company's financial statements**

*IFRS 8 Operating Segments*

This is a disclosure standard, which will result in a re-designation of the Company's reportable segments but will not have any impact on the reported results or financial position. The application of this standard is not mandatory for the Company.

*IFRIC 13 Customer Loyalty Programmes*

This interpretation clarifies that when goods or services are sold together with a customer loyalty incentive (loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Company currently is not running a similar programme. Accordingly, management believes that this interpretation is not relevant to the Company's financial statements.

*Amendment to IFRS 2 Share-based Payment*

This amendment relates to vesting conditions and cancellations. The Bank currently is not running any share-based payment scheme. Accordingly, management believes that this amendment is not relevant to the Bank's financial statements.

### **Annual improvements 2008**

The IASB has issued *Improvements for International Financial Reporting Standards 2008*. Most of these amendments become effective in annual periods beginning on or after January 1, 2009. Management believes that these improvements will not have significant impact on the Company's financial statements.

IAS 23 (Amendment) *Borrowing Costs* (effective from January 1, 2009).

The definition of borrowings costs has been amended so that interest expense is calculated using the effective interest rate method defined in IAS 39 *Financial Instruments: Recognition and Measurement* (effective from January 1, 2009). The Company will apply the IAS 23 (Amendment) prospectively to the capitalization of borrowing costs from January 1, 2009.

IAS 36 (Amendment) *Impairment of Assets* (effective from January 1, 2009)

Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Company will apply the IAS 36 (Amendment) and provide the required disclosures where applicable for impairment tests from January 1, 2009.

IAS 38 (Amendment) *Intangible Assets* (effective from January 1, 2009)

A prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services.

Additionally, the amendment deletes the wording that states that there is "rarely if ever" support for use of a method that results in a lower rate of amortization than the straight-line method. The amendment will not have an impact on the Company's operations, since all intangible assets are amortized using the straight-line method.

IAS 40 (Amendment) *Investment Property (and consequential amendments to IAS 16)* (effective from January 1, 2009)

Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is therefore measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which the fair value becomes reliably measurable. The Company will apply the IAS 40 (Amendment) from January 1, 2009.

IAS 20 (Amendment) *Accounting for Government Grants and Disclosure of Government Assistance* (effective from January 1, 2009)

The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39 and the proceeds received with the benefit to be accounted for in accordance with IAS 20. The Company will apply the IAS 20 (Amendment) from 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.

###### *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, 2008	December 31, 2007
AMD/1 US Dollar	<b>306.73</b>	304.22
AMD/1 Euro	<b>435.00</b>	446.96

#### 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 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.

#### 4.6 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 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.

#### 4.9 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 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.

#### 4.13 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.

#### 4.14 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.

#### 4.15 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 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 21.

## 6 Interest and similar income and expense

In thousand Armenian drams	2008	2007
Advances to customers	1,388	296
Debt investment securities available-for-sale	126,542	111,767
Other interest income	288	1,354
<b>Total interest and similar income</b>	<b>128,218</b>	<b>113,417</b>
In thousand Armenian drams	2008	2007
Repo transactions	84,384	55,094
Borrowed loans	20,546	-
<b>Total interest and similar expense</b>	<b>104,930</b>	<b>55,094</b>

In thousand Armenian drams	2008	2007
Advances to customers	1,388	296

## 7 Net trading income

In thousand Armenian drams	2008	2007
Gains less losses from trading in foreign currencies	1,136	-
<b>Total net trading income</b>	<b>1,136</b>	<b>-</b>

## 8 Other income

In thousand Armenian drams	2008	2007
Foreign currency translation net gains of non-trading assets	706	-
Other income	300	-
<b>Total other income</b>	<b>1,006</b>	<b>-</b>

## 9 Staff costs

In thousand Armenian drams	2008	2007
Wages and salaries	6,359	6,995
Social security contributions	1,104	1,702
<b>Total staff costs</b>	<b>7,463</b>	<b>8,697</b>

## 10 Other expenses

In thousand Armenian drams	2008	2007
Communications	2,822	1,451
Operating lease	1,800	750
Taxes, other than income tax, duties	632	100
Consulting and other services	2,395	2,360
Representative expenses	1,461	1,093
Office supplies	1,267	1,301
Penalties paid	382	50
Other expenses	3,863	2,146
<b>Total other expense</b>	<b>14,622</b>	<b>9,251</b>

In thousand Armenian drams 2008 2007

## 11 Income tax expense

In thousand Armenian drams 2008 2007

Current tax expense	3,638	21,181
Deferred tax	(4)	(376)
<b>Total income tax expense</b>	<b>3,634</b>	<b>20,805</b>

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2007: 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	2008	Effective rate (%)	2007	Effective rate (%)
<b>Profit before tax</b>	<b>17,719</b>		104,253	
Income tax at the rate of 20%	3,544	20	20,851	20
Non-taxable income	-	-	(46)	-
Non-deductible expenses	231	1	-	-
Foreign exchange gains	(141)	(1)	-	-
<b>Income tax expense</b>	<b>3,634</b>	<b>20</b>	<b>20,805</b>	<b>20</b>

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2007	Recognized in 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 assets</b>	<b>8,077</b>	<b>4</b>	<b>(7,317)</b>	<b>764</b>

In thousand Armenian drams	2007	Recognized in income statement	Recognized in equity	2008
<b>Net deferred tax asset</b>	<b>8,077</b>	<b>4</b>	<b>(7,317)</b>	<b>764</b>
In thousand Armenian drams	2006	Recognized in income statement	Recognized in equity	2007
Accrued expenses and other liabilities	100	376	-	476
Fair value adjustments of securities	-	-	7,601	7,601
<b>Total deferred tax liabilities</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>

## 12 Cash and cash equivalents

In thousand Armenian drams	2008	2007
Cash on hand	2,131	293
Bank accounts	127,404	50,234
<b>Total cash and cash equivalents</b>	<b>129,535</b>	<b>50,527</b>

## 13 Advances to customers

As at 31 December 2007 the advance of AMD 30,000 thousand was issued to the Company's related party 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 23.

Credit, currency, liquidity and interest rate analyses of advances are disclosed in Note 25. The information on related party balances is disclosed in Note 22.

## 14 Other receivables

In thousand Armenian drams	2008	2007
Prepayments for other taxes	86	67
Low-value items	45	-
<b>Total other debtors</b>	<b>131</b>	<b>67</b>

## 15 Available-for-sale investments

In thousand Armenian drams	2008	2007
<b>Unquoted investments</b>		
Securities issued by the Ministry of Finance of Armenia	255,830	-
Corporate bonds	1,743	50,013
<b>Total investments</b>	<b>257,573</b>	<b>50,013</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 17).

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

In thousand Armenian drams	2008	2007
As at January 01	50,013	38,255
Addition	27,035,519	29,526,605
Decrease	(26,887,261)	(29,491,409)
Net unrealized gains/(losses) from changes in fair value	59,302	(23,438)
<b>As at December 31</b>	<b>257,573</b>	<b>50,013</b>

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

In thousand Armenian drams	2008		2007	
	%	Maturity	%	Maturity
Securities issued the Ministry of Finance of Armenia	8.5-10.5%	2014-2028	-	-
Corporate bonds	9%	2009	9%	2008
Securities issued the Ministry of Finance of Armenia pledged under repurchase agreements	8.5-9.4%	2014-2018	6.59-8.99%	2009-2021

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 505,448 thousand (2007: AMD 1,017,104 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 19).

## 16 Property, plant and equipment

In thousand Armenian drams	Computers and communications	Vehicles	Office equipment	Total
<b>COST</b>				
Cost amount at January 1, 2007	1,964	3,950	-	5,914
Additions	2,647	25,000	2,852	30,499
At December 31, 2007	<b>4,611</b>	<b>28,950</b>	<b>2,852</b>	<b>36,413</b>
Additions	<b>259</b>	<b>760</b>	<b>80</b>	<b>1,099</b>
Adjustment	<b>152</b>	-	<b>(1,139)</b>	<b>(987)</b>
Reclassification	<b>(1,132)</b>	-	<b>1,132</b>	-
At December 31, 2008	<b>3,890</b>	<b>29,710</b>	<b>2,925</b>	<b>36,525</b>
<b>DEPRECIATION</b>				
At January 1, 2007	1,645	-	-	1,645
Depreciation charge	882	2,391	462	3,735
At December 31, 2007	<b>2,527</b>	<b>2,391</b>	<b>462</b>	<b>5,380</b>
Depreciation charge	<b>2,174</b>	<b>5,816</b>	<b>353</b>	<b>8,343</b>
Adjustment	<b>(610)</b>	-	<b>(377)</b>	<b>(987)</b>
Reclassification	<b>(271)</b>	-	<b>271</b>	-
At December 31, 2008	<b>3,820</b>	<b>8,207</b>	<b>709</b>	<b>12,736</b>
<b>CARRYING VALUE</b>				
At December 31, 2008	<b>70</b>	<b>21,503</b>	<b>2,216</b>	<b>23,789</b>
At December 31, 2007	2,084	26,559	2,390	31,033

### *Fully depreciated items*

As at 31 December 2008 fixed assets included fully depreciated and amortized assets in amount of AMD 3,720 thousand (2007: AMD 977 thousand).

## 17 Short term loans and advances

In thousand Armenian drams	2008	2007
Short term advances under repurchase agreements	<b>500,605</b>	1,011,735
Loans borrowed from banks	<b>206,999</b>	-
<b>Total loans and advances</b>	<b>707,604</b>	1,011,735

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 15).

## 18 Accounts payable

In thousand Armenian drams	2008	2007
Tax payable, other than income tax	-	11
Due to personnel	883	1,008
Other	1,517	1,370
<b>Total other liabilities</b>	<b>2,400</b>	<b>2,389</b>

## 19 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	2008	2007	2008	2007
Available for sale securities (Note 15, 17)	505,448	1,017,104	505,605	1,011,735
	<b>505,448</b>	<b>1,017,104</b>	<b>505,605</b>	<b>1,011,735</b>

## 20 Equity

As at 31 December 2008 the Company's registered and paid-in share capital was AMD 200,000,000. 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 2008 and 2007 may be specified as follows:

In thousand Armenian drams	2008		2007	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
Anna Hambaryan	100,000	50%	50,000	50%
Eduard Marutyan	100,000	50%	50,000	50%
	<b>200,000</b>	<b>100%</b>	<b>100,000</b>	<b>100%</b>

As at 31 December 2008, the Company did not possess any of its own shares.

In 2008 the shareholders of the Company increased its share capital by AMD 100,000 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.

## 21 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 2008 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	2008	2007
Not later than 1 year	1,800	1,800
Later than 1 year and not later than 5 years	5,100	6,900
Later than 5 years	-	-
<b>Total operating lease commitments</b>	<b>6,900</b>	<b>8,700</b>

## 22 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	2008			2007
	Shareholders and their related parties	Key management personnel	Shareholders and their related parties	Key management personnel
<b>Issued advances</b>				
Advance outstanding at January 1, gross	30,296	-	-	-
Advances issued during the year	145,000	-	168,296	35,000
Advances repayments during the year	(175,296)	-	(138,000)	(35,000)
<b>Advances outstanding at December 31</b>	<b>-</b>	<b>-</b>	<b>30,296</b>	<b>-</b>
Interest income on advances	1,388	-	296	-
<b>Income statement items</b>				
Income from purchase and sale of foreign currency	955	-	-	-

In thousand Armenian drams	2008			2007
	Shareholders and their related parties	Key management personnel	Shareholders and their related parties	Key management personnel
Other operating expenses (lease payments)	-	1,800	-	300

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2008	2007
Salaries and other short-term benefits	3,871	2,882
Social security costs	803	679
<b>Total key management compensation</b>	<b>4,674</b>	<b>2,470</b>

### 23 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.

### 24 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						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
	634,983	1,743	636,726	255,830	255,830	892,556
<b>LIABILITIES</b>						
Short term loans and borrowings	707,604		707,604			707,604
	707,604		707,604			707,604
<b>Net position</b>	<b>(72,621)</b>	<b>1,743</b>	<b>(70,878)</b>	<b>255,830</b>	<b>255,830</b>	<b>184,952</b>
<b>Accumulated gap</b>	<b>(72,621)</b>	<b>(70,878)</b>		<b>184,952</b>		

In thousand Armenian drams				2007
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Total
<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
	1,067, 631	30,296	50,013	1,047,940
<b>LIABILITIES</b>				
Short term loans and borrowings	1,011,735	-	-	1,011,735
	1,011,735	-	-	1,011,735
<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>	

## 25 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 risks.

### 25.1 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. 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 2008 and 2007, 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	Gross maximum exposure as of
		December 31, 2008	December 31, 2007
Cash and cash equivalents	12	129,535	50,527
Loans and advances to customers	13	-	30,296

In thousand Armenian drams	Notes	Gross maximum exposure as of December 31, 2008	Gross maximum exposure as of December 31, 2007
Investments available for sale	15	257,573	50,013
Securities pledged under repurchase agreements	19	505,448	1,017,104
<b>Total</b>		<b>892,556</b>	<b>1,147,940</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.

## 25.2 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.

### 25.2.1 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	Change in basis points	Sensitivity of equity				2008	
		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	

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

#### *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 2008 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		2008		2007	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax	
USD	+20	(25,914)	-	-	-
USD	-20	25,914	-	-	-

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

In thousand Armenian drams		Armenian Dram	Freely convertible currencies	Total
<b>ASSETS</b>				
Cash and cash equivalents		52,842	76,693	129,535
Investments available for sale		257,573	-	257,573
Securities pledged under repurchase agreements		505,448	-	505,448
		<u>815,863</u>	<u>76,693</u>	<u>892,556</u>
<b>LIABILITIES</b>				
Short term loans and advances		500,605	206,999	707,604
		<u>500,605</u>	<u>206,999</u>	<u>707,604</u>
<b>Net position as at 31 December 2008</b>		<u>315,258</u>	<u>(130,306)</u>	<u>184,952</u>

As at 31.12.2007 the Company has not had assets and liabilities in foreign currency.

Freely convertible currencies represent mainly US dollar amounts.

### 25.3 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.

## 26 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.

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



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