Republic of Armenia

Central Bank

Annual Financial Statements

2007

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Financial Statements and independent auditor's report
Central Bank of the Republic of Armenia
31 December 2007

INDEPENDENT AUDITOR'S REPORT

To the Board of the Central Bank of the Republic of Armenia:

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

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

25 March, 2008
Yerevan
Grant Thornton Amyot LLC



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Central Bank of the Republic of Armenia

Income statement

AMD thousand

	Notes	Year ended December 31, 2007 (audited)	Year ended December 31, 2006 (audited)
Interest income	4	14,722,444	13,640,989
Interest expense	5	(7,441,031)	(2,501,883)
Net interest income		**7,281,413**	**11,139,106**
Fee and commission income		73,739	22,127
Fee and commission expense		(165,628)	(143,660)
Net fee and commission expense		**(91,889)**	**(121,533)**
Net foreign exchange loss	6	(52,984,269)	(37,927,006)
Net realized loss on available-for-sale assets		(135,256)	(377,797)
Net gain on financial instruments at fair value through profit or loss	7	8,335,233	2,699,004
Other income	8	259,645	700,846
Operating loss		**(37,335,123)**	**(23,887,380)**
Costs of production of banknotes and coins		(1,173,085)	(506,228)
General administrative expenses	9	(5,286,278)	(4,577,173)
Operating expenses		**(6,459,363)**	**(5,083,401)**
Loss for the year		**(43,794,486)**	**(28,970,781)**

The financial statements as set out on pages 34 to 72 were approved by the Board of the Central Bank of Republic of Armenia on 25 March 2008 and were signed on its behalf by:

Tigran SARGSYAN
Chairman of the Central Bank of Armenia



Haykanush HAKOBYAN
Chief Accountant of the Central Bank of Armenia



The income statement is to be read in conjunction with the notes to, and forming part of, the financial statements.

Central Bank of the Republic of Armenia

Balance sheet

AMD thousand

	Notes	As of December 31, 2007 (audited)	As of December 31, 2006 (audited)
ASSETS			
Foreign currency assets			
Cash		72,430	491,363
Placements with banks and other financial institutions	10	183,063,363	283,201,115
Financial instruments at fair value through profit or loss	11	318,671,929	79,440,951
Available-for-sale assets	12	1,216	21,435,036
Placements with the IMF	13	2,940,262	5,117,455
Other assets		222,321	166,248
		504,971,521	389,852,168
Domestic currency assets			
Loans and reverse repurchase agreements	14	24,600,695	15,290,302
Available-for-sale assets	12	49,245,329	19,171,500
Property and equipment	15	8,125,307	7,061,116
Intangible assets	16	62,707	70,484
Other assets	17	883,508	566,507
		82,917,546	42,159,909
Total Assets		**587,889,067**	**432,012,077**
LIABILITIES AND CAPITAL			
Foreign currency liabilities			
Deposits and balances from financial and other institutions	18	40,040,499	25,810,253
Due to the Government of the Republic of Armenia	19	48,727,754	59,694,152
Other borrowed funds	20	10,274,856	8,043,093
Other liabilities		67,382	29,897
		99,110,491	93,577,395

The balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	As of December 31, 2007 (audited)	As of December 31, 2006 (audited)
Domestic currency liabilities			
Notes and coins in circulation		350,273,664	226,841,135
Deposits and balances from financial and other institutions	18	38,387,377	39,301,849
Due to the Government of the Republic of Armenia		93,622,987	61,532,562
Debt securities issued		48,958,097	38,987,836
Other liabilities	21	1,090,046	946,661
		532,332,171	367,610,043
Total Liabilities		**631,442,662**	**461,187,438**
Capital			
Issued capital	22	100,000	100,000
General reserve	22	9,870,486	9,870,486
Additional paid in capital	12	42,009,598	12,734,237
Revaluation reserve for available-for-sale assets		(108,384)	(249,275)
Accumulated losses		(95,425,295)	(51,630,809)
Total capital		**(43,553,595)**	**(29,175,361)**
Total liabilities and capital		**587,889,067**	**432,012,077**

The balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements.

Central Bank of the Republic of Armenia

Statement of changes in equity

AMD thousand

	Issued capital	General reserve	Additional paid in capital	Revaluation reserve for available-for-sale assets	Accumulated losses	Total equity
Balance at 1 January 2006	**100,000**	**9,870,486**	**-**	**55,305**	**(22,660,028)**	**(12,634,237)**
Net unrealized loss from changes in fair value	-	-	-	(304,580)	-	(304,580)
Total expense recognized directly in equity	-	-	-	(304,580)	-	(304,580)
Loss for the year	-	-	-	-	(28,970,781)	(28,970,781)
Total income and expense for the year				(304,580)	(28,970,781)	(29,275,361)
The Government of the Republic of Armenia contribution into equity (Note 22)	-	-	12,734,237	-	-	12,734,237
Balance at 31 December 2006	**100,000**	**9,870,486**	**12,734,237**	**(249,275)**	**(51,630,809)**	**(29,175,361)**
Net unrealized gains from changes in fair value	-	-	-	827	-	827
Net losses realized to the loss for the year on disposal of available-for-sale instruments	-	-	-	140,064	-	140,064
Total income recognized directly in equity	-	-	-	140,891	-	140,891
Loss for the year	-	-	-	-	(43,794,486)	(43,794,486)
Total income and expense for the year	-	-	-	140,891	(43,794,486)	(43,653,595)
The Government of the Republic of Armenia contribution into equity (Note 22)	-	-	29,275,361	-	-	29,275,361
Balance at 31 December 2007	**100,000**	**9,870,486**	**42,009,598**	**(108,384)**	**(95,425,295)**	**(43,553,595)**

Central Bank of the Republic of Armenia

Statement of cash flows

AMD thousand

	Notes	Year ended December 31, 2007 (audited)	Year ended December 31, 2006 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the period		(43,794,486)	(28,970,781)
Depreciation and amortization		772,912	739,984
		(43,021,574)	(28,230,797)
(Increase)/decrease in operating assets			
Placements with banks and other financial institutions		96,386,646	(130,743,760)
Financial instruments at fair value through profit or loss		(239,230,979)	(32,106,038)
Available-for-sale assets		20,776,244	115,072,884
Loans and reverse repurchase agreements		(9,310,392)	(3,340,437)
Other assets		(373,075)	16,377
Increase/(decrease) in operating liabilities			
Notes and coins in circulation		123,432,530	71,566,411
Deposits and balances from financial and other institutions		13,315,774	9,711,129
Due to the Government of the Republic of Armenia		21,124,026	(19,672,319)
Debt securities issued		9,970,261	17,504,980
Other borrowings		2,231,763	(885,138)
Other liabilities		180,870	296,779
Net cash used in operating activities		**(4,517,906)**	**(809,929)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of held to maturity investments		-	-
Purchase of property, equipment and intangible assets		(1,844,626)	(1,715,914)
Sale of property and equipment		15,301	10,524
Net cash used in investing activities		**(1,829,325)**	**(1,705,390)**
Net increase/(decrease) in cash and cash equivalents		**(6,347,231)**	**(2,515,319)**
Cash and cash equivalents at the beginning of the year		31,036,600	33,551,919
Cash and cash equivalents at the end of the year	25	**24,689,369**	**31,036,600**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

Notes to, and forming part of, the financial statements for the year ended 31 December 2007

1. Background

Principal activities

The Central Bank of the Republic of Armenia (the "Bank") is a legal entity established by the act of the National Assembly of the Republic of Armenia.

The registered address of the Bank's head office is 6 Vazgen Sargsyan Street, Yerevan 0010, Republic of Armenia. The average number of persons employed by the Bank during the year was 619 (2006:587).

The primary objective of the Bank is price stability in the Republic of Armenia. It is achieved through formulation and implementation of monetary policy. In addition to its primary objective, the Bank is also responsible for:

- ensuring the stability, liquidity, solvency and other necessary conditions for sound operation of the financial banking system in the Republic of Armenia; and,
- creation and development of an effective payment and settlement system.

The Bank also:

- issues the national currency of the Republic of Armenia and regulates its circulation;
- organizes and regulates anti money laundering and terrorism financing activities;
- is the fiscal agent and financial consultant of the Government of Republic of Armenia ;
- licenses commercial banks and, if so provided by law, other entities, supervises and regulates their activities;
- is the lender of last resort to commercial banks; and,
- possesses, uses and administers international reserves of the Republic of Armenia.

2. Basis of preparation

Statement of compliance

The accompanying financial statements 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").

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.

Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the Bank's functional currency and the currency in which these financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand.

Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

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

Consolidation of subsidiaries

The Bank does not consolidated two of its subsidiaries since the effect on the Bank's financial statements would be immaterial.

Classification of investment securities

Upon initial recognition, the Bank designates securities as financial assets with recognition of changes in fair value through profit or loss, held to maturity financial assets or available-for-sale financials assets recognition of changes in fair value through equity.

3. 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.

Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value and whose appraised value is denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the income statement.

Cash and cash equivalents

The Bank considers cash, nostro accounts with banks and SDR holdings in IMF to be cash and cash equivalents.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for a derivative that is a designated and effective hedging instrument); or,
- upon initial recognition, designated by the entity as at fair through the profit or loss. Financial instruments are designated at fair value through profit or loss if the Bank manages such investments and makes purchase and sale decisions based on their fair value.

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

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

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank intends to sell immediately or in the near term, those that the Bank upon initial recognition designates as at fair value through profit or loss, or those which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank designates as available-for-sale; or
- those that meet the definition of loans and receivables.

Available-for-sale assets are financial assets are those financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial instruments at fair value through profit or loss.

Recognition

Financial assets and liabilities are recognised in the balance sheet when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method;
- held to maturity investments which are measured at amortized cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties .

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the income statement;
- a gain or loss on an available-for-sale financial asset is recognised directly in equity through the statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Interest in relation to an available-for-sale financial asset is recognised as earned in the income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or liability is derecognised or impaired, and through the amortization process.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

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.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities 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 counterparty liability included in amounts due to other banks or to customers, as appropriate. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the terms of the repo agreement.

Securities purchased under agreements to resell ("reverse repo") are recorded as due from banks or customers as appropriate. The differences between the sale and repurchase prices are treated as interest and accrued over the life of the reverse repo agreement using the effective interest method.

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.

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.

Notes and coins in circulation

Notes and coins in circulation issued by the Bank are presented in the balance sheet as a liability in favor of the holder, at face value. Notes printing and coins production costs are treated as expense in the income statement in the year of occurrence.

Numismatic coins

Numismatic coins are measured at the lower of cost and net realisable value. The cost of coins is based on the first-in first-out principle, and includes expenditure incurred in acquiring the numismatic coins and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Upon sale the difference between estimated net proceeds and the carrying value is recognised as a gain or loss in the current year income statement.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

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

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

Leased assets

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	10 to 20 years
Networks, computer and other equipment	5 years
Vehicles	5 years
Others	5 years

Intangible assets

Intangible assets, which are acquired by the Bank, are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Computer software	from 3-5 years

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.

Impairment

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of placements with banks and other financial institutions, loans, other receivables and unquoted available-for-sale debt securities ("loans and receivables"). The Bank reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has an impact on the estimated future cash flows of the loan 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, default or delinquency in interest or principal payments, breach of loan covenants or conditions.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables 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 a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in the income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not reliably measured. If there is objective evidence that such investments are impaired the impairment loss is calculated as the different between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in the income statement and can not be reversed.

Non financial assets

Other non financial assets are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in the income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss revered is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Pensions

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

Provisions

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Taxation

The Bank is not subject to any taxes, with the exception of taxes, duties or customs fees collected at the border of the Republic of Armenia for imported goods.

Recognition of income and expense

Interest income and expense

Interest income and expense are recognised in the income statement as they accrue, taking into account the effective interest rate of the asset/liability or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income on financial instruments at fair value through profit or loss is included in net gain on financial instruments at fair value through profit or loss.

Loan organization fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated live of the financial instrument using the effective interest rate method.

Fee and commission income

Other fee and commission income is recognised when the corresponding service is provided.

New Standards and Interpretations

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

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS 7 introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. IFRS 7 replaced IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The adoption of IFRS 7 and the amendment to IAS 1 had no impact on the reported profits or financial position of the Bank. The new disclosures are made in these financial statements and in accordance with the transitional requirements of the standards, the Bank has provided full comparative information.

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

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

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

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

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

4. Interest income

AMD thousand

	2007	2006
Interest income from foreign currency assets		
Term deposits	11,760,400	8,118,941
Available-for-sale assets	367,997	2,547,436
Nostro accounts	826,277	1,131,074
Placements with the IMF	129,291	235,674
Other	3,862	-
	13,087,827	**12,033,125**
Interest income from domestic currency assets		
Loans and reverse repurchase agreements	1,135,033	924,619
Available-for-sale assets	493,473	665,557
Other	6,111	17,688
	1,634,617	**1, 607,864**
	14,722,444	**13,640,989**

5. Interest expense

AMD thousand

	2007	2006
Interest expense on foreign currency liabilities		
Payable to the Government of the Republic of Armenia in relation to the loans from the IMF	263,926	345,127
Other borrowings	76,618	77,234
Other liabilities	81,866	69,624
	422,410	**491,985**
Interest expense on domestic currency liabilities		
Debt securities issued	2,841,829	1,451,430
Due to The Government of the Republic of Armenia	4,039,109	445,064
Deposits and balances from financial and other institutions	53,798	43,642
Other liabilities	83,885	69,762
	7,018,621	**2,009,898**
	7,441,031	**2,501,883**

6. Net foreign exchange loss

AMD thousand

	2007	2006
Loss from revaluation of monetary assets and liabilities	(54,593,071)	(36,013,048)
Net (gain)/loss on spot transactions	1,608,802	(1,913,958)
	(52,984,269)	**(37,927,006)**

Included in the loss from revaluation of monetary assets and liabilities is a foreign exchange revaluation loss on financial instruments at fair value through profit or loss of AMD 36,263,583 thousand (2006: 13,952,537).

7. Net gain on financial instruments at fair value through profit or loss

AMD thousand

	2007	2006
Net gain on assets under trust management excluding foreign exchange revaluation	1,334,311	2,147,505
Net gain on foreign securities under own management excluding foreign exchange revaluation	7,173,377	651,880
Trust management fees	(172,455)	(100,381)
	8,335,233	**2,699,004**

8. Other income

AMD thousand

	2007	2006
Repayment of previously written off debtors	-	542,551
Net income from sales of numismatic coins	102,377	62,079
Other income	157,268	96,216
	259,645	**700,846**

9. General administrative expenses

AMD thousand

	2007	2006
Employee compensation, staff training and related payments	2,981,370	2,606,728
Security and maintenance of reserves	725,910	442,008
Depreciation and amortization	772,912	739,984
Repairs and maintenance	217,224	239,378
Professional services	141,032	99,666
Other	447,830	449,409
	5,286,278	**4,577,173**

10. Placements with banks and other financial institutions

AMD thousand

	2007	2006
Term deposits	159,477,087	255,364,239
Nostro accounts	21,695,942	25,470,880
Accrued interest on deposits and nostro accounts	799,643	2,083,644
Cash included in assets under trust management	401,371	282,352
Other	689,320	-
	183,063,363	**283,201,115**

Concentration of placements with banks and other financial institutions

As at 31 December 2007 and 2006 the Bank had 3 and 7 banks and financial institutions, respectively, whose balances exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as of 31 December 2007 and 2006 were AMD 58,383,610 thousand and AMD 229,598,575 thousand, respectively.

11. Financial instruments at fair value through profit or loss

AMD thousand

	2007	2006
Assets		
Debt and other fixed-income instruments - Quoted		
Foreign government securities under own management	251,676,631	38,566,365
Securities under trust management	66,738,148	40,227,658
	318,414,779	**78,794,023**
Derivative financial instruments - Quoted		
Foreign exchange forward contracts	257,150	646,928
	318,671,929	**79,440,951**

Debt and other fixed-income instruments were, upon initial recognition, designated by the Bank as financial assets at fair value through profit or loss.

Securities under trust management represent debt securities of foreign governments for the amount of AMD 46,902,724 thousand (2006: 26,166,949) and securities of foreign financial institutions for the amount of AMD 19,835,424 thousand (2006: 14,060,709). All these instruments are rated A2 and higher by Moody's.

Securities and derivative financial instruments under trust management represent financial instruments under discretionary asset management at a foreign financial institution. Risk exposure limits and investment guidance are set by the Bank.

Derivative financial instruments

AMD thousand

	Notional amount		Fair value			
	2007	2006	2007		2006	
			Asset	Liability	Asset	Liability
Foreign forwards	47,197,957	64,037,619	113,699	-	646,928	-
Foreign futures	19,524,259	-	143,451	-	-	-
Total			**257,150**	**-**	**646,928**	**-**

12. Available for sale assets

AMD thousand

	2007	2006
Available for sale investments in foreign currency		
Debt and other fixed-income instruments - Quoted		
Foreign government securities under own management	-	21,433,820
Equity investments at cost -Unquoted		
SWIFT	1,216	1,216
	1,216	**21,435,036**
Available for sale investments in domestic currency		
Debt and other fixed-income instruments		
The Government of the Republic of Armenia treasury securities	4,541,268	4,023,681
The Government of the Republic of Armenia bond	42,009,598	12,759,357
	46,550,866	**16,783,038**
Equity investments at cost - Unquoted		
Investments in unconsolidated subsidiaries	2,651,722	2,351,722
Other equity investments	42,741	36,740
	2,694,463	**2,388,462**
	49,245,329	**19,171,500**

A non-interest demand bond with the nominal amount of AMD 42,009,598 thousand was issued by the Government of the Republic of Armenia as a contribution to the Bank for no consideration (the bond bears interest at the rate of 4% p.a. till 2008 June 28) . The bond is issued according to the Republic of Armenia law on the Central Bank to cover the negative equity reserves of the Bank as at 31 December 2006 of AMD 42,009,598 thousand. Management believes that the carrying value of the bond approximates its fair value. The bond is expected to be replaced with new bond which will be issued by the Government of the Republic of Armenia to cover the negative equity reserves of the Bank as at 31 December 2008.

Unconsolidated subsidiaries are comprised of:

Name	Country of incorporation	Main activity	% Controlled		2007 Carrying value AMD '000	2006 Carrying value AMD '000
			2007	2006		
Armenian Card	Republic of Armenia	Payment processing	66%	66%	400,722	400,722
Armenian Card	Republic of Armenia	Cash delivery	95%	94%	2,251,000	1,951,000
					2,651,722	**2,351,722**

The financial statements of the subsidiaries listed above have not been consolidated into those of the Bank, as the effect on the Bank's financial statements would be immaterial.

Available-for-sale investment securities of the Government of the RA are recorded at fair value using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

Available-for-sale equity instruments are stated at cost. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to uncertainty regarding future cash flows.

13. International Monetary Fund

AMD thousand

	2007	2006
Placements with the IMF in foreign currency		
SDR holdings in the IMF	2,920,997	5,074,357
Accrued interest	19,265	43,098
	2,940,262	**5,117,455**

The Bank maintains an SDR-denominated current account with the IMF used for processing and settling transactions with the fund. This current account bears interest based on the SDR interest rate, obtained weekly, as a weighted average of selected rates of three-month instruments on the money market of the four currencies which constitute the SDR basket. In 2007, the rate ranged from 3.03% to 4.00% (2006: 3.03% to 4.07% p.a.).

According to the IMF Statute, the Bank acts as a fiscal agent of the Republic of Armenia and simultaneously behaves as a depositary of the IMF in the Republic of Armenia. As such, the Bank keeps records of the quota of the Republic of Armenia for membership with the IMF and the Promissory note related to the membership of the Republic of Armenia in the IMF. The positions are as follows:

AMD thousand

	2007	2006
Quota in IMF (subscription)	44,228,417	50,301,903
Promissory note denominated in domestic currency for membership in the IMF and liabilities on the basis of account 2	44,228,417	50,301,903

The quota of the Republic of Armenia for membership with the IMF stands at SDR 92,000,000 as of 31 December 2007 (2006: SDR 92,000,000). The change in value is due to exchange rate changes.

14. Loans and reverse repurchase agreements

AMD thousand

	2007	2006
Loans to domestic banks under arrangement with the KFW bank	14,408,075	11,917,775
Amounts receivable under reverse repurchase agreements	10,188,285	3,358,937
Other loans	4,335	13,590
	24,600,695	**15,290,302**

Loans to domestic banks under the agreement with the KFW bank are provided to 10 domestic banks and 2 financial institutions and bear interest at rates from 5.5% to 7.5% p.a..

The Bank accepted securities as collateral for commercial loans, which it is permitted to sell or repledge. As of 31 December 2007 amounts receivable under reverse repurchase agreements are with 7 domestic banks (2006: 5) and are collateralised by the following securities:

AMD thousand

	2007 Fair value	2006 Fair value
The Government of the Republic of Armenia treasury bonds	9,380,526	2,280,818
Central Bank of Armenia bills	-	1,072,786
	9,380,526	**3,353,604**

15. Property and equipment

AMD thousand

	Land and buildings	Networks, computer and other equipment	Vehicles	Other	Total
Cost					
Balance at 1 January 2006	5,534,446	3,265,948	213,358	1,707,693	10,721,445
Additions	1,135,740	295,118	42,203	216,842	1,689,903
Disposals	(9,986)	(187,750)	-	(69,196)	(266,932)
Transfer	-	(48,906)	-	48,906	-
Balance at 31 December 2006	6,660,200	3,324,410	255,561	1,904,245	12,144,416
Balance at 1 January 2007	6,660,200	3,324,410	255,561	1,904,245	12,144,416
Additions	1,360,851	384,673	21,876	35,238	1,802,638
Disposals	-	(199,195)	(38,399)	(81,210)	(318,804)
Balance at 31 December 2007	8,021,051	3,509,888	239,038	1,858,273	13,628,250
Depreciation					
Balance at 1 January 2006	1,077,689	2,250,482	124,429	1,180,565	4,633,165
Depreciation charge	207,369	297,296	25,729	176,148	706,542
Disposals	(2,936)	(187,699)	-	(65,772)	(256,407)
Transfer	-	(46,401)	-	46,401	-
Balance at 31 December 2006	1,282,122	2,313,678	150,158	1,337,342	5,083,300
Balance at 1 January 2007	1,282,122	2,313,678	150,158	1,337,342	5,083,300
Depreciation charge	233,099	332,602	32,077	125,369	723,147
Disposals	-	(195,385)	(31,481)	(76,638)	(303,504)
Balance at 31 December 2007	1,515,221	2,450,895	150,754	1,386,073	5,502,943
Net book value					
At 1 January 2006	4,456,757	1,015,466	88,929	527,128	6,088,280
At 31 December 2006	5,378,078	1,010,732	105,403	566,903	7,061,116
At 31 December 2007	6,505,830	1,058,993	88,284	472,200	8,125,307

16. Intangible assets

AMD thousand

	Computer software
Cost	
Balance at 1 January 2006	219,211
Additions	26,012
Balance at 31 December 2006	245,223
Balance at 1 January 2007	245,223
Additions	41,988
Balance at 31 December 2007	287,211
Amortisation	
Balance at 1 January 2006	141,297
Additions	33,442
Balance at 31 December 2006	174,739
Balance at 1 January 2007	174,739
Additions	49,765
Balance at 31 December 2007	224,504
Net book value	
At 1 January 2006	77,914
At 31 December 2006	70,484
At 31 December 2007	62,707

17. Other assets

AMD thousand

	2007	2006
Numismatic coins	323,853	307,197
Receivables	390,939	90,966
Other assets	168,716	168,344
	883,508	**566,507**

18. Deposits and balances from financial and other institutions

AMD thousand

	2007	2006
Foreign currency liabilities		
Vostro accounts and deposits of domestic banks	38,421,297	23,628,832
Term deposit of Deposit Insurance fund	1,581,315	1,693,225
Current accounts of other legal entities	37,887	488,196
	40,040,499	**25,810,253**
Domestic currency liabilities		
Vostro accounts and deposits of domestic banks	37,923,499	38,721,925
Term deposit and current accounts of Deposit Insurance fund	9,855	332,441
Current accounts of other legal entities	454,023	247,483
	38,387,377	**39,301,849**

Concentration of deposits and balances from financial and other institutions

As at 31 December 2007 and 2006 the Bank had 3 domestic banks respectively, whose balances exceeded 10% of total Deposits and balances from financial and other institutions. The gross value of these balances as of 31 December 2007 and 2006 were AMD 27,104,758 thousand and AMD 23,277,651 thousand, respectively.

19. Due to the Government of the Republic of Armenia

AMD thousand

	2007	2006
Payable to the Government of the Republic of Armenia in relation to the loans from the IMF	48,039,741	59,487,180
Other accounts	688,013	206,972
	48,727,754	**59,694,152**

The PRGF (Poverty Reduction and Growth Facility) loan has been received from IMF by the Republic of Armenia and placed in the Bank. No terms of repayment of the loan to the Government of the Republic of Armenia and the Bank are negotiated and as such the Bank considers the loan payable on demand.

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

20. Other borrowed funds

AMD thousand

	2007	2006
Loans from KFW bank	10,274,542	8,028,783
Accrued interest	314	14,310
	10,274,856	**8,043,093**

The loans are provided under an intergovernmental agreement on financial cooperation between the Government of the Republic of Armenia and the Federal Republic of Germany to finance special loan programs placed through domestic banks (Note 14). The loans mature from 2008 through 2043, and bear interest of 0.75% p.a. for the used part of the loan, and 0.25% for the unused part of the loan. The repayment of loans to KFW is guaranteed by the Government of the Republic of Armenia.

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

21. Other liabilities

AMD thousand

	2007	2006
Demand deposits of employees	828,284	684,632
Other liabilities	261,762	262,029
	1,090,046	**946,661**

22. Equity

Issued capital

The issued capital of the Bank is owned by the Republic of Armenia and cannot be pledged, sold or otherwise disposed.

Additional paid in capital

Additional paid in capital represents a contribution made by the Government of the Republic of Armenia in the form of a bond (Note 12).

General reserve

The general reserve is formed according to law on the Central Bank of the Republic of Armenia and cannot be distributed.

23. Commitments

Capital commitments

The capital commitments outstanding at 31 December 2007 related to the construction of the Bank's premises is AMD 659,503 thousand (2006: 48,725).

Litigation

Bank management is unaware of any significant actual, pending or threatened claims against the Bank.

Guarantees

As at 31 December 2007 the Bank has given guarantees in the amount of AMD 658,000 thousand issued from 1994 to 1995 on behalf of construction companies and relates to earthquake zone construction. Guarantees represent irrevocable assurance that the bank will make payments in the event that a customer cannot meet its obligations to third parties and carry credit risk.

24. Related party transactions

Transactions with members the key management

Total remuneration included in employee compensation (Note 9):

AMD thousand

	2007	2006
Key management including the Bank's board members	147,505	117,863

The outstanding balances and average interest rates as of 31 December 2007 with members of the key management are as follows:

	2007 *AMD thousand*	Average Interest Rate	2006 *AMD thousand*	Average Interest Rate
Balance Sheet				
Liabilities				
Deposits	244,647	12%	134,000	12%
Liabilities to employee	4,053	0.00%	3,934	0.00%

Amounts included in the income statement in relation to transactions with the key management are as follows:

AMD thousand

	2007	2006
Income statement		
Interest expense	23,619	12,828

Transactions with subsidiaries

Amounts included in the income statement in relation to transactions with subsidiaries are as follows:

AMD thousand

	2007	2006
Income statement		
General administrative expenses	610,255	346,344

Transactions with the Government of the Republic of Armenia

The outstanding balances and average interest rates as of 31 December 2007 with government are as follows:

	2007 *AMD thousand*	Average Interest Rate	2006 *AMD thousand*	Average Interest Rate
Balance Sheet				
Assets				
The Government of Republic of Armenia treasury securities (Note 12)	4,541,268	4.34%	4,023,681	6.72%
The Government of Republic of Armenia bond issued to the Bank as additional paid in capital (Note 12)	42,009,598	0.00%	12,759,357	4.00%
Liabilities				
Due to the Government of the Republic of Armenia (local currency)	93,622,987	5%	61,532,562	1.75%
Payable to the Government of the Republic of Armenia in relation to the loans from the IMF (SDR)	48,039,741	0.50%	59,487,180	0.50%
Due to the Government of the Republic of Armenia (other foreign currency)	688,013	0.00%	206,972	0.00%

Amounts included in the income statement in relation to transactions with government are as follows:

AMD thousand

	2007	2006
Income statement		
Interest income from treasury securities of the Government of Republic of Armenia	245,069	344,584
Interest income from bond issued by the Government of Republic of Armenia to the Bank as additional paid in capital	248,405	320,973
Net gain/(loss) on spot transactions	273,166	(2,299,807)
Interest paid on payables to the Government of the Republic of Armenia in relation to the loans from the IMF	(263,922)	(345,127)
Interest paid on other amounts due to the Government of the Republic of Armenia	(4,039,109)	(445,064)

25. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is composed of the following items:

AMD thousand

	2007	2006
Cash	72,430	491,363
Nostro accounts (Note 10)	21,695,942	25,470,880
SDR holdings in IMF (Note 13)	2,920,997	5,074,357
	24,689,369	31,036,600

26. Fair value of financial instruments

The Bank has performed an assessment of its financial instruments, as required by IAS 32 *Financial Instruments: Disclosure and Presentation*, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

The Bank estimates the fair value of financial assets and liabilities not to be materially different from their carrying values. The estimated fair values of its financial assets and liabilities, except for available-for-sale assets held in unquoted equity securities, is calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instruments at the balance sheet date.

As disclosed in Note 12 the fair value of unquoted equity securities with a carrying value of AMD 2,694,463 thousand (2006: AMD 2,388,462 thousand) could not be determined.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

27. Risk management

Foreign reserves management by the Central Bank of the Republic of Armenia (CBA) is subject to various financial risks. This procedure involves analysis, assessment and management of risks or any combination of those. The purpose of risk management is to achieve acceptable level of risk/return ratio by minimizing possible adverse effects on Bank’s foreign reserves’ performance.

Foreign reserves consist of foreign exchange assets and of Special Drawing Right (SDR) of the International Monetary Fund. Foreign exchange reserves reflect on the balance sheet of the Central Bank. Foreign reserves' management by the CBA is executed in accordance with the principles set forth in article 52 of the Armenian Law on "The Central Bank" and in compliance with the foreign reserves' allocation strategy approved by the CBA Board.

Today the CBA adopted a three level system for foreign reserves' management, which allows achievement of long-term (strategic), mid-term (tactical) and short-term goals.

- The upper level is the CBA Board, which, in compliance with the main purpose of holding foreign reserves, makes strategic recommendations within the Strategic Asset Allocation (SAA) framework. The principles of SAA are deduced from the main objectives of holding foreign reserves. Based on the purpose, foreign reserves are distributed among portfolios/tranches. Further each portfolio/tranche is defined in terms of investment horizon and risk tolerance characteristics, as well as active or passive management framework.
- The middle level is the Investment Committee – an executive unit to which the CBA Board delegates the responsibility for tactical decisions. The Committee specifies the benchmarks and reports the semiannual results to the CBA Boards.
- The lower level is the group of portfolio managers, who implement reserves' management strategy under the benchmark limits and in compliance with specific investment regulations/rules. Risk management is conducted by a separate division, which is responsible for the identification, assessment and management of all related risks, monitoring of specified limits, and performance reporting.

Credit risk

Credit risk management involves formulation of credit limitations, particularly, country risk assessment, definition of minimal ratings for individual partners, issuers, and asset types. Also, it is necessary to define limits on deposits' duration and assess risks associated with derivatives. All these measures are aimed at protecting Bank's interests in the event of asset price fluctuations or partners' insolvency.

The CBA specifies minimal acceptable ratings for securities or separate issues by governments, government agencies, other government authorities, and supranational organizations. These ratings can not be lower than AA- (S&P) / Aa3 (Moody's) for long-term issues and A1+ (S&P) / P1 (Moody's) for short-term issues.

Liquidity risk

Liquidity risk management process in CBA first of all implies distribution of overall reserves among different portfolios based on required degree of liquidity.

Based on the purposes of reserves and prioritization of liabilities, i.e. classification of liquidity demanding factors, foreign reserves are divided into three portfolios/tranches – working capital, liquidity portfolio and investment portfolio. While the first two are designed to meet short-term/instant and mid-term liquidity requirements, the purpose of investment portfolio is wealth accumulation.

Depending on the designation of portfolio/tranche the policy varies in terms of benchmarks and the choice between active or passive management.

CBA Board approves acceptable instrument composition for each portfolio/tranche considering their liquidity level. The Investment Committee determines minimum and maximum volume for each portfolio/tranche, as well as the minimal weights of high liquid assets in their structure given previously estimated short-term and mid-term demand for liquidity.

Market risk

Asset allocation of the foreign reserves is designed as follows:

Expected returns and price fluctuations are estimated by analyzing available monthly yield curve's data (from 1986 to present). Next, in order to reduce the number of parameters to be estimated, yield curves are fitted using Nelson-Sigel model. Based on yield curves' simulations by VAR model future return is calculated for each particular scenario and duration. The expected return and return variability are calculated for every duration based on returns generated by different scenarios. The choice of confidence interval, in this case 95%, denotes the acceptable probability (5%) of divergence. Also minimum level of return is determined. Further, respective weights of deposits and securities are determined based on the return maximization principle, however, provided there is 95% probability that return is higher than previously stated minimal level.

Foreign exchange risk is managed by defining currency allocation principles for each portfolio/tranche approved by the CBA Board. Particularly, average weights of currencies are determined by the Investment Committee based on the structure of foreign debt, current payments, foreign currency reserve requirement imposed on commercial banks, forecasted interventions, and estimated currency composition of 3 months import. Minimum and maximum levels are determined for each currency based on the exchange rate fluctuations and possible flows.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2007 on its non-trading monetary assets and liabilities. The analysis calculated the effect of an assumed 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). 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.

AMD thousand

Currency	Change in currency rate in %	2007		2006	
		Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
USD	+1	3,372,965	3,372,965	2,482,584	2,482,584
USD	-1	(3,372,965)	(3,372,965)	(2,489,423)	(2,489,423)

The following table demonstrates the sensitivity of the Bank's equity, which is calculated by revaluating fixed rate available-for-sale financial assets at 31 December 2007 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

AMD thousand

Currency	Change in basis points	2007			2006		
		Up to 1 year	More than 1 year	Total	Up to 1 year	More than 1 year	Total
AMD	+25	863,273	3,690,374	4,553,647	15,105	4,018,636	4,033,741
AMD	-25	858,967	3,670,948	4,527,915	15,029	3,998,592	4,013,621

28. Average effective interest rate

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2007 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value *AMD thousand*	2007 Average Effective Interest Rate	Value *AMD thousand*	2006 Average Effective Interest Rate
INTEREST BEARING ASSETS				
Placements with banks and other financial institutions				
Nostro accounts				
- USD	13,424,795	4.8%	19,777,226	5.19%
- EUR	7,569,134	3.7%	4,903,265	2.08%
- GBP	648,998	4.5%	673,108	4.00%
- Other currencies	64,387	0.00%	123,876	0.00%
Deposits and other balances in foreign banks				
- USD	97,659,737	5.35%	157,709,310	5.44%
- EUR	17,710,922	3.96%	58,788,462	3.54%
- GBP	38,291,120	6.4%	33,164,714	5.17%
- Other currencies	7,694,270	6.5%	8,061,154	7.00%
	183,063,363		**283,201,115**	
Financial instruments at fair value through profit or loss				
Foreign government securities under own management				
- USD	192,833,543	4.2%	38,566,365	4.86%
- EUR	58,229,059	3.63%	-	-
Assets under trust management				
- USD	41,733,403	4.3%	11,463,019	4.91%
- GBR	2,302,101	5.12%	1,383,044	4.37%
- EUR	9,973,218	3.86%	14,708,355	3.27%
- JPY	9,879,332	0.47%	11,430,834	0.39%
- Other currencies	3,721,273	5.1%	1,889,334	3.59%
	318,671,929		**79,440,951**	
Loans and reverse repurchase agreements				
- AMD	24,600,695	6.5%	15,290,302	6.80%

Available-for-sale assets				
- AMD	42,009,598	0.00%	12,759,357	4.00%
- AMD	4,541,268	4,.7%	4,023,681	6.72%
- AMD (Equity investments)	2,694,463	0.00%	2,388,462	0.00%
- USD	-	-	12,493,077	3.78%
- GBP	-	-	8,940,743	4.46%
- EUR (Equity investments)	1,216	0.00%	1,216	0.00%
	49,246,545		**40,606,536**	
Placements with the IMF				
- SDR (SDR holdings)	2,940,262	4%	5,117,455	4.07%
INTEREST BEARING LIABILITIES				
Deposits and balances from financial and other institutions				
Deposits of domestic banks				
- AMD	-	-	7,400,000	1.75%
Current accounts of domestic banks				
- AMD	37,445,015	0.00%	31,321,925	0.00%
- Other currencies	38,421,297	0.00%	23,628,832	0.00%
Other term deposits				
- EUR	1,581,315	4.6%	1,693,225	4.23%
- AMD	-	-	332,441	4.23%
Other accounts				
- AMD	942,363	0.00%	247,483	0.00%
- Other currencies	37,886	0.00%	488,196	0.00%
	78,427,876		**65,112,102**	
Due to the Government of the Republic of Armenia				
- AMD	93,622,987	5%	61,532,562	1.75%
- SDR	48,039,741	0.50%	59,487,180	0.50%
- USD	688,013	0.00%	206,972	0.00%
	142,350,741		**121,226,714**	
Other borrowed funds				
- EUR	10,274,856	0.75%	8,043,093	0.75%
Debt securities issued				
- AMD	48,958,097	6.5%	38,987,836	5.70%
Other liabilities				
Demand deposits				
- AMD	828,284	12%	684,632	12.00%
Other liabilities				
- AMD	261,762	0.00%	262,029	0.00%
- Other currencies	67,382	0.00%	29,897	0.00%
	1,157,428		**976,558**	

29. Maturity analysis

The following table shows banking assets and liabilities by remaining contractual maturity dates as at 31 December 2007. Due to the fact that substantially all the financial instruments of by the Bank are fixed rated these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

AMD thousand

	Less than 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	No maturity	Total
Assets							
Cash	72,430	-	-	-	-	-	72,430
Placements with banks and financial institutions	95,839,394	69,773,711	17,450,258	-	-	-	183,063,363
Financial instruments at fair value through profit or loss	7,029,956	7,287,815	19,634,621	281,174,853	3,544,684	-	318,671,929
Loans and reverse repurchase agreements	10,193,581	817,711	2,100,000	11,233,918	255,485	-	24,600,695
Available for sale assets	-	16,247	42,854,471	1,594,293	2,085,855	2,695,679	49,246,545
Placements with the IMF	2,940,262	-	-	-	-	-	2,940,262
Other assets	1,105,829	-	-	-	-	-	1,105,829
Total assets	**117,181,452**	**77,895,484**	**82,039,350**	**294,003,064**	**5,886,024**	**2,695,679**	**579,701,053**
Liabilities							
Notes and coins in circulation	-	-	-	-	-	350,273,664	350,273,664
Deposits and balances from financial and other institutions	76,846,561	16,955	1,564,360	-	-	-	78,427,876
Due to the Government of the Republic of Armenia	142,350,741	-	-	-	-	-	142,350,741
Debt securities issued	11,020,142	28,039,691	9,898,264	-	-	-	48,958,097
Other borrowed funds	314	-	-		10,274,542	-	10,274,856
Other liabilities	1,157,428	-	-	-	-	-	1,157,428
Total liabilities	**231,375,186**	**28,056,646**	**11,462,624**	**-**	**10,274,542**	**350,273,664**	**631,442,662**
Net position as at 31 December 2007	**(114,193,734)**	**49,838,838**	**70,576,726**	**294,003,064**	**(4,388,518)**	**(347,577,985)**	**(51,741,609)**
Net position as at 31 December 2006	**(100,957,691)**	**133,127,302**	**127,235,915**	**30,113,307**	**(1,822,658)**	**(224,451,457)**	**(36,755,282)**

30. Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2007:

	AMD	USD	EUR	GBP
Assets				
Cash	-	46,141	26,205	16
Placements with banks and financial institutions	-	111,084,295	25,280,263	38,940,133
Financial instruments at fair value through profit or loss	-	234,566,946	68,202,277	2,302,101
Loans and other claims	24,600,695	-	-	-
Available for sale investments	49,245,329	-	1,216	-
Placements with the IMF	-	-	-	-
Property and equipment	8,125,307	-	-	-
Intangible assets	62,707	-	-	-
Other assets	883,508	35,894	186,427	-
Total assets	**82,917,546**	**345,733,276**	**93,696,388**	**41,242,250**
Liabilities				
Notes and coins in circulation	350,273,664	-	-	-
Deposits and balances from financial and other institutions	38,387,377	32,681,396	7,359,073	28
Due to the Government of the Republic of Armenia	93,622,988	664,019	23,957	-
Debt securities issued	48,958,097	-	-	-
Other borrowed funds	-	-	10,274,856	-
Other liabilities	1,090,046	60,925	4,181	-
Total liabilities	**532,332,172**	**33,406,340**	**17,662,067**	**28**
Net on balance sheet position as of 31 December 2007	**(449,414,626)**	**312,326,936**	**76,034,321**	**41,242,222**
Net off balance sheet position as of 31 December 2007	**-**	**25,806,911**	**(9,916,284)**	**(2,238,828)**
Net on and off balance sheet positions as of 31 December 2007	**(449,414,626)**	**338,133,847**	**66,118,037**	**39,003,394**
Net on and off balance sheet positions as of 31 December 2006	**(325,450,133)**	**247,674,253**	**51,395,422**	**42,806,235**

AMD thousand

JPY	SDR	RUR	Other	Total
-	-	-	68	72,430
41	-	7,722,987	35,644	183,063,363
9,879,332	-	-	3,721,273	318,671,929
-	-	-	-	24,600,695
-	-	-	-	49,246,545
-	2,940,262	-	-	2,940,262
-	-	-	-	8,125,307
-	-	-	-	62,707
-	-	-	-	1,105,829
9,879,373	**2,940,262**	**7,722,987**	**3,756,985**	**587,889,067**
-	-	-	-	350,273,664
	-	2	-	78,427,876
-	48,039,741	28	8	142,350,741
-	-	-	-	48,958,097
-	-	-	-	10,274,856
-	2,276	-	-	1,157,428
-	**48,042,017**	**30**	**8**	**631,442,662**
9,879,373	**(45,101,755)**	**7,722,957**	**3,756,977**	**(43,553,595)**
(10,244,061)	**-**	**-**	**(3,407,738)**	**-**
(364,688)	**(45,101,755)**	**7,722,957**	**349,239**	**(43,553,595)**
114,208	**(54,372,314)**	**8,141,533**	**515,435**	**(29,175,361)**