
Central Bank of the
Republic of Armenia

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Republic of Armenia

Central Bank

Annual Report

2008

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OBJECTIVES OF THE CENTRAL BANK

According to the Republic of Armenia Law on the Central Bank, the primary goal of the Central Bank is price stability in Armenia. To realize this goal, the Central Bank has a function of taking measures to attain price stability as well as to develop, approve and implement monetary policy programs.

Objectives of the Central Bank include:

a) ensuring a stable and normal-functioning financial system, including creating conditions necessary for a stable, liquid, solvent and normal-functioning banking sector in Armenia;
b) creating and developing an efficient payment and settlement system;
c) issuing currency of the Republic of Armenia, and organizing and regulating money cycle;
d) organizing and regulating combat against legalization of criminal proceeds and financing of terrorism;
e) creating conditions for protection of investors in securities and for building a framework for fair formation of securities prices in the market, and for regulated activities of a fair, open, trustworthy and normal-functioning securities market.

To fulfill its objectives, the Central Bank:

a) provides banking services to the Government;
b) acts as a financial agent and consultant to the Government;
c) licenses banks and, where applicable by laws, other entities, and regulates and oversees their activities;
d) as a lender of last resort, provides loans to banks;
e) regulates and oversees the payment and settlement system, including activities of non-banks that provide payment and settlement services;
f) holds, uses and disposes international reserves of the Republic of Armenia;
g) collects, compiles and publishes monetary and financial system statistics;
h) collects, surveys and analyzes information regarding legalization of criminal proceeds and financing of terrorism; exchanges information and delivers that to local authorities and international organizations and, where provided for by international treaties of the Republic of Armenia, to competent authorities of other countries.

Where the other objectives of the Central Bank contradict its ultimate goal, preference should be given to the ultimate goal, while the Central Bank should be guided by the need to fulfill that goal.

GOVERNANCE OF THE CENTRAL BANK

The Republic of Armenia Law on the Central Bank provides that the Board of the Central Bank is supreme management body of the Central Bank.

The Board consists of Chairman, Deputy Chairman of the Central Bank, and five Members. Chairman and Deputy Chairman are included in the Board ex officio.

Chairman of the Central Bank is the highest rank official of the Central Bank. Chairman of the Central Bank is appointed by the Armenian National Assembly upon recommendation of President of the Republic of Armenia, for a 6-year term. Chairman is responsible for fulfillment of the Central Bank objectives. Chairman coordinates and organizes the work and ensures the soundness of activities of the Central Bank; represents the Central Bank in the Republic of Armenia, in other states and international organizations; exercises authority not reserved to the competence of the Board. Where Chairman is absent or otherwise unable to act, such powers are to be vested with **Deputy Chairman of the Central Bank**, and where Deputy Chairman is absent or otherwise unable to act, such powers are to be vested with the eldest Board Member of the Central Bank. Deputy Chairman of the Central Bank is appointed by President of the Republic of Armenia, for a 6-year term. Chairman and Deputy Chairman as well as Board members cannot serve as a member of managing body of any party, be involved in activities other than scientific research, pedagogical and creative activities.

Board Members of the Central Bank shall be appointed by President of the Republic of Armenia for a 5-year term. Board Members cannot hold any other position in the Central Bank.

Board of the Central Bank

The regular meetings of the Board are normally held once in a two-week period, on Tuesday. These meetings are held in accordance with the timetable which is subject to approval at the opening Board meeting each year. An ad hoc meeting of the Board can be held as and when initiated by Chairman, Deputy Chairman or at least three Board Members of the Central Bank. The Board approves the Charter of the Central Bank, the Monetary Policy Program of the Republic of Armenia, caps and interest rates on outright operations, loans provided and deposits attracted by the Central Bank, the procedure and terms for reserve requirement with the Central Bank; enacts normative regulations of the Central Bank; issues, revokes or annuls banking licenses and other activity licenses; determines the procedure of licensing to banks and other entities; approves prudential standards for banking and calculation thereof; and exercises other authorities under law.

Over 2008, the Board has held 65 meetings and adopted 376 resolutions of which: 92 were normative resolutions (57 resolutions on approval of regulations governing financial system activities as well as amendments and supplements thereto; 5 resolutions on putting commemorative coins and notes into circulation; 28 resolutions on establishing normative acts governing the activities of the Central Depositary, insurance companies, credit organizations, investment firms, the Regulated Market Operator and qualified investor activities; 2 decisions on calculation of reference rate of the Central Bank; 284 were individual decisions (38 decisions on permission for execution of money remittance and participation in the payment and settlement system; 9 decisions on interest rates of the Central Bank operations in the financial market; 10 decisions on approval of the design of commemorative coins issued by the Central Bank; 48 decisions on issuing or revoking activity licenses for foreign exchange trade transactions; 12 decisions on issuing activity licenses for banking, broker and dealer activities; 3 decisions on granting professional qualification; 16 decisions on pawnshops; 11 decisions on credit organizations; 4 decisions on Armenian Stock Exchange; 4 decisions on Armenian Central Depository, 27 decisions on insurance companies; 9 decisions on Financial Monitoring Center and on the Audit Group of the Central Bank, and 94 other decisions).

Executive Board of the Central Bank

The Executive Board is a consultative body adjunct to Chairman of the Central Bank, and conducts its proceedings through meetings. Normally, meetings are held on a biweekly basis, on Tuesday following the day on which the Board's consecutive meeting was held.

Chairman of the Central Bank takes the chair of the Executive Board's meetings and, in his absence, Deputy Chairman does so.

Issues to be addressed by Executive Board Members in the meeting of the Board of the Central Bank are delivered to the Executive Board for consideration.

Over 2008, the Executive Board has held 22 meetings.

Monetary Policy Committee

The Monetary Policy Committee's function is to review and evaluate the conducted monetary policy of the previous week, the situation in banking sector and financial market, as well as the indicators of the Central Bank's operations and relations with State Budget.

The Monetary Policy Committee is set to review and evaluate the Central Bank Statistics Department's and the Republic of Armenia National Statistics Service's observations concerning inflation estimations of the previous ten days.

The Monetary Policy Committee's meetings are held each Friday at the Central Bank.

Over 2008, the Monetary Policy Committee has held 50 meetings.

Investment Committee

The Investment Committee has a power of decision-making. The Committee's function is to make decisions on international reserves management and control the observance thereof as well as to review and evaluate current coordination of investment activities and the results of financial analysis, pursuant to the Board resolutions on management of international reserves.

The Investment Committee is set to review and evaluate the strategic and tactical management of Armenia's international reserves as well as to address other issues relevant to day-to-day oversight of reserves management.

Normally, the Committee's meetings are held once a month.

Over 2008, the Investment Committee has held 14 meetings in which 11 decisions have been taken.

Licensing and Supervision Committee

The Licensing and Supervision Committee's function is to review and evaluate issues covering:

a) preliminary approval to opening, registration and licensing of banks and branch offices of foreign banks;

b) registration of branch offices, representations of banks, and branch offices of foreign banks;

c) registration of self-regulatory organizations of specialized entities as well as registration of rules of conduct;

d) licensing of other entities;

e) registration of changes as stipulated by the Republic of Armenia Law on Banks and Banking and the Central Bank Regulation 1;

f) qualification and professional integrity of bank managers (except for heads of structural units) and other parties subject to the Central Bank licensing;

g) qualification of professional participants in securities market;

h) registration of prospectus of securities;

i) infringement committed by a bank, and the bank's explanations or objections, if any;

j) consideration whether or not to impose a sanction over the breaching bank and/or the manager thereof;

k) infringement committed by entities registered or licensed or controlled by the Central Bank, and their explanations or objections, if any; as

well as consideration whether or not to impose a sanction over them;

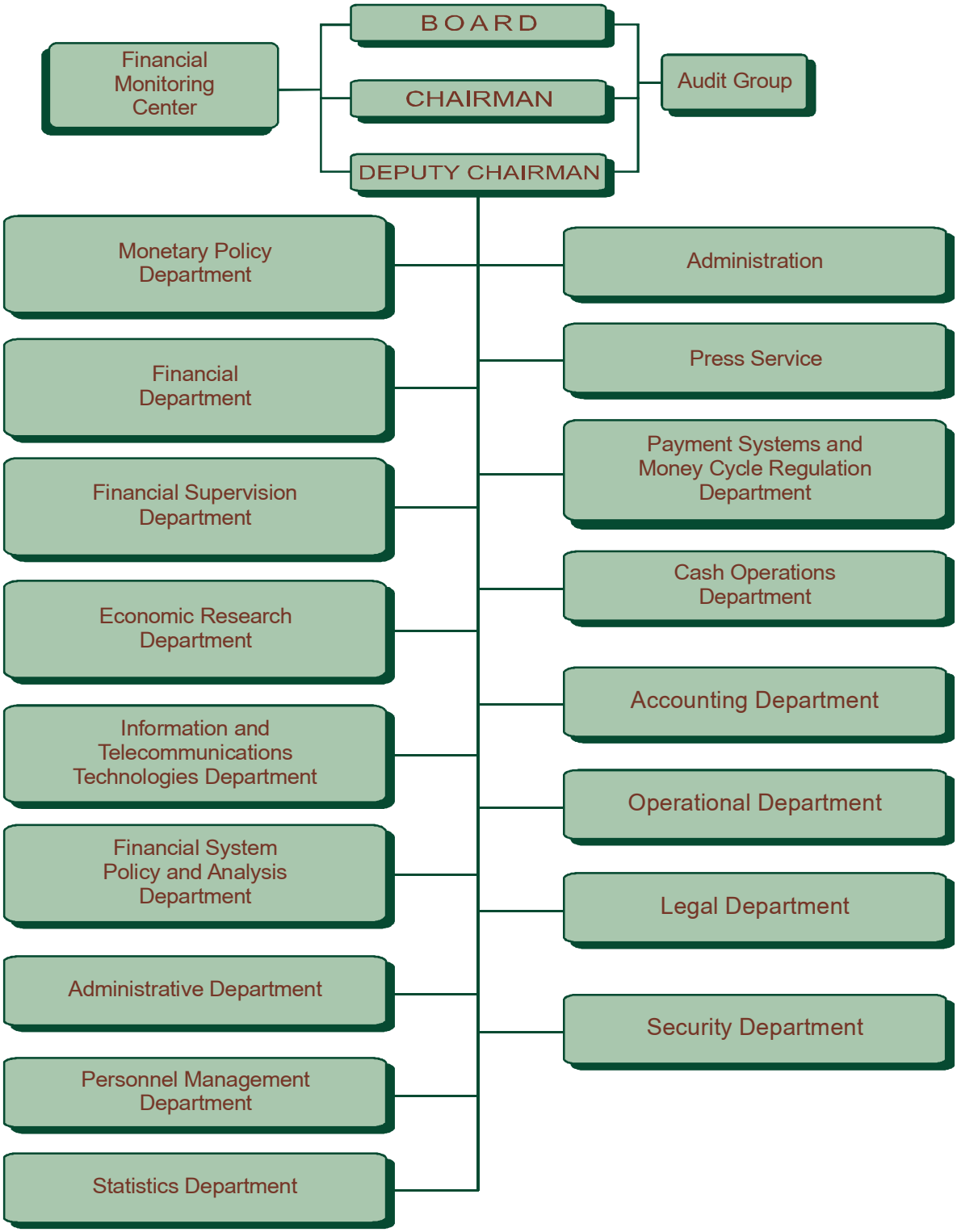
l) other issues pertaining to sub-points a)-k);

m) issues arising out of other authorities laid down in other regulations of the Central Bank.

The Licensing and Supervision Committee carries out its activity through meetings which are held as needed, however, not later than once a week.

Over 2008, the Licensing and Supervision Committee has held 59 meetings.

STRUCTURE OF THE CENTRAL BANK



Monetary Policy Department

Primary goals of the Monetary Policy Department are development of a monetary policy called to handle inflation and ensure financial system stability; making macroeconomic research and forecasts for all sectors (real, public, external and financial) of the economy; preparation of macroeconomic policy programs in collaboration with the Armenian Government and coordination of monetary and fiscal policies while implementing these programs; designing and developing currency policy; cooperation with international organizations; and ensuring transparency and openness of monetary policy conducted by the Central Bank.

Financial Department

Primary goal of the Financial Department is implementation of monetary policy and management of Armenia's international reserves while making sure they are safe, liquid and generate profit. Consistent with the objectives it has set, the Department takes on the following function: as a financial agent to the Government, it delivers financial consulting, executes outright operations in financial markets of the Republic of Armenia, carries out investment activities in international financial markets, develops and uses internationally accepted practices financial markets of the Republic of Armenia.

Financial Supervision Department

Primary goals of the Financial Supervision Department are: supervision of Armenia's banks, foreign banks' branches functioning in Armenia, credit organizations, insurance companies, payment and settlement organizations, pawnshops, specialized securities market participants, foreign exchange dealer-broker traders, exchange offices and other Central Bank-licensed entities and, where provided for under the law, supervision of persons appearing with public offer of securities and other parties, liquidating (self-liquidating) banks, credit organizations, insurance companies, specialized securities market participants; and protection of rights and lawful interests of investors in Armenian securities market and persons using such investment services.

Economic Research Department

Primary goals are practical application of economic theories in developing and implementing a monetary policy; designing scenarios for Armenia's economic development programs in the long term; macro- and microeconomic research for selected sectors (real, public, external and financial) of the economy.

Information and Communications Technologies Department

Primary goals of the Information and Communications Technologies Department are creation, installment and development of an efficient payment and settlement system in line with international standards; creation, installment and development of information systems; development and installment of applications for automated banking, using banking and state-of-the-art information technologies; design and implementation of an information security policy and standards and control compliance therewith; protection of information by using hardware and software facilities and organizational networks; IT oversight, computer network and automated bank system security; regular reviews of security of information; preparing reports and recommendations.

Financial System Policy and Analysis Department

Primary goal of the Financial System Policy and Analysis Department is unveiling problems that pose threat to stability and development of the Armenian financial system; studying such risks and giving solution thereto, by developing, particularly, sub-legislative acts to contribute to the regulatory framework in Armenia.

Legal Department

Primary goals of the Legal department are to align normative and individual regulatory acts adopted by the Central Bank with the requirements of Armenian legislation and ensure compliance of the Central Bank operations and transactions with the requirements of Armenian legislation; defend interests of the Central Bank at courts in Armenia and abroad; support creation and improvement of banking, currency, insurance, securities market laws and other laws and regulations relating to the Central Bank's activities; systematize the Central Bank-adopted normative regulations and deliver recommendations on how to regulate these; study and survey of forensic expertise with regard to the claims filed by the Central Bank; legal coverage of international relations of the Central Bank.

Audit Group

Objective of Audit Group is to supply Management of the Central Bank with information obtained through independent and impartial evaluation of the Central Bank activities and deliver recommendations on how to remedy identified weaknesses and errors and achieve a solution to existing problems.

Audit Group observes the risks typical to the activity of the Central Bank and evaluates the effectiveness of internal control mechanisms designed to minimize and/or prevent such risks.

Financial Monitoring Center

Primary goal of the Financial Monitoring Center is creation of effective mechanisms in order to combat legalization of criminal proceeds and financing of terrorism in the ML/FT framework.

Personnel Management Department

Primary goal of the Personnel Management Department is ensuring integrity of personnel management system within the Central Bank by evaluating the workplace, performance, staff potential and staff needs of the Central Bank and developing appropriate training programs.

Administration

Primary goal of the Administration is ensuring standard coverage of work of Chairman, Deputy Chairman, Board Members, and staff of the Central Bank; cooperation between structural units and management; and continuity of document circulation within the Central Bank; as well as organization and coordination of work on preparing the Central Bank vision and strategic development.

Public Relations Service

Primary goals of the Public Relations Service shaping an image of the Central Bank; supplying the management of the Central Bank with information published in mass media; information flows concerning the Central Bank and Armenia's banking system; formal public disclosure of the Central Bank policy through mass media; provision of data about the Central Bank to foreign information agencies, selected publishers; developing and updating the Central Bank's website; and implementing educational programs.

Payment Systems and Money Cycle Regulation Department

Primary goals of the Payment Systems and Money Cycle Regulation Department are: development of an efficient payment and settlement system in Armenia for which purpose it designs a strategy for the development of PSS and regulates PSS operation; regulation of payment systems and payment instruments created and/or used by payment service providers; design of measures against potential frauds in the payment and settlement area; issuance of the currency of the Republic of Armenia; effective arrangement and regulation of cash money cycle in Armenia; management of monetary reserves of the Central Bank; regulation

of cash operations conducted at commercial banks in Armenia; collaboration with law enforcement authorities against counterfeiting; withdrawal and destruction of worn-out notes; issuance and marketing of commemorative coins.

Cash Operations Department

Primary goals of the Cash Operations Department are providing cash service to banks operating in Armenia and other Central Bank customers; recalculation of cash entered the Central Bank; sorting worn-out, counterfeit and unfit notes; cleansing supply of money, while in cycle, from worn-out, counterfeit and unfit notes.

Statistics Department

Primary goals of the Statistics Department are development of statistical methodology [for all sectors of the economy] and aligning it with international criteria and best experience; collection, processing and analysis of economic statistics for smoothing, classification, forecast, computation of various indices; development of the Central Bank database on all sectors of the economy and on other countries as well; ensuring creditworthiness of economic statistics within the Department's competence; public disclosure of statistical information through the Central Bank's statistical publications and other publications; exchange of information, and its regulation, with other institutions, including with institutions abroad; arranging queries on a quarterly basis in order to compute composite economic indices and carrying out queries, as and when needed, for statistical purposes; entry, processing and delivery to customers of data provided to Credit Registry by lenders, ensuring accuracy of such information; developing, updating Credit Registry, rating of commercial organizations.

Accounting Department

Primary goals of the Accounting Department are keeping books and record of transactions in accordance with international accounting standards and national standards; development of accounting policy of the Central Bank; preparation, and execution and oversight of quarterly and annual financial accounts and the Expenditures Estimate and Capital Investment Program of the Central Bank.

Operational Department

Primary goals of the Operational Department are execution of financial operations of the Central Bank in domestic and external markets; banking services to the Armenian Government, commercial banks and other Central Bank customers; execution of payments, including via the SWIFT system; opening, running and closing of correspondent accounts of the Central Bank; and operations on Government securities accounting by using the 'Depo' System; interbank electronic and clearing settlements.

Security Department

Primary goals of the Security Department are developing and taking security measures and coordination of action in emergency situations; making sure the Central Bank operates in a stable and reliable environment; organizing evacuation of the Central Bank when needed; technical and physical protection of the Central Bank building and territory, values and personnel; complex review of security situation; systemic evaluation and prediction of possible threats, analyzing internal security and organizing replication of electronic archives in the reserve territory.

Administrative Department

Primary goals of the Administrative Department are to provide good conditions for a normal work of Chairman, Deputy Chairman, Board Members and staff as well as normal functioning of the Central Bank, including maintenance of buildings and premises, procurement of machinery, technical equipment and office inventory; and maintenance of car fleet.

ISSUES OF PRIORITY IN 2008

In 2008, the following objectives were essential for the Central Bank:

- Continue raising the quality and effectiveness of processes that support decision-making concerning monetary policy, in order to fulfill the inflation target; closely review the nature of inflation and contribute to improvement of the inflation-targeting policy[1].
- Input active international portfolio management principles within the Central Bank in order to further diversify international reserves portfolios and generate more returns.
- Implement reforms in all segments of financial system. Develop a concept on introducing mandatory insurance against liability arising out of loss to third parties due to usage of motor vehicles and create relevant insurance frameworks. Continue implementing the program of review of development perspectives and recommendations for development of Armenian securities market in collaboration with the Swedish stock exchange operator OMX. Develop the paper "Guideline of Risk Management at Banks"[2], based on best international experience.
- Take measures to encourage non-cash circulation in Armenia and ensure an adequate oversight of payment systems.
- Organize events dedicated to the 15-th anniversary of Armenian Dram, and continue educational programs of the Central Bank.
- Develop the Central Bank staff motivation policies and principles for disclosing and using talent, reducing staff outflow rates, and introduce new mechanisms for assessing the results of training.
- Make efforts to minimize potential risks in transactions with cash in the banking system, work on ensuring technical adequacy of the Central Bank's cash center under construction and organize work in the center.
- Increase the number of rated organizations, and encourage new issues of corporate bonds.
- Share the Financial Center Monitoring's function of combating ML/TF with other parties concerned and broaden action designed to combat ML/TF.

[1] *Reportable on a quarterly basis in the Central Bank Paper "Monetary Policy Program of the Republic of Armenia and "Inflation Report".*
[2] *Reportable in the following periodicals: "Central Bank Review", "Armenia's Financial System: Development, Regulation and Supervision" and "Financial Stability Report".*

MONETARY POLICY [3]

According to the Republic of Armenia Law on the Central Bank, Article 4, the primary objective of the Central Bank is price stability in Armenia, whereby the Central Bank contributes to the implementation of economic policy for a long-term stability and high economic growth. Price stability means a certain level of inflation which the Central Bank accepts as a targeted level of inflation or inflation target.

In Armenia, the inflation target is set in medium-term expenditures programs of Armenian Government, the Republic of Armenia monetary policy programs as well as poverty reduction strategic programs and the law on state budget.

The Central Bank is independent to decide on a strategy for conducting monetary policy and intermediate and operational targets as well as monetary instruments. Since January 1, 2006, the Central Bank has moved to a strategy of inflation targeting, whereby a projected level of inflation serves an intermediate target and short-term interest rate serves an operational target.

Interest rate (Refinancing Rate) of repurchase operations is the main instrument of monetary policy in the Republic of Armenia. The Board of the Central Bank determines the Refinancing Rate according to pre-announced annual timetable. For each upcoming year it is prepared subject to the reserve requirement calendar, while interest rates of the monetary policy instruments take effect on the first day of reserve requirement of the given month.

Measures to attain the inflation target for 2008 were outlined in monetary policy programs while the progress with such measures was presented in quarterly inflation reports. It should be noted, particularly, that, in annualized terms, the gradual tightening of monetary conditions by the Central Bank from the second half of 2007 up to the third quarter of 2008, with the Refinancing Rate having risen a total of 3.0 percentage points as a result, and coupled with the impact of deflationary environment spilled over from the external sector in the fourth quarter of 2008, enabled maintaining inflation in the 4±1.5 percent target. Inflation in October of 2008 was 0.9 percent while the 12-month inflation figure made up 5.2 percent, dropping by 6.1 percentage points relative to September.

[3] *Detailed report on monetary policy is provided on a quarterly basis in the Central Bank Paper "Monetary Policy of the Republic of Armenia" and "Inflation Report".*

FINANCIAL SYSTEM [4]

According to the Republic of Armenia Law on the Central Bank, Article 5, one of the key goals of the Central Bank is maintaining financial system stability and its normal functioning in the Republic of Armenia. To this end, the Central Bank implemented a number of reforms in 2008 to foster the stability and improvement of the financial system of the country.

Financial system regulation: in 2008, the National Assembly of the Republic of Armenia endorsed the following laws drafted by the Central Bank:

- "Amendment to the Republic of Armenia Law on Guarantee of Remuneration of Bank Deposits of Individuals" and "Amendment to the Republic of Armenia Law on Bankruptcy of Banks, Credit Organizations and Insurance Companies" for the purpose of more clarified wording of legislation and its harmonizing with certain requirements of the EU legislation.
- "The Republic of Armenia Law on Mortgage-Backed Bonds" and "The Republic of Armenia Law on Assets Securitization and Asset-Backed Securities", which are called to promote the development of secondary securities market and mortgage-backed securities market.
- "The Republic of Armenia Law on Consumer Crediting" and "The Republic of Armenia Law on Financial System Ombudsman", which are called to protect user interests.

[4] *Detailed report on the financial system is provided in the quarterly publication The Central Bank Review, in the annual report Armenia's Financial System: Development, Regulation, Supervision and in the Financial Stability Report.*

- "The Republic of Armenia Law on Circulation of Credit Information and Credit Bureau Activity", as well as laws on making amendment to other laws which have been adopted on the basis of this Law.
- "The Republic of Armenia Law on Combating Money Laundering and Terrorism Financing" and Legalization of Criminal Proceeds and other laws which have been adopted on the basis of this Law. The law requires that the list of reporting entities be expanded, while it gives a detailed specification of all processes that are related to this field (including the freezing of assets of persons associated with terrorism) and etc.
- "Amendment to the Republic of Armenia Law on Accounting".
- "The Republic of Armenia Law on All-Armenian Bank", as well as laws on making amendment to other laws which have been adopted on the basis of this Law, aimed at creating legal grounds for the operation of All-Armenian Bank.
- "Amendment to the Republic of Armenia Law on Credit Organizations" was adopted at its first hearing. The adoption of the law is determined by the change in the type of activity of credit organizations, where by they were given an opportunity to obtain a banking license and attract funds from natural persons through allocation of bonds.

Comprehensive amendments were made to sub-legislative acts that govern the financial area.

Financial system supervision: in 2008, the Central Bank conducted a total of 243 on-site inspections, of which:

- 7 examinations in all areas and 10 target examinations at banks;
- 5 examinations at credit organizations;
- 4 examinations at insurance companies;
- 24 examinations at pawnshops;
- 191 examinations at exchange offices;
- 2 examinations at other financial market participants.

Violation of law and excessive risks taken by financial organizations were the main findings by off-site and on-site inspections.

In 2008, the supervision process placed a special focus also on the fight against money laundering and terrorism financing. It is noteworthy that violation of law and weaknesses in operation of commercial banks and other financial organizations considerably scaled back relative to prior years. Particularly, the number of violations of law, misstatement of data and accounting infringements downsized and the number of sanctions imposed by the Central Bank reduced accordingly.

Financial system development: notwithstanding the turmoil in global financial markets, in the time span of the first three months of the year the financial system continued developing at a pace observed yet in the previous year. The negative impact of the global crisis spilled over into Armenia's financial sector only in the fourth quarter of the year, in the time when economic growth rates had decelerated almost in all segments of the real sector.

During the year Armenia's macroeconomic developments were somewhat different: while double-digit economic growth, increasing household income, external trade volumes – a trend observed in previous years – persisted in the first three quarters of the year, the fourth quarter saw a slowdown of the economic growth. As a result, the economic growth in 2008 was 6.8 percent, twice as low the previous year's indicator of 13.7 percent. The construction volumes reduced sharply mainly driven by limited access to private financing and reduced government allowances. In 2008, the growth rates of private remittances and of household income decreased (especially in the fourth quarter of the year), while uncertainties about further developments in the economy added up. The deceleration in growth rate of household income brought in a slowing of the growth rate in services, as well.

The year 2008 saw financial intermediation slowing down. Shares of banking system assets and loans in GDP have increased by 3.6 and 3.9 percentage points, to make up 28.0 percent and 16.9 percent, respectively. In the case of assets-side growth, the deposits to GDP ratio has grown by 0.7 percentage point while the broad money to GDP ratio has reduced by 1 percentage point. The further financial intermediation was hampered by negative expectations spilled over into Armenia as

well as the aforementioned adverse consequences of the world financial and economic crisis.

PAYMENT AND SETTLEMENT SYSTEM [5]

In 2008, the Central Bank decided on 3 directions for the development of Armenia's payment and settlement system:

- development of non-cash payments;
- improvement of the procedure for the settlements by securities;
- improvement of legal framework for payment and settlement organizations.

To facilitate efforts in fostering non-cash payment of pension amounts, work was done in collaboration with the Ministry of Labor and Social Issues of the Republic of Armenia within the framework of pension reforms being implemented in the country.

In the period under review, the Central Bank drafted a law on amendment to the Republic of Armenia Law on Payment and Settlement System and Payment and Settlement Organizations. The law is called to clarify the regulatory framework for activity of payment and settlement organizations. The law included provisions that specify the threshold of minimum total capital of payment and settlement organizations; give the terms and conditions for customer service outside the location where it does its normal business; describe the creation of payment and settlement unions; as well as the law clarified ten procedures for licensing of payment and settlement organizations and their membership to payment systems.

The Central Bank worked on elaborating protocols for stock exchange operations by corporate securities executed at the Central Depositary of Armenia. It also designed a Contract on Prior Depositing and Final Settlement of Transactions by Corporate Securities Executed at NASDAQ OMX Armenia JSC. The contract is designed to regulate the procedures for preliminary depositing of funds and for clearing and final settlement of transactions executed by corporate securities. Work was done to develop a Central Depositary's regulation on the Settlement System of Securities.

In the context of the program agreed upon by and between the Central Bank of Armenian and NASDAQ OMX Armenia JSC, drafts to the concepts on "Settlements of Stock-Exchange Transactions Net of Prior Depositing" and "Guarantee Fund for the Stock-Exchange Transactions Net of Prior Depositing" were developed in the period under review. As a result of these efforts, there is intention to introduce a new procedure on execution of operations at the stock-exchange and their final settlement, whereby the participants would have an opportunity to take part in stock-exchange operations without the need of prior depositing of funds.

In pursuit to contribute to the introduction of new payment services and payment instruments by using state-of-the-art technologies in the Armenian financial market, the Central Bank launched a research work in the period under review and developed a number of papers, carrying titles as follows: the main principles of issuance and service of electronic money (e-money) and the main principles of mobile banking and internet banking services. On the one hand, these are called to disclose and handle any potential risks, on the other hand, these will enable to crate favorable ground for rendering the aforementioned services in a proper manner.

Given the role of the ArCa unified card payment system in the development of non-cash payments as well as in consideration of the development trends and expanding volumes of services in the payment by cards in Armenia, the ArCa processing center has undergone technical and technological makeover during 2008. This will enable to expand the system's service infrastructures, the list of services and products as well as it will promote the increase of the number of cardholders.

[5] *Detailed report on the payment and settlement system is provided in the quarterly publication The Central Bank Review, in the annual report Armenia's Financial System: Development, Regulation, Supervision and in the Financial Stability Report.*

CASH MONEY CYCLE

A considerable decline in the process of dramization during 2008 reflected the behavior of the currency in circulation. As of December 31 2008, currency outside the Central Bank has totaled AMD 344.5 billion, decreasing by 1.6 percent relative to the same period of the previous year. In 2007, the same indicator grew by 54.4 percent; in 2006 – by 46.1 percent and in 2005 – by 47.1 percent.

During the first quarter of the year, currency outside the Central Bank reduced by 7 percent in relation to the previous quarter. It grew during the second and third quarters by 5.4 percent in each quarter. In the fourth quarter however, unlike the growth trend observed in prior years, the volume of cash decreased by 4.8 percent.

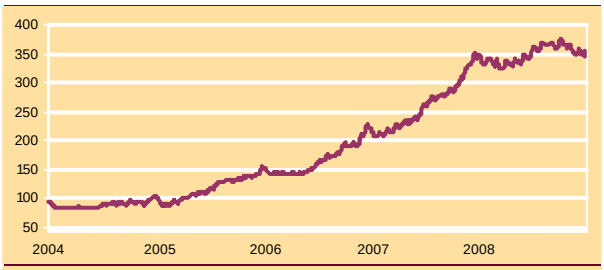


Chart 1
Currency outside the Central Bank, 2004-08 (billion AMD)

Unlike the preceding three years, growth rates of broad money were faster in 2008 than those of currency in circulation and, therefore, the latter's share in broad money shrank. As of yearend, currency outside the banking system has made up 44.6 percent of broad money compared to 47.2 percent in the previous year.

The share of cash in dram broad money grew [by 1.0 percentage point] to make up 59.2 percent at the end of the year. The slowing of the dramization of the economy has resulted in lesser growth rates of the dram component of broad money. However, this indicator is still high enough in relation to similar indicators in a number of countries with transition economies.

In 2008, the volume of the Central Bank cash cycle amounted to AMD 1106 billion, up by 40.8 percent compared to the previous year. With currency in circulation reducing, the growth of the Central Bank cash cycle was mainly owing to the growth of cash receipts.

Relative to the previous year, regional cash centers' cash cycle broadened by 27.3 percent (in the previous year the growth was 80.5 percent). The slowing of the growth rate is explained by the fact that regional cash centers are used primarily to carry out cash outflow transactions, whereas in 2008, as the volumes of currency in circulation narrowed, the volumes of such cash debit transactions have downsized in relation to the previous year. As a result, the share of regional cash centers in the total Central Bank cash cycle thus having contributed to 22.7 percent of cash cycle compared to the previous year's figure of 25.1 percent.

In 2008, cash outflow distributed among banks and their branch offices throughout Armenia and NKR constituted 91.7 percent of total cash cycle of regional cash centers.

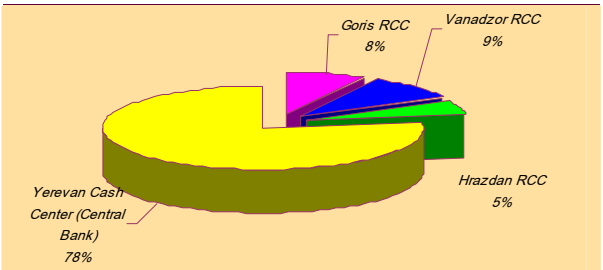


Chart 2
Cash money cycle of the Central Bank, 2008

The most pronounced increase of cash cycle was recorded with Vanadzor Regional Cash Center; it broadened by round 45 percent against the previous year.

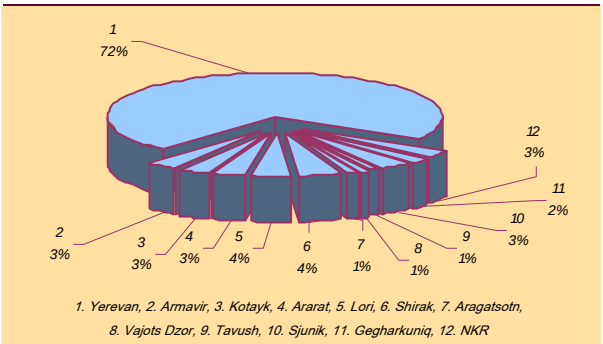


Chart 3
Cash Money cycle of commercial banks, 2008

Commercial banks' cash cycle has increased by 8 percent compared to the previous year. The main portion of cash cycle (70.6 percent) was

concentrated in Yerevan and the other portion (29.4 percent) in the rest of regions of Armenia and NKR.

During 2008, as has been the case in prior years, except for Yerevan, cash outflow of commercial banks and their branch offices functioning throughout Armenia and NKR has exceeded cash inflow.

Previous trends shaped in respect of type structure of currency in circulation remained almost unchanged. The volumes of banknotes with face value of 20000 and 50000 drams increased in circulation by 7.3 percent and 30.4 percent, respectively, while the volumes of banknotes with other face value decreased in circulation. The largest demand is for the banknotes with face value of 20000 drams; these constituted more than 40 percent of currency in circulation.

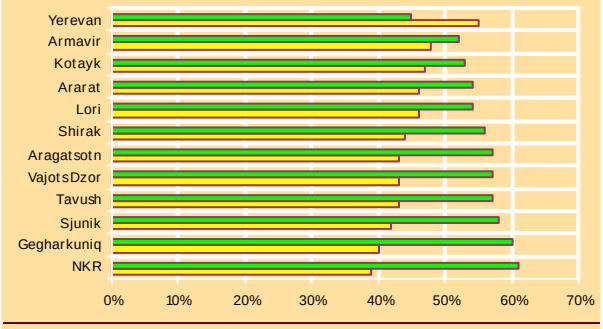


Chart 4
Commercial bank cash-outs and cash-ins in regions and NKR, (%)

The share of coins with face value ranging from 10 to 500 drams in circulation has grown by 6.6 percent. Coins with face value of 20 drams reported the largest growth in circulation, by 21 percent.

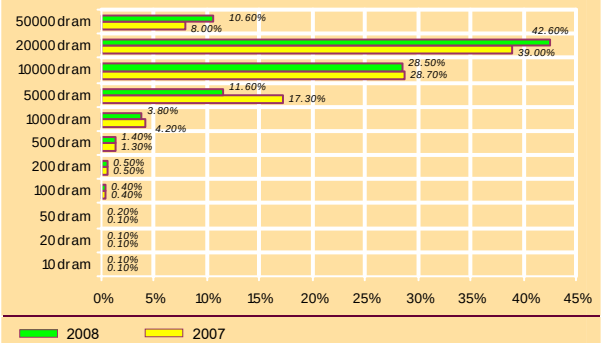


Chart 5
Currency outside the Central Bank, by type structure, 2007-2008

As a result of the aforementioned changes in type structure of currency in circulation, the *notional average weighed money value*[7] reached 2469 drams at the end of the year against the previous year's indicator of 2549 drams. As such, the average banknote made up 8500 drams and the average coin, 112 drams.

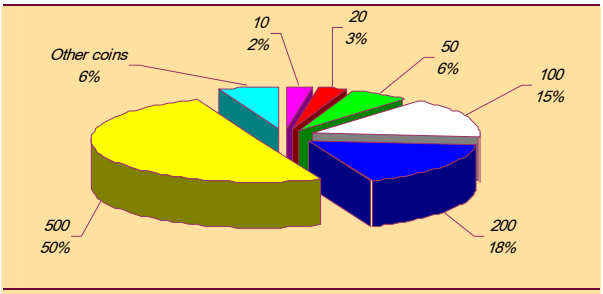


Chart 6
Coins in circulation, by type structure, as at 31.12.2008[8]

Issuance of Commemorative Coins

In 2008, the Central Bank issued a number of commemorative coins made of precious metals, all dedicated to various memorable events, as follows:

- Gold commemorative coin "The 10th Year of Creation of the Court of Cassation of the Republic of Armenia", with face value 10000 drams;
- Gold commemorative coin "The Centenary of William Saroyan's Birth", with face value 10000 drams;
- Silver commemorative coin "The Centenary of Viktor Hambardzumyan's Birth", with face value 1000 drams;
- Silver commemorative coin "The 75th Anniversary of Foundation of Spendiaryan Theater of Opera and Ballet", with face value 1000 drams;
- Silver commemorative coin "The 15th Anniversary of Introduction of National Currency", with face value 5000 drams;

[7] *Calculation of the notional average weighed money value included Armenian notes and coins in denomination ranging 10-50000 drams.*

[8] *Other coins include luma 10, 20, 50 and dram 1, 3, 5 and 100 ("Charentz-100", "32-nd Chess Olympiad") face value coins, as well as the 25000-dram face value "Anahit" gold coin.*

- Gold commemorative coin “Armenia’s Patriarchs of the 20-th Century”, with face value 1000000 drams;
- Silver commemorative coins “Caucasian Owl”, “Bezoar”, “Armenian Moufflon”, “Transcaucasian koraglukh”, with face value 100 drams, in the framework of International Program “The Wild World of Caucasus”;
- Gold commemorative coins, with face value 10000 drams and silver commemorative coins, with face value 100 drams, in the framework of International Program “The Signs of Zodiac”;
- Silver commemorative coins “Pele”, “Eusebio” and “Lev Yashin”, with face value 100 drams, in the framework of International Program “The Kings of Football”.

Measures against Counterfeiting

During the year, the Central Bank detected forged notes and coins. In counterfeiting, coins represented the prevalent part (85 percent), in which coins with face value of 200 and 500 drams were the largest share, like in the previous year.

Though the number of forged banknotes with face value of 1000drams reduced by 58 percent in relation to the previous year, their share still remains the largest in the detected notes.

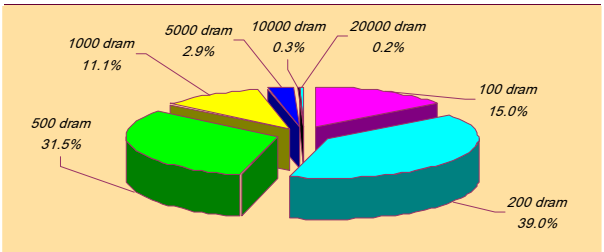


Chart 7
Counterfeit notes and coins detected in banking system in 2008

FOREIGN EXCHANGE RESERVES

International reserves in 2008 decreased by about AMD 252 million to total nearly AMD 1406.8 million at the end of the year.

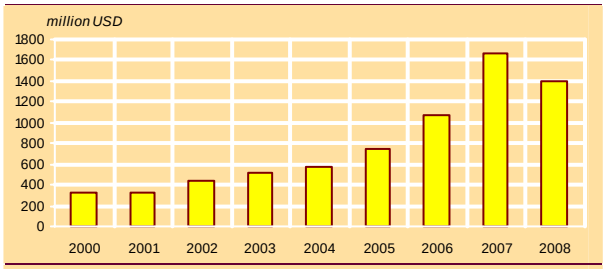


Chart 8
Armenia's foreign exchange reserves

In the reporting period, the average annual return reached 5.73 percent as compared with the previous year’s figure of 5.603 percent, while proceeds from international reserves totaled USD 86.3 million as compared with the previous year’s figure of USD 67.1 million. The increase of proceeds was driven partly by the higher level of reserves observed in the first half of 2008 and partly by the adoption of new approaches and the launch of active reserves management.

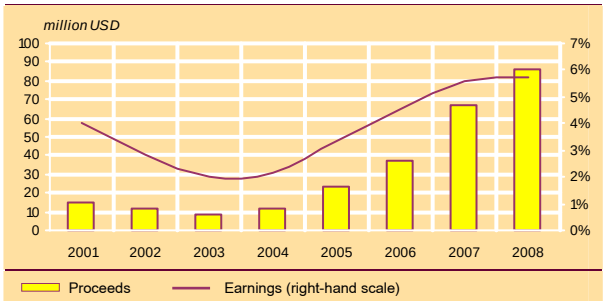


Chart 9
Proceeds from management of Armenia's foreign exchange reserves

The year 2008 was marked by one of the most severe crises of the global financial system and, hence, the global economy observed in the last couple of decades. However, it paved a path for the Central Bank to achieve a considerable progress in the quality management of foreign reserves. Since 2007, the Central Bank has adopted the three-pillar reserves management framework with the support of the World Bank. This mechanism is recognized globally as the most effective reserves management framework, which allows determining the scope of responsibilities at each management level while making the management as much flexible as possible. In 2008, the Central Bank prioritized the improvement of analytical and practical skills, as well as the elimination of numerous technical

limitations. As a result of the successful implementation of these programs, active management of US dollar-denominated portfolio has been introduced by the Central Bank since the second quarter of 2008, which allows to expand the toolkit notably and to earn excess return over the benchmark by means of employing various management strategies.

Establishment of benchmarks and limits was also harmonized with the new structure of decision-making and the particular requirements of active reserves management. Modern risk assessment techniques, cutting-edge management practices, as well as various mathematic models were employed in the reserves management.

The above measures mitigated the impact of the global financial turmoil on Armenia's foreign exchange reserves. Overall, some growth was recorded.

Armenia's foreign reserves were allocated in indices and with the weights that were expected to ensure the maximum return in 3-years horizon, and that comply with the Central Bank Board risk tolerance limits. Benchmarks were chosen out of public indices covering US and European government bonds and various money market sectors. In the end, indices covering US and European government bonds have been opted as benchmarks for a considerable portion of foreign exchange reserves. Based on the results of the analysis performed in the end of the year, the segments of time structure opted demonstrated the steadiest behavior during the last months in the time of crisis and maintained the highest *risk to return* ratio for the Central Bank in the investment universe (as much as 7 percent return). The benchmark index of US dollar-denominated government securities has grown by nearly 6.61 percent during the year and the same index for the Euro - by nearly 7.15 percent. Returns for indices of 3-month term deposits, constituting a small portion of reserves, reached 2.98 percent for US dollar and 4.61 percent for Euro.

COMMERCIAL ORGANIZATIONS RATING

Starting 2004, the Central Bank has embarked on a work for rating commercial organizations in Armenia. As early as September of 2005, credit ratings to the first 16 organizations were released.

The Central Bank grants credit rating to commercial organizations in order to demonstrate their ability to service (repay) attracted liabilities in a timely manner and in full and to provide objective and impartial evaluation of their credibility.

Ratings are granted by use of letters of Armenian alphabet, with the letter 'Ա+' (A+) being the highest rating and the letter 'Ֆ' (F) being the lowest rating. Ratings from A+ to C- ('Ա+' to 'Գ-') are considered investment ratings, and ratings from D+ to F ('Դ+' to 'Ֆ') are considered non-investment ratings, according to Procedure on Commercial Organizations Rating by the Central Bank. Enterprises and companies from various sectors are rated. In early 2008, there were 42 organizations rated. However, their number was reduced for whatever reason to 37 at the accomplishment of the rating process[8].

- In 2008, two new ratings were granted to the following companies: "Glendale Hills" CJSC and "Armenian Molybdenum Production" Ltd.
- The rating to "Armenia-Lada" CJSC was suspended due to the termination of the contract on cooperation signed between "Autovaz" CJSC, the main supplier, and "Armenia-Lada".

[8] *The complete list of rated commercial organizations is available on the Central Bank's Internet website (http://www.cba.am).*

- The rating to “Mill-AG” CJSC was suspended due to the failure to maintain a minimum turnover requirement of AMD 100 million, as stipulated under the rating terms.
- The rating to “Armenia Hotel Complex” CJSC was suspended.
- The rating to five enterprises that were held unpublished was suspended.

In the outcome of re-rating, the rating granted to 16 organizations remained unchanged; the rating granted to 17 organizations was lowered; and no lifting of rating occurred.

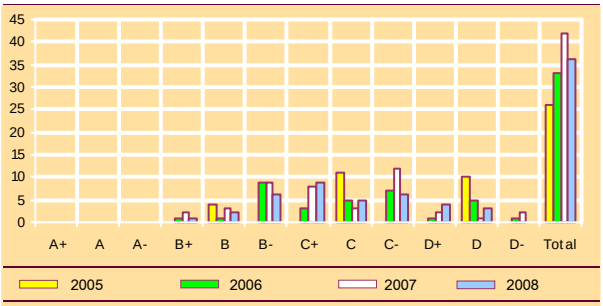


Chart 10
Commercial organizations rated in 2005-2008, by rates

As of 31 December 2008, no organization has been granted rating from the category ‘A’. Eight organizations have received rating from the category ‘B’ against 14 in the previous year; 18 organizations have received rating from the category ‘C’ against 23 in the previous year; and the number of organizations having received a rating from the category ‘D’ remained the same, 7.

In 2008, of rated organizations, 5 companies issued bonds (“Shen Concern” CJSC – 1 issuance; “Imex Group” Ltd – 1 issuance; “Elite Group” CJSC – 2 issuances; “ArmRosGazProm” CJSC – 1 issuance; “Valletta” Ltd. – 1 issuance. Two issuers - “Elite Group” and “Imex Group” allocated their first issues of bonds. The total issuance amounting to AMD 2510 million at the start of the year; to AMD 4099.6 million during the year (6 issues), and four issues were redeemed in a total amount of AMD 1470 million.

In 2008, there were 12 meetings held by the Rating Committee during which decisions on granting rating to organizations eligible as well as making amendments to regulatory acts and methodologies were taken.

COMBATING MONEY LAUNDERING AND TERRORISM FINANCING

The year 2008 was momentous in terms of reforms in the laws on the fight against money laundering and terrorism financing. On May 26-th, the National Assembly of the Republic of Armenia endorsed at its final third hearing the main legislative act, i.e. the new Republic of Armenia Law on Combating Money Laundering and Terrorism Financing (the Law) as well as other relevant laws on amendment to 15 more laws which have been adopted based on this Law. The Law entered into force on August 31 2008, and the former Republic of Armenia Law on Combating Legalization of Criminal Proceeds and Terrorism Funding was repealed accordingly.

The Law contains requirements to applicable international standards in the field of fight against money laundering and terrorism financing. The Law was designed also to contain an extended list of reporting entities that included, inter alia, non-financial institutions as defined by international standards, or persons (e.g. realtors, lawyers, accountants, etc.). The change in the legislative framework necessitated drafting and adopting of a number of key sub-legislative acts that govern the field.

In 2008, the Financial Monitoring Center continued cooperating actively with its partner in the international arena in the field of fight against money laundering and terrorism financing as well as entered into cooperation agreements with financial intelligence units of foreign countries. Such agreements were concluded with FIUs of Russian Federation, Belarus, Georgia and Ukraine, which was based on the model agreement of designed by the Egmont Group for Foreign Financial Intelligence Units. The Financial Monitoring Center continued cooperation also in the field of exchange of information with FIUs and furnished international institutions with analyses regarding Armenia’s legal system and experience of law practice.

The Financial Monitoring Center was proactive in taking part in action to facilitate the creation of financial intelligence units and provided

technical and professional support to this end in some countries in Near-East and Central Asia.

In 2008, all reports of suspicious transactions were received from reporting entities in the capacity of financial institution. In particular, 36 reports were received from banks and 1 report was received from a foreign currency trader.

In the period under review, the Financial Monitoring Center analyzed 46 cases and episodes on which 11 referrals were made to law-enforcement authorities. A total of 6 suspicious transactions triggered suspension of funds totaling nearly USD 800.000.

In the period under review, the Financial Monitoring Center received 17 notifications and inquiries from foreign law enforcement authorities and 25 notifications and inquiries from national partners of which 19 from the law-enforcement authorities.

In the same period of time, the Financial Monitoring Center made 17 inquiries to foreign counterparts and 59 inquiries to national partners.

Detailed information on cases of money laundering (save for the above-said notifications) referred to law-enforcement authorities based on the analysis of signals received from other FIUs, law-enforcers, the units of the Central Bank and reports of suspicious transactions, criminal cases initiated, cases referred to the court and judgment rendered is available in the Table[9].

[9] *The Annual Report, 2008, of the Financial Monitoring Center is available in a section 'News' of the Financial Monitoring Center's homepage posted on the Central Bank website, www.cba.am.*

Internal Audit

Positive trends of previous years observed in internal control and risk management systems persisted in 2008. Target assurance engagements opted as a result of risk evaluation were carried out by the Audit Group during the year. Other activities included a number of regular reviews (independent assurance engagements) in accordance with the requirements laid down in the Republic of Armenia Law on the Central Bank and Charter of the Audit Group. As well as consulting services were provided to the structural units of the Central Bank.

The principal purpose of assurance engagements by the Audit Group was to evaluate and propose possible ways to improve effectiveness of the process of risk management, control and governance.

There has been an adequate assurance reached with regard to the evaluation that:

- Possible risks of processes are identified, and the mechanisms designed to manage them are efficient;
- Information is reliable, sufficient and relevant for decision-making;
- Processes are organized in an effective fashion, and control mechanisms in place are adequate and reliable;
- Procedures comply with the governing laws and regulations.

In providing objective assurance and consulting services during the year, the recommendations of the Audit Group in respect of management of risks in processes, adequacy of control measures, compliance and etc. were reported to the Board of the Central Bank.

Activities of the internal audit (the Audit Group) of the Central Bank are aimed at implementing best international experience and standards at the Central Bank. To this end, the Audit Group actively cooperates with partner banks and professional international entities.

Personnel Management

In 2008, the policy of the Personnel Management Department of the Central Bank was aimed at supporting an improvement of work effectiveness and staff qualification.

Research was done within the Central Bank in order to produce an estimation of values of the Central Bank as an institution, evaluate work environment as well as to give an image of the Central Bank as an employer.

The program of measures designed for social security at the Central Bank was carried out actually.

Vacancies in the Central Bank were filled mostly by competition. The procedure of organizing an interview with the applicant for preliminary selection was an improvement to the process.

The Central Bank remained committed to recruiting young specialists, improving qualification and making the best use of their potential. As before, young specialists were selected mostly out of those who have attended a curriculum labeled *Central Bank of Armenia: Introductory Course*, which is organized by the "Finance and Banking College" Foundation. In 2008, 28 young specialists worked in functional units of the Central Bank on terminal contracts, 17 of who joined the Central Bank.

In 2008, 74 students from higher academic institutions took their academic and pre-diploma internship in the Central Bank.

The Central Bank encouraged 6 best students selected out of higher educational establishment of the Republic of Armenia and

NKR by awarding them the Isahak Isahakyan Stipend.

In 2008, the average number of staff of the Central Bank was 620 (349 women and 271 men), with an average age of 37.

To promote professional development of the Central Bank staff an appropriate system was designed to recompense the employees of the Central Bank for their participation in programs for receiving qualification certificates in the field of accounting, insurance, audit, information security, fight against money laundering and terrorism financing.

Pursuing a continued policy of personnel development, the Central Bank designed and realized numerous training programs in Armenia and abroad.

The Central Bank continued its cooperation with the States of the Eurasia Economic Community, the Centre for Central Bank Studies of the Bank of England, Joint Vienna Institute in Austria, the German Bundesbank, the Bank of France, De Nederlandsche Bank, the National Bank of Switzerland, the National Bank of Poland and the Czech National Bank. A total of 177 seminars were organized to which 251 employees of the Central Bank participated. The Central Bank enhanced its relations, within a framework of technical assistance, with central banks of Latvia, Lithuania, Estonia and Ukraine, and with a number of international institutions. The Central Bank initiated 41 'tailor-made' programs at the aforementioned banks where employees of the Central Bank had an opportunity to develop professional knowledge in the field of securities market regulation, maintenance of financial stability, risk management and internal audit, insurance and reinsurance and other areas of relevance. De Nederlandsche Bank was the most active partner bank, which implemented a total of 13 'tailor-made' programs for the Central Bank staff.

International regional seminars were organized in Yerevan, in cooperation with the US Federal Reserve System and the States of the Eurasia Economic Community, and 40 staff members of the Central Bank as well as guests from the Region participated in these seminars. Business visits in the framework of the Eurasia Economic Community in order to exchange experience became a routine.

Many specialists from the Central Bank and those of invited from banks of foreign countries attended the seminar.

Supported by the Financial Stability Institute, the Central Bank launched training courses (on real-time regime) on banking supervision to which 25 staff members attended during 2008.

Staff members of the Central Bank actively participated in local training programs, too. A total of 51 staff members took part in courses organized by the Finance and Banking College; 60 staff members attended management skill development courses and 80 staff members attended English language courses.

The number of employees of the Central Bank participated in tailor-made external training programs in 2008 increased by around 5 percent in relation to 2007, and 35 employees passed training for the first time versus 29 in 2007.

Public Relations

In the area of public relations in 2008, the Central Bank continued its efforts in explaining and commenting on its activities and organized educational programs.

Following a traditional policy of keeping the public informed and aware, the Central Bank continued cooperating with non-governmental organizations, such as Union of Armenian Banks, Union of Mortgage Marker Participants of Armenia, Association of Insurers and Consumer Interest Protection Organization. Drafts to all key laws, sub-legislative acts and resolutions relating to Armenia's financial legislation were reviewed in

collaboration with representatives of these organizations.

The Central Bank regularly organized meetings with heads of organizations functioning in the financial sector; appeared with explanation of its actions, projects and legislative initiatives in the area of monetary policy, financial supervision and maintenance of financial stability. Each quarter, the Central Bank presented the next quarter's monetary policy program, and about its next steps in this connection, to bank managers, as well as it organized discussions over different issues.

The Central Bank published, on a monthly basis, Board resolutions on interest rates of Repo (Refinancing) Operations. A brief communication about the decision comes out shortly after any such resolution while the Board Minutes is publicly disclosed in full within 10 days.

In 2008, the exterior design of the Central Bank Internet website (www.cba.am) underwent a makeover. The homepage was updated to contain new information to enable users to learn the sanctions imposed on financial organizations and the list of persons who hold qualification certificates and who have been forfeited their certificates. The homepage contains information on the enterprises that are subject to rating by the Central Bank. There is a new section designed for the users of financial services whereby they may obtain information on loans originated, deposits, money remittances, plastic cards and etc.

In 2008, Public Relations Service of the Central Bank organized 12 press-conferences; responded comprehensively to 23 written and verbal queries of reporters; issued 86 press-releases explaining the Central Bank's activities, 45 press-releases about meetings of the Board, and 26 press-releases about interest rate of Repo Operations.

A seminar on capital markets was organized on July 5-th for reporters who deal with explicating economic topics. Issues pertaining to theoretical basses and of capital markets and the Armenian capital market were presented during the seminar.

As in the previous year, in-tour visits to the Central Bank were arranged during 2008 for high graders of schools of Yerevan and regions of Armenia. As part of such tours, pupils were explained of the Central Bank's objectives and functions. They also listened to the history of money and the Dram as well as watched a video material. A total of 4333 pupils and students and 346 accompanying teachers took part in these in-tour visits.

The Finance and Banking College organized an educational seminar on May 15-27 2008 for those who teach the subject of *Economics* in schools of general education. A total of 7 teachers from 6 schools attended the seminar.

For celebration of the 15-th anniversary of circulation of the Dram, jazz and rock concerts were organized that gathered 2500 audiences. There were educational and instructional programs cast on radio and television aimed at promulgating the use of the Dram. A two-part movie titled "The Holder of Money: The Central Bank Biography" was produced about the financial system of the third independent Republic of Armenia. The movie presents the history of how the banking system was created and became established in Armenia.

As part of the 15-th anniversary of circulation of the Dram, a roundtable titled "Financial Stability in a Changing World" was organized in Yerevan on November 21 2008. A number of high officials of international financial institutions and central bank governors participated in this event. On November 22-nd, a statute to the Dram in front of the Central Bank's building was opened, and an official reception followed thereafter.

The Central Bank continued its policy of encouraging students. Twice a year students from institutes of economics present their studies to the Board of the Central Bank for consideration, and the best authors are awarded the Isahak Isahakyan Stipend. In 2008, 6 students received stipends.

International Cooperation

In 2008, the Central Bank sustained its multilateral and bilateral cooperation with international organizations and institutions of other countries. In particular, within the framework of the IMF/WB Technical Assistance, the Central Bank hosted IMF missions and advisors on monetary policy, statistics, banking supervision, and financial operations.

Staff members of the Central Bank attended international conferences, fora, roundtables, consultations, workshops, exhibitions, and other meetings on banking and finance where they made presentations and reports. These events included: the Coordinator Board Session of Central Banks of Eurasian Economic Community (EurAsEC) Member States (Tula, Russia), the EGMONT Group Member States Session (Santiago, Chile), the meeting of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) (Strasbourg, France), the Black Sea Trade & Development Bank's Board of Directors Meetings (Thessalonica, Greece), the organizational forum *Central Bank Reserves and Official Sector Assets Management* (Washington D.C., USA), a seminar-consultation *Financial System Issues and Analyses* (Washington D.C., USA), the CIS Payment Systems Workgroup meeting (Basel, Switzerland), the Interstate Bank Workgroup Meeting (Moscow, Russia), the EBRD Board of Directors' annual conference and business forum (Kiev, Ukraine), the Annual IMF/WB Netherlands Constituency Meeting of Boards of Governors and Technical Assistance Program (Amsterdam, the Netherlands), the Annual International Conference of the Institute of Internal Auditors (San Francisco, USA), the Eurasia Group Meeting on Fight Against Money Laundering and Terrorism Financing (Bishkek, Kyrgyz Republic), the Annual Irving Fischer Committee Meeting of the BIS (Basel, Switzerland), the Annual Meeting of Presidents of National Associations of SWIFT Users and Members (Vienna, Austria), the Supervisory Council Meeting of the German-Armenian Fund (Frankfurt am Main, Germany), the Central Asia, Black See Region and Balkan States Central Bank Governor Club Meeting (Sarajevo, Bosnia & Herzegovina), the IMF and WB Annual Meeting of Boards of Governors (Washington D.C., USA), a meeting *Exchange of Experience in the Government of Malaysia, National Bank of Malaysia and Mortgage Fund* (Kuala-Lumpur, Malaysia), the CIS Member States Securities Market Regulation Session of Authorized Government Officials (Almaty, Kazakhstan), an international conference titled *Management of Information Security* (Amsterdam, the Netherlands), the CIS Interstate Currency Committee's meeting (Moscow, Russia).

Specialists of the Central Bank have also participated in seminar-consultations and conferences organized by commercial banks of foreign countries.

In the period under review, experts from NASDAQ and OMX Group, the UBS Global Asset Management, Fitch Ratings and Moody's Investors Service Co, Citibank, De La Rue Cash Systems, the USAID, the International Monetary Fund's Statistical Mission, JP Morgan Chase Worldwide Securities Services and a specialist from the Bank of Latvia, in the framework of RAMP Program, visited the Central Bank of Armenia.

On September 15-19 2008, an annual meeting of the heads of legal services of Central Banks of CIS and Baltic States was held in Yerevan at the initiation of the Central Bank, and a total of 14 delegates from 9 states participated in the meeting.

As part of the 15-th anniversary of circulation of the Dram, a roundtable titled "Financial Stability in a Changing World" was organized by the Central Bank in Yerevan on November 21-22 2008, and a total of 23 delegates (3 governors and 6 vice-governors) from 13 countries and Mr. Murilo Portugal, IMF Deputy Managing Director, as head of the IMF delegation, took part in the events and delivered speeches.

During the year respective agreements and memoranda of understanding continued to be signed between central banks within the framework of intergovernmental committees.

On August 29 2008, a Memorandum of Understanding on Extending Cooperation in the Field of Banking Between the Central Bank of Armenia and the Central Bank of Islamic Republic of Iran was signed in Tehran, Islamic Republic of Iran.

ISSUES OF PRIORITY IN 2009

The following objectives will be essential for the Central Bank in 2009:

- Ensure a high level of transparency of monetary policy; ellaborate a comprehensive Forecasts and Poilicy Analisis System of the Central Bank and publish it as a single document; improve the mecahnism of monetary policy dvelopment anf forecasts by studying the nature of inflation at its core; formulate more flexible monetary and currency policies that shape steadier expectations, in the time of material uncertainties due to global financial and economic crisis.
- Carry out work to get the moneyary policy instruments fully automated.
- Study and analyze risks in all sectors of the economy; develop and introduce a system that quantifies the factors affecting the stability of the financial system.
- Improve monetary and financial statistics and raise the effectiveness and quality of collecting of indicators and statistcal information by introducing a new automated system for reception of statements.
- Make reviews of the real estate market, seasonal workforce and money remittances; support the National Statistics Service in adopting new principles on the balance of payments statistics.
- Develop establishemnt of an insurance registry; delegate the functions of credit registry to new credit bureaus thus leaving the credit registry to be an instrument for maintenace of information and for statistical and supervisory purposes of the Central Bank.
- Improve the enterprise rating syatem, with a perspective to passing it over to the private sector.
- Ensure the development and reliability of Armenia's payment and settlement system; increase the effectiveness with which to organize the money cycle; increase the volumes of non-cash payments; improve the sub-legislative framework of the payment and settlement system.
- Accomplish the establishment of All-Armenian Bank which will invest mostly in large-scale, innovative projects to cover priority areas such as education, tourism, healthcare, finances, business excellence environment.
- Create a Mortgage Company, i.e. a secondary mortgage market operator, with the main goal of establishing an efficient financial mechanism designed to re-finance mortgage transactions; in particular, the company's business will be to facilitate the expansion of the mortgage market and increase general public's accessibility to mortgage credit.
- Implement reforms in connection with NASDAQ OMX Armenia Company's entry into the market.
- Intensify efforts in expanding public relations, in line with international developments; take measures to develop the framework for defending interest of users of financial services; carry on measures under the Central Bank educational programs desigend to improve financial literacy.
- Increase efforts for te fight against money laundering and terrorism financing; raise the effectiveness of functions conferred to the Financial Monitoring Center as an independent unit of national financial intelligence; enhance international cooperation in the field of combatting money laundering and terrorism financing; develop capacities for the Financial Monitoring Center by introducing international experience and developing measures at the national level to allow to make strategic analyses.
- Create cutting-edge information systems to allow the structural units of the Central Bank to perform their respective functions and fulfil their tasks in an effective manner, with least risk and work intensity.
- Take measures to increase the effectiveness of the Central Bank's personnel management through studying and introducing best international experience; continue work on designing a system for professional training and enhancement of knowledge for the staff of the Central Bank; improve the process of attracting and retaining talented workforce; elaborate an adequate policy to prevent experienced and qualified staff turnover.

Republic of Armenia

Central Bank

Annual Financial Statements

2008

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Financial Statements and independent auditor's report
Central Bank of the Republic of Armenia
31 December 2008

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") and of its subsidiary, 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 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 at December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A. Pinarbasi
Director/Partner

D. Hiller
Head of Audit/Partner

16 April, 2009
Yerevan
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Central Bank of the Republic of Armenia

Consolidated income statement

AMD thousand

	Notes	Year ended December 31, 2008	Year ended December 31, 2007
Interest income	4	9,752,570	14,732,143
Interest expense	5	(8,677,531)	(7,441,031)
Net interest income		**1,075,039**	**7,291,112**
Fee and commission income		365,750	325,327
Fee and commission expense		(211,095)	(165,628)
Net fee and commission income		**154,655**	**159,699**
Net foreign exchange loss	6	(6,653,781)	(52,986,286)
Net realized gain/(loss) on available-for-sale assets		469	(135,256)
Net gain on financial instruments at fair value through profit or loss	7	20,187,689	8,335,233
Other income	8	766,677	515,947
Costs of production of banknotes and coins		(1,418,725)	(1,173,085)
General and administrative expenses	9	(6,348,039)	(5,615,613)
Other expenses		(31,604)	(38,337)
Profit/(loss) for the year		**7,732,380**	**(43,646,586)**
Attributable to:			
Equity holders of the parent		7,691,002	(43,696,872)
Minority interest		41,378	50,286

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

Central Bank of the Republic of Armenia

Consolidated balance sheet

AMD thousand

	Notes	As of December 31, 2008	As of December 31, 2007
ASSETS			
Foreign currency assets			
Cash		15,441,978	72,430
Placements with banks and other financial institutions	10	77,250,867	183,068,963
Financial instruments at fair value through profit or loss	11	340,237,664	318,671,929
Available-for-sale assets	12	15,383	15,564
Placements with the IMF	13	44,362,474	47,168,679
Other assets		78,001	222,321
		477,386,367	549,219,886
Domestic currency assets			
Placements with banks and other financial institutions	10	727	5,187
Loans and reverse repurchase agreements	14	80,955,087	24,600,695
Available-for-sale assets	12	96,649,572	48,844,607
Held-to-maturity investments	12	91,026	134,535
Property and equipment	15	10,763,335	8,477,694
Intangible assets	16	777,101	411,164
Other assets	17	1,406,086	947,920
		190,642,934	83,421,802
Total Assets		**668,029,301**	**632,641,688**
LIABILITIES AND EQUITY			
Foreign currency liabilities			
Deposits and balances from financial and other institutions	18	69,788,059	40,040,499
Due to the Government of the Republic of Armenia		1,030,950	688,013
Due to IMF	13	41,337,306	48,039,741
Other borrowed funds	19	12,440,435	10,274,856
Other liabilities		121,614	65,105
		124,718,364	99,108,214

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

	Notes	As of December 31, 2008	As of December 31, 2007
Domestic currency liabilities			
Notes and coins in circulation		344,503,231	350,273,664
Deposits and balances from financial and other institutions	18	40,268,874	38,302,614
Due to the Government of the Republic of Armenia		103,962,779	93,622,987
Debt securities issued		1,437,498	48,958,097
Due to IMF	13	43,467,351	44,230,693
Other liabilities	20	1,369,453	1,171,085
		535,009,186	576,559,140
Total Liabilities		**659,727,550**	**675,667,354**
Equity			
Issued capital	21	100,000	100,000
General reserve	21	10,080,539	9,985,956
Additional paid in capital	12	85,663,194	42,009,598
Revaluation reserve for available-for-sale assets		(163,455)	(108,384)
Accumulated losses		(87,734,461)	(95,328,578)
Attributable to equity holders of the parent		**7,945,817**	**(43,341,408)**
Minority interest		355,934	315,742
Total equity		**8,301,751**	**(43,025,666)**
Total liabilities and capital		**668,029,301**	**632,641,688**

The consolidated financial statements as set out on pages 34 to 80 were approved by the Board of the Central Bank of the Republic of Armenia on 16 April 2009 and were signed on its behalf by:

Arthur JAVADYAN
Chairman of the Central Bank of Armenia



Haykanush HAKOBYAN
Chief Accountant of the Central Bank of Armenia



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

Central Bank of the Republic of Armenia

Consolidated statement of changes in equity

AMD thousand

	Attributable to equity holders of the parent							
	Issued capital	General reserve	Additional paid in capital	Revaluation reserve for available-for-sale assets	Accumulated losses	Attributable to equity holders of the parent	Minority interest	Total equity
Balance at 1 January 2007	100,000	9,928,286	12,734,237	(249,275)	(51,572,896)	(29,059,648)	266,043	(28,793,605)
Net unrealized gain from changes at fair value	-	-	-	827	-	827	-	827
Net losses realized to income statement on disposal of investments available-for-sale	-	-	-	140,064	-	140,064	-	140,064
Use of general reserve	-	(1,140)	-	-	-	(1,140)	(587)	(1,727)
Total income/(expense) recognized directly in equity	-	(1,140)	-	140,891	-	139,751	(587)	139,164
Profit/(loss) for the year	-	-	-	-	(43,696,872)	(43,696,872)	50,286	(43,646,586)
Total income and expense for the year	-	(1,140)	-	140,891	(43,696,872)	(43,557,121)	49,699	(43,507,422)
The Government of the Republic of Armenia contribution into equity (Note 12)	-	-	29,275,361	-	-	29,275,361	-	29,275,361
Distribution to general reserve	-	58,810	-	-	(58,810)	-	-	-
Balance at 31 December 2007	100,000	9,985,956	42,009,598	(108,384)	(95,328,578)	(43,341,408)	315,742	(43,025,666)
Net unrealized gains from changes in fair value	-	-	-	8,059	-	8,059	-	8,059
Net gains realized to income statement on disposal of available-for-sale instruments	-	-	-	(63,130)	-	(63,130)	-	(63,130)
Use of general reserve	-	(2,302)	-	-	-	(2,302)	(1,186)	(3,488)
Total expense recognized directly in equity	-	(2,302)	-	(55,071)	-	(57,373)	(1,186)	(58,559)
Profit for the year	-	-	-	-	7,691,002	7,691,002	41,378	7,732,380
Total income and expense for the year	-	(2,302)	-	(55,071)	7,691,002	7,633,629	40,192	7,673,821
The Government of the Republic of Armenia contribution into equity (Note 12)	-	-	43,653,596	-	-	43,653,596		43,653,596
Distribution to general reserve	-	96,885	-	-	(96,885)	-	-	-
Balance at 31 December 2008	100,000	10,080,539	85,663,194	(163,455)	(87,734,461)	7,945,817	355,934	8,301,751

Central Bank of the Republic of Armenia

Consolidated statement of cash flows

AMD thousand

	Notes	Year ended December 31, 2008	Year ended December 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) for the year		7,732,380	(43,646,586)
Depreciation and amortization		843,655	843,276
		8,576,035	(42,803,310)
(Increase)/decrease in operating assets			
Placements with banks and other financial institutions		131,365,563	96,362,815
Financial instruments at fair value through profit or loss		(21,458,375)	(239,230,978)
Placements with the IMF		778,972	6,097,319
Available-for-sale assets		(4,206,260)	20,779,038
Loans and reverse repurchase agreements		(56,354,392)	(9,310,392)
Other assets		(313,846)	(393,962)
Increase/(decrease) in operating liabilities			
Notes and coins in circulation		(5,770,433)	123,432,530
Deposits and balances from financial and other institutions		29,403,168	13,242,666
Due to IMF		(763,342)	(6,073,799)
Due to the Government of the Republic of Armenia		10,682,729	32,571,465
Debt securities issued		(47,520,599)	9,970,261
Other liabilities		2,530,233	178,902
Net cash from operating activities		46,949,453	4,822,555
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, equipment and intangible assets		(3,485,419)	(2,016,777)
Proceeds from sale of property and equipment		21,997	18,667
Purchase of investment securities		(266,656)	(129,481)
Proceeds from the sale of investment securities		310,164	162,685
Net cash used in investing activities		(3,419,914)	(1,964,906)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans from KFW, net		2,165,578	2,231,763
Loans redeemed to IMF, net		(6,702,435)	(11,447,439)
Net cash used in financing activities		(4,536,857)	(9,215,676)
Net increase/(decrease) in cash and cash equivalents		38,992,682	(6,358,027)
Cash and cash equivalents at the beginning of the year		24,700,157	31,058,184
Cash and cash equivalents at the end of the year	24	**63,692,839**	**24,700,157**

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

Notes to, and forming part of, the consolidated financial statements for the year ended 31 December 2008

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 is 6 Vazgen Sargsyan Street, Yerevan 0010, Republic of Armenia. The average number of employees of the Bank during 2008 was 642 (2007: 619).

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.

The Bank's subsidiaries are as follows:

Name	Country of incorporation	Principal activity	Controlled %		Date of establishment
			2008	2007	
"Armenian Card" CJSC	Republic of Armenia	Payment and settlement services	66%	66%	March 2000
"ArmCollection" CJSC	Republic of Armenia	Transportation/delivery of cash	95%	95%	April 1998

Bank's action to ensure financial stability

The Bank has an important role in making the effects of the world financial crisis more manageable for the Armenian economy by having a fundamental task and responsibility of maintaining and promoting the stability of the financial system in Armenia. In order to achieve this, the Bank strives to prevent undesirable impacts of the crisis using all the financial instruments at its disposal.

Taking into account the high capitalization and liquidity levels in the Armenian banking system, in 3 March 2009 the Bank of has decided to limit its interventions in the foreign exchange market and to return to floating exchange rate policy. This approach will allow the exchange rates to be formed in line with the current macroeconomic indices, which will considerably improve the external competitiveness of Armenia.

2. Basis of preparation

Statement of compliance

The accompanying consolidated 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 consolidated 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 consolidated 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 consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

The most significant areas of judgments and estimates are presented below:

Consolidation of subsidiaries

The Bank has not consolidated financial statements of ArmCollection CJSC, due to immateriality of this subsidiary.

Classification of investment securities

Upon initial recognition, the Bank designates securities as financial assets at 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 consolidated financial statements. The accounting policies have been consistently applied, except for the consolidation of subsidiary company "Armenian Card" CJSC and the change in accounting treatment of Bank's quota in the IMF as well as related liabilities to the IMF and the liability with regard to PRGF (Poverty Reduction and Growth Facility) loan received from the IMF as well, as described in "Reclassifications and restatements" section below.

Basis of consolidation

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated except if immaterial. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the polices adopted by the Bank.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The minority interest is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. The equity attributable to equity holders of the parent and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively.

Foreign currency translation

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.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the revaluation reserve in equity.

The exchange rates at the balance sheet dated used by the Bank in the preparation of the consolidated financial statements are as follows:

	December 31, 2008	December 31, 2007
AMD/1 US Dollar	306.73	304.22
AMD/1 Euro	435.00	446.96
AMD/1 SDR	472.44	480.74

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 derivatives (except for a derivative that is a designated and effective hedging instrument); or,
- upon initial recognition, designated by the entity as at fair value 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, 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 assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

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;
- the Bank designates as available-for-sale; or
- 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.

The changes in fair values between the trade and settlement dates are immaterial.

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 rate 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 rate 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 rate 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 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.

Offset

The financial assets and liabilities are offset, reflecting the accounting balance sheet as a net amount, provided that there exists a right to offset the recognised amounts and there is intention to do calculation on a net basis or realise an asset and redeem a liability.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financial transactions, with the securities retained in the balance sheet, and, if the transferee has the right by contract or custom to sell or re-pledge them, they are reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The counterparty liability is included in amounts due to other banks or to financial institutions, as appropriate. The differences between the sale and repurchase price are treated as interest expense and recognised in the income statement over the terms of the repo agreement, using the effective interest rate method.

Securities purchased under agreements to resell ("reverse repo") are recorded as due from banks or financial institutions 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.

Offsetting

Financial assets and liabilities 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.

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 in 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 in 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"

Notes and coins in circulation

Notes and coins in circulation issued by the Bank are presented in the balance sheet as a liability at nominal value. Printing and production costs of notes and coins are expensed in the year when they incur.

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 expenses incurred in acquiring the numismatic coins and bringing them to their existing location. Net realisable value is the estimated selling price less the 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

Own 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.

Any gain and loss resulting from the sale of an item of property and equipment, which is the difference between the proceeds from sales and the carrying amount of that asset, is taken to income statement in the period when it is incurred.

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	3 to 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 be 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 origination 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.

Reclassifications and restatements

Quota of the Republic of Armenia for membership with the IMF

The Bank acts as the fiscal agent of the Republic of Armenia and meanwhile is a custodian of the IMF in the Republic of Armenia. The Bank maintains 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. According to the agreement signed between the Bank and the Ministry of Finance of the Republic of Armenia, liabilities to IMF owned by the Ministry of Finance have been transferred to the Bank and accordingly, as of 31 December 2008, these have been included in the consolidated financial statements of the Bank. Therefore, the comparative information in the consolidated balance sheet was restated and the Bank's quota in the IMF amounting to AMD 44,228,417 thousand, as well as liabilities to the IMF amounting to AMD 44,230,693 thousand, were presented in note 13. At the same time, the liability to the Government of Armenia with regard to PRGF (Poverty Reduction and Growth Facility) loan received from the IMF was reclassified as a liability in SDR to the IMF.

Consolidation of subsidiary

In the current year the Bank consolidated the financial statements of its subsidiary, "Armenian Card" CJSC. Accordingly, the comparative financial statements have been restated to reflect the consolidation of this subsidiary.

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 (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2008.

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 but are not yet effective. The Bank has not so far adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Bank'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 Bank'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.

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 expending those borrowing costs, currently used by the Bank, 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 expended. This amendment will decrease the Bank'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 Bank's consolidated financial statements.

IFRS 8 Operating Segments

This is a disclosure standard, which will result in a re-designation of the Bank'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 Bank.

IFRS 3 Business Combinations (revised 2008)

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

IAS 27 Consolidated and Separate Financial Statements (revised 2008)

The revised standard introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Bank's interest in subsidiaries. Management does not expect this standard to have a material effect on the Bank's financial accounts.

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.

IFRS 2 (Amendment) *Share-based Payment*

This amendment relates to vesting conditions and cancellations.

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 Bank's consolidated financial statements.

IFRIC 5 (Amendment) *Non-Current Assets Held-for-Sale and Discontinued Operations (and consequent amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards) (effective from July 1, 2009).*

The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held-for-sale id a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. Consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRS. The Bank will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from July 1, 2009.

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 Bank 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 Bank 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 Bank'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 Bank 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 Bank will apply the IAS 20 (Amendment) from January 1, 2009.

4. Interest income

AMD thousand

	2008	2007
Interest income from foreign currency assets		
Term deposits	5,923,162	11,760,400
Available-for-sale assets	-	367,997
Nostro accounts	450,904	826,277
Placements with the IMF	151,503	129,291
Other	231,116	3,862
	6,756,685	**13,087,827**
Interest income from domestic currency assets		
Loans and reverse repurchase agreements	2,690,118	1,135,033
Available-for-sale assets	284,448	493,473
Other	21,319	15,810
	2,995,885	**1,644,316**
	9,752,570	**14,732,143**

5. Interest expense

AMD thousand

	2008	2007
Interest expense on foreign currency liabilities		
Loans from the IMF	229,313	263,926
Other borrowings	95,091	76,618
Other liabilities	102,850	81,866
	427,254	**422,410**
Interest expense on domestic currency liabilities		
Debt securities issued	1,598,909	2,841,829
Due to The Government of the Republic of Armenia	6,481,144	4,039,109
Deposits and balances from financial and other institutions	76,198	53,798
Other liabilities	94,026	83,885
	8,250,277	**7,018,621**
	8,677,531	**7,441,031**

6. Net foreign exchange loss

AMD thousand

	2008	2007
Net loss from revaluation of monetary assets and monetary liabilities	6,892,743	54,595,088
Net (gain)/loss on spot transactions	(238,962)	(1,608,802)
	6,653,781	**52,986,286**

Included in the net loss from revaluation of monetary assets and liabilities is a foreign exchange revaluation gain of AMD 403,676 thousand on financial instruments at fair value through profit or loss (2007: AMD 36,263,583 thousand net loss).

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

AMD thousand

	2008	2007
Net gain on assets under trust management (excluding foreign exchange revaluation) *	3,033,279	1,334,311
Net gain on foreign securities under own management (excluding foreign exchange revaluation) *	16,529,192	7,173,377
Net gain on futures under own management (excluding foreign exchange revaluation) *	793,944	-
Trust management fees	(168,726)	(172,455)
	20,187,689	**8,335,233**

** See Note 6*

8. Other income

AMD thousand

	2008	2007
Net income from sales of numismatic coins	120,006	102,377
Income from ATM s and POS terminals	52,423	45,295
Income from encoding and embossing of cards	77,375	62,264
Other income	516,873	306,011
	766,677	**515,947**

9. General and administrative expenses

AMD thousand

	2008	2007
Employee compensation, staff training and related payments	3,591,453	3,115,872
Security and maintenance of reserves	725,145	725,910
Depreciation and amortization	843,655	843,276
Repairs and maintenance	197,942	217,224
Professional services	120,444	141,032
Other	869,400	572,299
	6,348,039	**5,615,613**

10. Placements with banks and other financial institutions

AMD thousand

	2008	2007
Placements with banks and other financial institutions in foreign currency		
Term deposits	27,605,700	159,477,087
Nostro accounts	47,343,603	21,695,941
Current accounts in banks	12,767	5,602
Accrued interest on deposits and nostro accounts	50,246	799,642
Cash included in assets under trust management	35,259	401,371
Receivables on reverse repurchase agreements	2,203,292	689,320
	77,250,867	**183,068,963**
Placements with banks and other financial institutions in domestic currency		
Current accounts in bank	727	5,187

Concentration of placements with banks and other financial institutions

As at 31 December 2008 and 2007 the Bank had placements in 3 banks and financial institutions, whose individual balances exceeded 10% of total placements. The gross value of these balances as of 31 December 2008 and 2007 were AMD 61,343,569 thousand and AMD 58,383,610 thousand, respectively.

11. Financial instruments at fair value through profit or loss

AMD thousand

	2008	2007
Assets		
Debt and other fixed-income instruments-Quoted		
Foreign government securities under own management	265,983,889	251,676,631
Securities under trust management	34,852,432	66,738,148
Money market instruments under own management	38,937,545	-
	339,773,866	**318,414,779**
Derivative financial instruments-Quoted		
Foreign exchange futures contracts under own management	67,642	257,150
Foreign exchange futures contracts under own management	396,156	-
	340,237,664	**318,671,929**

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

As of 31 December 2008, foreign securities under own management represent government securities of AMD 135,402,950 thousand; securities directly/indirectly backed by the State, AMD 127,113,696 thousand; and supranational securities, AMD 3,467,243 thousand (2007: 251,676,631 AMD thousand represent government securities).

As of 31 December 2008 the securities of AMD 2,213,057 thousand (USD 7,215,000) under own management have been loaned against cash collateral. See Note 18

Securities and derivatives under trust management represent debt securities of foreign governments for the amount of AMD 28,542,738 thousand (2007: AMD 46,902,724 thousand) and securities of foreign financial institutions for the amount of AMD 6,309,694 thousand (2007: AMD 19,835,424 thousand).

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

Derivative financial instruments

AMD thousand

	Notional amount		Fair value			
	2008	2007	2008		2007	
			Asset	Liability	Asset	Liability
Foreign forwards	-	47,197,957	-	-	113,699	-
Foreign futures	4,599,015	19,524,259	67,642	-	143,451	-
Total	4,599,015	66,722,216	67,642	-	257,150	-

12. Available-for-sale assets

AMD thousand

	2008	2007
Available-for-sale investments in foreign currency		
Equity investments at cost – Unquoted		
SWIFT	917	1,216
Equity investments at fair value – Quoted		
MasterCard	14,466	14,348
	15,383	**15,564**
Available-for-sale investments in domestic currency		
Debt and other fixed-income instruments		
Treasury securities of the Government of the Republic of Armenia	8,392,637	4,541,268
Bond of the Government of the Republic of Armenia	85,663,194	42,009,598
	94, 055, 831	**46,550,866**
Equity investments at cost – Unquoted		
Investments in unconsolidated subsidiaries	2,551,000	2,251,000
Other equity investments	42,741	42,741
	2,593,741	**2,293,741**
Available-for-sale assets in local currency	**96,649,572**	**48,844,607**
Held-to-maturity investments in domestic currency		
Debt and other fixed-income instruments		
The Government of the Republic of Armenia treasury securities	91,026	134,535

A non-interest demand bond at par value of AMD 85,663,194 thousand was issued by the Government of the Republic of Armenia for recapitalization of the Bank's negative equity. The bond was issued according to the Republic of Armenia law on the Central Bank to cover the negative equity reserves of the Bank. The management believes that the carrying amount of the bond approximates its fair value.

Available-for-sale investment securities of the Government of the Republic of Armenia 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 in local currency are stated at cost, since 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

IMF-related assets

AMD thousand

	2008	2007
Placements with the IMF in foreign currency		
SDR holdings in the IMF	893,764	2,920,997
Quota in IMF (subscription)	43,465,114	44,228,417
Accrued interest	3,596	19,265
	44,362,474	**47,168,679**

The Bank maintains an SDR-denominated current account with the IMF used for processing and settling transactions with the IMF. 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 2008, the interest rate ranged from 0.82% to 3.49% (2007: 3.03% to 4.00% 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:

The quota of the Republic of Armenia for membership with the IMF amounts to SDR 92,000,000 as of 31 December 2008 (2007: SDR 92,000,000).

Liabilities to IMF in domestic currency

AMD thousand

	2008	2007
Securities account	45,638,426	49,859,245
Adjustment account for AMD liabilities to the IMF	(2,370,231)	(5,827,924)
Account 1	196,796	196,796
Account 2	2,360	2,576
	43,467,351	**44,230,693**

The IMF's Account 1 is used to carry out operations with the IMF, including the payment of membership fee, purchase and repurchase of assets, repayment of loans, as well as the sale of national currency of the Republic of Armenia.

The IMF's Account 2 is used to reflect the IMF's administrative expenditures and entries in national currency of the Republic of Armenia and within the territory of the Republic of Armenia.

As of 31 December 2008, loans of AMD 45.6 billion (31 December 2007: AMD 49.8 billion) disbursed from the IMF are backed by the Government of the Republic of Armenia through an issuance of securities for these loans.

Liabilities to IMF in SDR

AMD thousand

	2008	2007
Credit	41,336,740	48,037,108
Interest accrued	566	2,633
	41,337,306	**48,039,741**

The Poverty Reduction and Growth Facility was disbursed in SDR from the IMF to the Republic of Armenia for a period of 15 years, with 0.5 % interest rate per annum.

In the reported periods the Bank had no violation of non-payment of principal and interest, or any other violations whatsoever.

As of 31 December 2008 and 31 December 2007, the carrying amounts of claims and liabilities to the IMF approximated their fair values.

14. Loans and reverse repurchase agreements

AMD thousand

	2008	2007
Loans to resident banks under arrangement with the KFW bank	19,900,451	14,408,075
Amounts receivable under reverse repurchase agreements	60,724,350	10,188,285
Other loans	330,286	4,335
	80,955,087	**24,600,695**

Loans to resident banks under the agreement with the KFW bank are provided to 12 domestic banks and 2 financial institutions and bear interest at rates from 5.5% to 8% p.a.

The Bank accepted securities as collateral for commercial loans, which it is permitted to sell or re-pledge. As of 31 December 2008 amounts receivable under reverse repurchase agreements are with 18 resident banks (2007: 7 banks) and are collateralised by the following securities:

AMD thousand

	2008 Fair value	2007 Fair value
The Government of the Republic of Armenia treasury bonds	59,148,266	9,380,526
Central Bank of Armenia bills	1,172,228	-
Other securities	406,153	-
	60,726,647	**9,380,526**

15. Property and equipment

AMD thousand

	Land and buildings	Networks, computer and other equipment	Vehicles	Other	Total
Cost					
Balance at 1 January 2007	6, 738,625	3, 728,577	255,561	1,952,614	12,675,377
Additions	1,362,005	456,858	21876	46,577	1887316
Disposals	-	(201,625)	(38,399)	(89,859)	(329,883)
Balance at 31 December 2007	8,100,630	3,983,810	239,038	1,909,332	14,232,810
Additions	2,493,568	445,721	77,271	61,032	3,077,592
Disposals	-	(177,356)	(13,634)	(35,023)	(226,013)
Balance at 31 December 2008	10,594,198	4,252,175	302,675	1,935,341	17,084,389
Depreciation					
Balance at 1 January 2007	1,298,989	2,482,672	150,158	1,360,354	5,292,173
Depreciation charge	234,937	376,509	32,077	130,636	774,159
Disposals	-	(196,806)	(31,481)	(82,929)	(311,216)
Balance at 31 December 2007	1,298,989	2,482,672	150,158	1,360,354	5,292,173
Depreciation charge	210,802	426,854	34,372	97,956	769,984
Disposals	-	(158,394)	(12,953)	(32,699)	(204,046)
Balance at 31 December 2008	1,744,728	2,930,835	172,173	1,473,318	6,321,054
Carrying amount					
At 1 January 2007	5,439,636	1,245,905	105,403	592,260	7,383,204
At 31 December 2007	6,566,704	1,321,435	88,284	501,271	8,477,694
At 31 December 2008	8,849,470	1,321,340	130,502	462,023	10,763,335

16. Intangible assets

AMD thousand

	Computer software
Cost	
Balance at 1 January 2007	573,936
Additions	128,242
Balance at 31 December 2007	702,178
Additions	439,636
Disposals	(51,952)
Balance at 31 December 2008	1,089,862
Amortisation	
Balance at 1 January 2007	221,897
Additions	69,117
Balance at 31 December 2007	291,014
Additions	73,671
Disposals	(51,924)
Balance at 31 December 2008	312,761
Carrying amount	
At 1 January 2007	352,040
At 31 December 2007	411,164
At 31 December 2008	777,101

17. Other assets

AMD thousand

	2008	2007
Numismatic coins	548,321	323,853
Receivables	602,828	428,910
Other	254,937	195,157
	1,406,086	**947,920**

18. Deposits and balances from financial and other institutions

AMD thousand

	2008	2007
Foreign currency liabilities		
Vostro accounts and deposits of domestic banks	65,913,621	38,421,297
Term deposit of Deposit Insurance fund	1,542,305	1,581,315
Current accounts of other legal entities	21,481	37,887
Cash collateral received	2,310,652	-
	69,788,059	**40,040,499**
Domestic currency liabilities		
Vostro accounts and deposits of domestic banks	40,096,518	37,923,499
Term deposit and current accounts of Deposit Insurance fund	19,331	9,855
Current accounts of other legal entities	153,025	369,260
	40,268,874	**38,302,614**

Concentration of deposits and balances from financial and other institutions

As at 31 December 2008 and 2007 the Bank had received placements from 1 and 3 domestic banks respectively, whose individual balances exceeded 10% of total deposits and balances from financial and other institutions. The gross value of these balances as of 31 December 2008 and 2007 were AMD 9,370,514 thousand and AMD 27,104,758 thousand, respectively.

19. Other borrowed funds

AMD thousand

	2008	2007
Loans from KFW bank	12,440,126	10,274,542
Accrued interest	309	314
	12,440,435	**10,274,856**

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.

As of the reporting periods the Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period.

20. Other liabilities

AMD thousand

	2008	2007
Demand deposits of employees	696,579	828,284
Other	672,874	342,801
	1,369,453	**1,171,085**

21. 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. The use of the general reserve in 2008 and 2007 has been attributable to the activities of the subsidiary.

22. Commitments

Capital commitments

The capital commitments outstanding at 31 December 2008 related to the construction of the Bank's premises is AMD 7,866,167 thousand (2007: AMD 659,503 thousand).

Litigation

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

Guarantees

As at 31 December 2008 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.

23. Related party transactions

Transactions with members the key management

Total remuneration is included in employee compensation (Note 9):

AMD thousand

	2008	2007
Key management including the Bank's board members	172,130	147,505

The outstanding balances and average interest rates as of 31 December 2008 with members of the key management are as follows:

	2008 *(AMD thousand)*	Average Interest Rate	2007 *(AMD thousand*	Average Interest Rate
Balance Sheet				
Assets				
Loans	40,558	5%	-	-
Liabilities				
Deposits	60,868	12%	244,647	12%
Salary payable	14,409	-	4,053	-

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

AMD thousand

	2008	2007
Income statement		
Interest expense	9,965	23,619
Interest income	1,341	-

Transactions with subsidiaries

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

AMD thousand

	2008	2007
Income statement		
General administrative expenses	602,750	610,255

Transactions with the Government of the Republic of Armenia

The outstanding balances and average interest rates as of 31 December 2008 with government are as

	2008 *(AMD thousand)*	Average Interest Rate	2007 *(AMD thousand*	Average Interest Rate
Balance Sheet				
Assets				
The Government of Republic of Armenia treasury securities (Note 12)	8,483,663	5%	4,675,803	4.34%
The Government of Republic of Armenia bond issued to the Bank as additional paid in capital (Note 12)	85,663,194	-	42,009,598	-
Liabilities				
Due to the Government of the Republic of Armenia (local currency)	103,962,779	7.5%	93,622,987	5%
Due to the Government of the Republic of Armenia (other currency)	1,030,950	-	688,013	-

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

AMD thousand

	2008	2007
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 on spot transactions	273,166	(2,299,807)
Interest paid on other amounts due to the Government of the Republic of Armenia	(263,922)	(345,127)

24. 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

	2008	2007
Cash	15,441,978	72,430
Nostro accounts (Note 10)	47,357,097	21,706,730
SDR holdings in IMF (Note 13)	893,764	2,920,997
	63,692,839	**24,700,157**

25. Fair value of financial instruments

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 2,593,741 thousand (2007: AMD 2,293,741 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.

26. Risk management

Foreign reserves management by the Bank 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 Bank. Foreign reserves' management by the Bank 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 Bank's Board.

Today the Bank 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 Bank's 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 Bank's Board delegates the responsibility for tactical decisions. The Committee specifies the benchmarks and reports the semiannual results to the Bank's Board.

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 Bank 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.

Maximum credit risk without guaranty or other credit security

The table below presents the worst scenario of the Bank's exposure to credit risk, as of 31 December 2008 and 31 December 2007, without consideration of security. For balance sheet assets, credit risks have been based on net carrying value.

AMD thousand

	Note	Gross maximum risk, as of 31 December 2008	Gross maximum risk, as of 31 December 2007
Funds allocated with banks and other financial institutions	10	77,251,594	183,074,150
Financial instruments measured at their fair value, whereby the gain and loss from revaluation are recognised in the statement of financial results	11	340,237,664	318,671,929
Loans and reverse repurchase agreements	14	80,955,087	24,600,695
Available-for-sale assets	12	96,664,955	48,860,171
Investments due for the date of maturity	12	91,026	134,535
Funds allocated with the IMF	13	44,362,474	47,168,679
Credit risk, total		**639,562,800**	**622,510,159**

Where financial instruments are recorded at fair value, the amounts above presented will denote the current risk but not the maximum one, which may arise in future as a result of changes in fair value.

Liquidity risk

Liquidity risk management process in the Bank 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.

The Bank's 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 described below:

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 Bank's 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 2008 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 %	2008		2007	
		Effect on profit before tax	Effect on equity	Effect on profit before tax	*Effect on equity*
USD	+20%	53,215,814	53,215,814	67,504,965	67,504.965
USD	-20%	(53,215,814)	(53,215,814)	(67,504.965)	(67,504.965)

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 2008 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	2008		2007	
		Up to 1 year	More than 1 year	Up to 1 year	More than 1 year
AMD	+25	(731)	(122,603)	(998)	(40,720)
AMD	-25	680	135,811	1,002	38,429

The table demonstrates the sensitivity to profit of the Bank, which is calcuated by revaluating financial instruments at fair value through profit and loss as of 31 December 2008, based on the assumption of changing interest rates.

Currency	Change, basis points	2008	2007
		Impact on profit before tax	Impact on profit before tax
Foreign currency	+25	(1,156,372)	(795,535)
Foreign currency	-25	1,156,372	795,535

27. Average effective interest rate

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2008 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)*	2008 Average Effective Interest Rate	Value *(AMD thousand)*	2007 Average Effective Interest Rate
INTEREST BEARING ASSETS				
Placements with banks and other financial institutions				
Nostro accounts				
- USD	27,352,214	1.5%	13,430,395	4.8%
- EUR	16,513,701	3.6%	7,569,134	3.7%
- GBP	5,625,615	4.5%	648,998	4.5%
- Other currencies	125,179	0.0%	64,387	0.0%
- AMD	727	0.0%	5,187	0.0%
Deposits and other balances in foreign banks				
- USD	27,634,158	7.3%	97,659,737	5.35%
- EUR	-	-	17,710,922	3.96%
- GBP	-	-	38,291,120	6.4%
- Other currencies	-	-	7,694,270	6.5%
	77,251,594		**183,074,150**	
Financial instruments at fair value through profit or loss				
Foreign government securities under own management				
- USD	203,544,052	3.0%	192,833,543	4.2%
- EUR	62,439,837	3.9%	58,229,059	3.63%
Assets under trust management				
- USD	34,920,073	2.50%	41,733,403	4.3%
- GBR	-	-	2,302,101	5.12%
- EUR	-	-	9,973,218	3.86%
- JPY	-	-	9,879,332	0.47%
- Other currencies	-	-	3,721,273	5.1%

Contracts under own management				
- USD	396,156	0.82%	-	-
Money market instruments				
- USD	19,114,009	1.5%	-	-
- EUR	5,580,250	3.0%	-	-
- GBP	14,243,287	2.3%	-	-
	340,237,664		318,671,929	
Loans and reverse repurchase agreements				
- AMD	80,955,087	7.50%	24,600,695	6.5%
Available-for-sale assets				
- AMD	85,663,194	0.0%	42,009,598	0.0%
- AMD	8,392,637	5%	4,541,268	4,.7%
- AMD (Equity investments)	2,593,741	0.0%	2,293,741	0.0%
- USD	14,466	0.0%	14,348	0.0%
- GBP	-	-	-	-
- EUR (Equity investments)	917	0.0%	1,216	0.0%
	96,664,955		48,860,171	
Held to maturity				
- AMD	91,026	6.3%	134,535	6.3%
Placements with the IMF				
- SDR (SDR holdings)	44,362,474	2.5%	47,168,679	4%
INTEREST BEARING LIABILITIES				
Deposits and balances from financial and other institutions				
Deposits of domestic banks				
- AMD	-	-	-	-
Current accounts of domestic banks				
- AMD	38,518,764	0.0%	37,445,015	0.0%
- Other currencies	65,913,621	0.0%	38,421,297	0.0%
Other term deposits				
- EUR	1,542,305	5%	1,581,315	4.6%
- AMD	-	-	-	-
Other accounts				
- AMD	1,750,110	0.0%	857,600	0.0%
- Other currencies	2,332,133	0.0%	37,886	0.0%
	110,056,933		78,343,113	

Due to the Government of the Republic of Armenia				
- AMD	103,962,779	7.5%	93,622,987	5%
- USD	1,030,950	0.0%	688,013	0.0%
	104,993,729		94,311,000	
Liabilities to IMF				
- SDR	41,337,306	0.50%	48,039,741	0.50%
- AMD	43,467,351	0.0%	44,230,693	0.0%
Other borrowed funds				
- EUR	12,440,435	0.75%	10,274,856	0.75%
Debt securities issued				
- AMD	1,437,498	7.0%	48,958,097	6.5%
Other liabilities				
Demand deposits				
- AMD	696,579	12%	828,284	12%
Other liabilities				
- AMD	672,874	0.0%	342,801	0.0%
- Other currencies	121,614	0.0%	65,105	0.0%
	1,491,067		**1,236,190**	

28. Maturity analysis

The following table shows banking assets and liabilities by remaining contractual maturity dates as at 31 December 2008. Due to the fact that substantially all the financial instruments of by the Bank are fixed rated these remaining

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	15,441,978	-	-	-	-	-	15,441,978
Placements with banks and financial institutions	58,046,509	11,524,054	7,681,031	-	-	-	77,251,594
Financial instruments at fair value through profit or loss	38,937,545	2,251,239	30,045,154	267,954,699	1,049,027	-	340,237,664
Loans and reverse repurchase agreements	61,336,116	600,900	3,670,887	13,040,724	2,306,460	-	80,955,087
Available-for-sale assets	-	-	86,727,429	100,107	7,228,295	2,609,124	96,664,955
Held-to-maturity investments	71,897	-	19,129	-	-	-	91,026
Placements with the IMF	897,360	-	-	-	43,465,114	-	44,362,474
Other assets	1,484,087	-	-	-	-	-	1,484,087
Total assets	**176,215,492**	**14,376,193**	**128,143,630**	**281,095,530**	**54,048,896**	**2,609,124**	**656,488,865**
Liabilities							
Notes and coins in circulation	-	-	-	-	-	344,503,231	344,503,231
Deposits and balances from financial and other institutions	108,497,615	17,013	1,542,305	-	-	-	110,056,933
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	-
Due to the Government of the Republic of Armenia	104,993,729	-	-	-	-	-	104,993,729
Debt securities issued	1,437,498	-	-	-	-	-	1,437,498
Liabilities to IMF	43,467,351	-	7,174,672	25,695,441	8,467,193	-	84,804,657
Other borrowed funds	-	-	310	-	12,440,125	-	12,440,435
Other liabilities	1,491,067	-	-	-	-	-	1,491,067
Total liabilities	**259,887,260**	**17,013**	**8,717,287**	**25,695,441**	**20,907,318**	**344,503,231**	**659,727,550**
Net position as at 31 December 2008	**(83,671,768)**	**14,359,180**	**119,426,343**	**255,400,089**	**33,141,578**	**(341,894,107)**	**(3,238,685)**
Net position as at 31 December 2007	**(110,168,950)**	**49,027,587**	**63,185,064**	**265,877,155**	**28,128,979**	**(347,964,359)**	**(51,914,524)**

29. Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2008:

	AMD	USD	EUR	GBP
Assets				
Cash	-	15,416,390	25,504	12
Placements with banks and financial institutions	727	54,986,187	16,513,701	5,625,615
Financial instruments at fair value through profit or loss	-	257,974,291	68,020,087	14,243,286
Loans and other claims	80,955,087	-	-	-
Available-for-sale investments	96,649,572	14,466	917	-
Held-to-maturity investments	91,026			
Placements with the IMF	-	-	-	-
Property and equipment	10,763,335		-	-
Intangible assets	777,101	-	-	-
Other assets	1,406,086	67,561	10,440	-
Total assets	**190,642,934**	**328,458,895**	**84,570,649**	**19,868,913**
Liabilities				
Notes and coins in circulation	344,503,231	-	-	-
Deposits and balances from financial and other institutions	40,268,874	61,225,456	8,562,581	21
Due to the Government of the Republic of Armenia	103,962,780	1,007,602	23,316	-
Debt securities issued	1,437,498	-	-	-
Liabilities to IMF	43,467,351	-	-	-
Other borrowed funds	-	-	12,440,435	-
Other liabilities	1,369,453	119,718	1,896	-
Total liabilities	**535,009,187**	**62,352,776**	**21,028,228**	**21**
Net on balance sheet position as of 31 December 2008	**(344,366,253)**	**266,106,119**	**63,542,421**	**19,868,892**
Net off balance sheet position as of 31 December 2008	**-**	**-**	**-**	**-**
Net on and off balance sheet positions as of 31 December 2008	**(344,366,253)**	**266,106,119**	**63,542,421**	**19,868,892**
Net on and off balance sheet positions as of 31 December 2007	**(493,137,339)**	**338,153,797**	**66,118,037**	**39,003,394**

AMD thousand

JPY	SDR	RUR	Other	Total
-	-	-	72	15,441,978
59	-	31,710	93,595	77,251,594
-	-	-	-	340,237,664
-	-	-	-	80,955,087
-	-	-	-	96,664,955
				91,026
-	44,362,474	-	-	44,362,474
-	-	-	-	10,763,335
-	-	-	-	777,101
-	-	-	-	1,484,087
59	**44,362,474**	**31,710**	**93,667**	**668,029,301**
-	-	-	-	344,503,231
-		1	-	110,056,933
-	-	24	7	104,993,729
-	-	-	-	1,437,498
-	41,337,306	-	-	84,804,657
-	-	-	-	12,440,435
-	-	-	-	1,491,067
-	**41,337,306**	**25**	**7**	**659,727,550**
59	**3,025,168**	**31,685**	**93,660**	**8,301,751**
-	**-**	**-**	**-**	**-**
59	**3,025,168**	**31,685**	**93,660**	**8,301,751**
(364,688)	**(871,063)**	**7,722,957**	**349,239**	**(43,025,666)**

30. Post balance sheet events

On 3 March, 2009 the Bank has decided to limit its interventions in the foreign exchange market and to return to floating exchange rate policy. This change (Armenian dram depreciated against dollar by 21.7% in one day) has positively affected the financial position of the Central Bank of Armenia in 2009 due to the fact that international foreign reserves are denominated in foreign currency.

On 6 March 2009, the Executive Board of the IMF approved an SDR 368,000 thousand and 28-month Loan Support Program, which is intended for overcoming the consequences of the global crisis, for regaining confidence in the national currency and financial system and for protecting vulnerable groups of population. As a result, an amount of SDR 161,500 thousand will be disbursed to Armenia under the Program, while the rest of the amounts will be disbursed through 9 instalments, according to quarterly reviews.

Exchange rates on April 16 were as follows:

AMD/ 1 USD	375.54	
AMD/ 1 EUR	497.63	
AMD/ 1 SDR	549.84	

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