

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.

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
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

Consolidated balance sheet (continued)

AMD thousand	Notes	As of December 31, 2008	As of December 31, 2007
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 3 to 43 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.

Consolidated statement of changes in equity

AMD thousand	Attributable to equity holders of the parent						Minority interest	Total equity
	Issued capital	General reserve	Additional paid in capital	Revaluation reserve for available-for-sale assets	Accumulated losses	Attributable to equity holders of the parent		
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 in 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

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

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 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 financial 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 policies 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.

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 repledge 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
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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 reversed 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.

Amendment to IFRS 2 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 if 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.

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	2008	2007
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		
<i>Debt and other fixed-income instruments-Quoted</i>		
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
<i>Derivative financial instruments-Quoted</i>		
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

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

12 Available-for-sale assets

AMD thousand	2008	2007
Available-for-sale investments in foreign currency		
<i>Equity investments at cost – Unquoted</i>		
SWIFT	917	1,216
<i>Equity investments at fair value – Quoted</i>		
MasterCard	14,466	14,348
	15,383	15,564
Available-for-sale investments in domestic currency		
<i>Debt and other fixed-income instruments</i>		
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
<i>Equity investments at cost – Unquoted</i>		
Investments in unconsolidated subsidiaries	2,551,000	2,251,000
Other equity investments	42,741	42,741
	2,593,741	2,293,741
	96,649,572	48,844,607
Held-to-maturity investments in domestic currency		
<i>Debt and other fixed-income instruments</i>		
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

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 repledge. 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	-

AMD thousand

2008
Fair value2007
Fair value

Other securities

406,153	-
60,726,647	9,380,526

15 Property and equipment

AMD thousand

Land and
buildingsNetworks,
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	1,887,316
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	1,533,926	2,662,375	150,754	1,408,061	5,755,116
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:

AMD thousand	2008	Average Interest Rate	2007	Average Interest Rate
Balance Sheet				
Assets				
Loans	40,558	5%	-	-
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 follows:

AMD thousand	2008	Average Interest Rate	2007	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	289,160	245,069
Interest income from bond issued by the Government of Republic of Armenia to the Bank as additional paid in capital	-	248,405
Net gain on spot transactions	195,582	273,166
Interest paid on other amounts due to the Government of the Republic of Armenia	(6,481,143)	(4,039,109)

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.

Thousand of Armenian dram	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-Siegel 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		2008		2007	
Currency	Change in currency rate in %	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		2008		2007	
Currency	Change in basis points	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 calculated by revaluating financial instruments at fair value through profit and loss as of 31 December 2008, based on the assumption of changing interest rates.

AMD thousand			2008	2007
	Currency	Change, basis points	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.

AMD thousand	Value	2008 Average Effective Interest Rate	Value	2007 Average Effective Interest Rate
Interest Bearing Assets				
Placements with banks and other financial institutions				
<i>Nostro accounts</i>				
- 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%
<i>Deposits and other balances in foreign banks</i>				
- 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%
	<u>77,251,594</u>		<u>183,074,150</u>	
Financial instruments at fair value through profit or loss				
<i>Foreign government securities under own management</i>				
- USD	203,544,052	3.0%	192,833,543	4.2%
- EUR	62,439,837	3.9%	58,229,059	3.63%
<i>Assets under trust management</i>				
- 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%

AMD thousand	Value	2008 Average Effective Interest Rate	Value	2007 Average Effective Interest Rate
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%	-	-
	<u>340,237,664</u>		<u>318,671,929</u>	
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%
	<u>96,664,955</u>		<u>48,860,171</u>	
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				
<i>Deposits of domestic banks</i>				
- AMD	-	-	-	-
<i>Current accounts of domestic banks</i>				
- AMD	38,518,764	0.0%	37,445,015	0.0%
- Other currencies	65,913,621	0.0%	38,421,297	0.0%
<i>Other term deposits</i>				
- EUR	1,542,305	5%	1,581,315	4.6%
- AMD	-	-	-	-
<i>Other accounts</i>				
- AMD	1,750,110	0.00%	857,600	0.00%

AMD thousand	Value	2008 Average Effective Interest Rate	Value	2007 Average Effective Interest Rate
- Other currencies	2,332,133	0.00%	37,886	0.00%
	<u>110,056,933</u>		<u>78,343,113</u>	
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%
	<u>104,993,729</u>		<u>94,311,000</u>	
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				
<i>Demand deposits</i>				
- AMD	696,579	12%	828,284	12%
<i>Other liabilities</i>				
- AMD	672,874	0.0%	342,801	0.0%
- Other currencies	121,614	0.0%	65,105	0.0%
	<u>1,491,067</u>		<u>1,236,190</u>	

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 contractual maturity dates also represent the contractual interest rate repricing dates.

1 month

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)

AMD thousand

**Net on and off balance sheet positions as of 31
December 2008**

AMD	USD	EUR	GBP	JPY	SDR	RUR	Other	Total
<u>(344,366,253)</u>	<u>266,106,119</u>	<u>63,542,421</u>	<u>19,868,892</u>	<u>59</u>	<u>3,025,168</u>	<u>31,685</u>	<u>93,660</u>	<u>8,301,751</u>

**Net on and off balance sheet positions as of 31
December 2007**

<u>(493,137,338)</u>	<u>338,153,797</u>	<u>66,118,037</u>	<u>39,003,394</u>	<u>(364,688)</u>	<u>(871,063)</u>	<u>7,722,957</u>	<u>349,239</u>	<u>(43,025,666)</u>
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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.



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