

**BTA INVESTBANK**  
**CLOSED JOINT-STOCK COMPANY**

**FINANCIAL STATEMENTS**  
**in Armenian Drams**

**31 DECEMBER 2007**



**BAKER TILLY**  
**ARMENIA**

**YEREVAN 2008**



# BAKER TILLY ARMENIA

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## **CONFIRMED BY:**

\_\_\_\_\_ **P. GEVORGYAN**

**Managing Partner**  
**Baker Tilly Armenia CJSC**

**License for auditing N054 awarded by Ministry of Finance  
and Economy of the Republic of Armenia**

## **INDEPENDENT AUDITOR'S REPORT**

**To Shareholders and Board of Directors of  
Closed Joint Stock Company BTA InvestBank**

We have audited the accompanying financial statements of BTA Investbank (further in the text - the Bank), which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity capital, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

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

Director of Audit and Consulting Department

\_\_\_\_\_ Arthur Kirakosyan



BTA INVESTBANK

## INCOME STATEMENT

Description	Notes	AMD ths.	
		Year ended 31.12.2007 (audited)	Year ended 31.12.2006 (audited)
Interest income	6	1,528,730	961,615
Interest expense	6	(806,793)	(407,484)
<b>Net Interest Income</b>		<b>721,937</b>	<b>554,131</b>
(Impairment)/reversal of interest bearing assets	10	(7,337)	(111,741)
<b>Net interest income after impairment of interest bearing assets</b>		<b>714,600</b>	<b>442,390</b>
Net gains/(losses) from trading securities		-	(19,496)
Net gain from foreign currency transactions		140,798	145,278
Net gain from exchange differences		(18,068)	3,786
Fee and commission income	7	97,515	53,315
Fee and commission expense	7	(17,697)	(12,111)
Gains less losses on investments available for sale		73,119	1,931
Other income	8	107,335	71,055
(Impairment)/reversals of other assets			311
Other (provisions)/reversals			-
Other expenses	9	(811,023)	(529,355)
<b>Profit/(loss) before income tax</b>		<b>286,579</b>	<b>157,104</b>
Income tax (expense)/refund	11	(80,263)	31,356
<b>Profit/(loss) for the year</b>		<b>206,316</b>	<b>188,460</b>

Head of Bank's Administration  
(Executive Director)

Chief accountant



## **BALANCE SHEET**

*AMD ths.*

Description	Notes	As of 31.12.2007 (audited)	As of 31.12.2006 (audited)
<b>ASSETS</b>			
Cash and balances with CBA	12	1,700,566	2,072,559
Trading securities	13	-	-
Amounts due from other financial institutions	14	2,261,102	261,462
Loans and advances to customers	15	12,192,595	5,888,194
Investments available for sale	16	1,061,793	806,598
Property, plant and equipment	17	343,053	273,205
Intangible assets	18	48,989	53,498
Deferred income tax assets	11		32,715
Other assets	19	226,735	104,979
<b>Total Assets</b>		<b><u>17,834,833</u></b>	<b><u>9,493,210</u></b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Amounts due to financial institutions	20	8,388,332	5,576,375
Amounts due to customers	21	3,942,971	714,943
Deferred income tax liabilities	11	307	-
Other liabilities and provisions	22	178,994	17,369
<b>Total liabilities</b>		<b><u>12,510,604</u></b>	<b><u>6,308,687</u></b>
<b>EQUITY</b>			
Share capital	23	5,300,000	3,400,000
Other reserves		(4,984)	(38,374)
Accumulated losses		29,213	(177,103)
<b>Total Equity</b>		<b><u>5,324,229</u></b>	<b><u>3,184,523</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>17,834,833</u></b>	<b><u>9,493,210</u></b>

\_\_\_\_\_  
Head of Bank's Administration  
(Executive Director)

\_\_\_\_\_  
Chief accountant

**STATEMENT OF CHANGES IN EQUITY***AMD ths.*

Description	Share Capital	Revaluation reserve of securities available for sale	Accumulated loss	Total
<b>Balance as of January 1, 2005 (audited)</b>	<b>3,400,000</b>	-	<b>(365,563)</b>	<b>3,034,437</b>
Profit for the year	-	-	188,460	188,460
Net losses from changes in fair value	-	(100,487)	-	(100,487)
Net gains transferred to net profit on disposal of available-for-sale instruments	-	52,519	-	52,519
Effect of deferred taxes	-	9,594	-	9,594
<b>Balance as of December 31, 2006 (audited)</b>	<b>3,400,000</b>	<b>(38,374)</b>	<b>(177,103)</b>	<b>3,184,523</b>
Profit for the year			206,316	206,316
Increase in share capital	1,900,000			1,900,000
Net gains transferred to net profit on disposal of available-for-sale instruments		41,737		41,737
Effect of deferred taxes		(8,347)		(8,347)
<b>Balance as of December 31, 2007 (audited)</b>	<b>5,300,000</b>	<b>(4,984)</b>	<b>29,213</b>	<b>5,324,229</b>

\_\_\_\_\_  
Head of Bank's Administration  
(Executive Director)

\_\_\_\_\_  
Chief accountant



**CASH FLOW STATEMENT**

Description	2007 (audited)	<i>AMD ths.</i> 2006 (audited)
<b>Cash flows from operating activities</b>		
Interest received	1,498,065	938,871
Interest paid	(532,100)	(307,295)
Fees and commissions received	180,898	54,481
Fees and commissions paid	(17,697)	(12,111)
Gains/(losses) from trading securities	-	21,029
Realised gains from dealing in foreign currencies	145,278	145,278
Recovery of previously written-off loans	146,244	334,096
Salaries and benefits paid	(349,587)	(205,551)
Other operating expenses paid	(496,679)	(254,578)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>574,422</b>	<b>714,220</b>
Trading securities		345,532
Amounts due from other financial institutions	-	49,360
Loans and advances to customers	(7,625,739)	(4,163,993)
Other assets	46,284	20,588
Amounts due to customers	3,564,108	340,215
Other liabilities	19,770	(124,398)
<b>Net cash flow used in operating activities before income tax</b>	<b>(3,421,155)</b>	<b>(2,818,476)</b>
Income tax paid	(14,939)	(8,006)
<b>Net cash used in operating activities</b>	<b>(3,436,094)</b>	<b>(2,826,482)</b>
<b>Cash flows from investing activities</b>		
Decrease (increase) of investments in other persons' share capital	(19,575)	-
Decrease (increase) of capital investments in non-current assets and intangible assets.	(8,734)	-
Purchase of investment securities	(233,160)	(979,231)
Net outflow from sale/(purchase) of property and equipment	(93,415)	(125,537)
<b>Net cash used in investing activities</b>	<b>(354,884)</b>	<b>(1,104,768)</b>
<b>Cash flow from financing activities</b>		
Proceeds from issue of share capital	100,000	-
Shareholders investments in share capital	1,900,000	
Loans provision/(repayment) to financial organizations	1,047,090	5,038,822
<b>Net cash flow from financing activities</b>	<b>3,047,090</b>	<b>5,038,822</b>
Effect of exchange rate changes on cash and cash equivalents	280,316	(76,207)
<b>Net increase in cash and cash equivalents</b>	<b>(463,572)</b>	<b>1,031,365</b>
Cash and cash equivalents at the beginning of the year	<b>2,316,489</b>	<b>1,285,124</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>1,852,917</b>	<b>2,316,489</b>

\_\_\_\_\_  
Head of Bank's Administration  
(Executive Director)

\_\_\_\_\_  
Chief accountant



**BTA INVESTBANK**

## **Accompanying notes to the financial statements**

### **1 Main Activity, General Information**

BTA InvestBank CJSC (the “Bank”) is the legal successor of “Michazgain Investitsion Bank” CJSC, which was registered in the Republic of Armenia on 25 October 1991. The Bank is regulated by the legislation of RA and conducts its business under license number 31, granted by the Central Bank of Armenia (the “CBA”).

The Bank accepts deposits from the public and extends credit, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its main office and two branches are located in Yerevan, and the third branch is in Gyumri.

The legal address of the Bank is: 13 Vardanants str., Yerevan, 0002.

### **2 Armenian Business Environment**

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. Consequently, operations carried out in Armenia involve certain risks that are not typically associated with those in developed countries.

The Bank could be affected, for the foreseeable future, by these risks and their consequences. The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Bank’s financial statements in the period when they become known and estimable.

In addition, economic conditions continue to limit the volume of activity in the financial markets. Market quotations in generally illiquid markets may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving many willing buyers and willing sellers.

### **3 Reports preparation background**

#### **3.1 Statement of Compliance**

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as developed and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

#### **3.2 Basis of measurement**

The financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost.



**3.3 Functional and presentation currency**

Functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank’s functional currency and the Bank’s presentation currency is Armenian Drams (“AMD”), since this currency best reflects the economic substance of the underlying events and transactions of the Bank. The Bank prepares statements for regulatory purposes in accordance with legislative requirements and Accounting Standards of the Republic of Armenia. These financial statements are based on the Bank’s books and records as adjusted and reclassified in order to comply with IFRS. The financial statements are presented in thousands of AMD, which is not convertible outside Armenia.

**3.4 Reclassification**

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

**3.5 New standards and interpretations**

The following interpretations and amendments applicable to the Bank are effective for the year ending 31. December, 2007:

- Amendment to IAS 39 regarding the financial guarantee contracts (effective for the period starting from January 1, 2007 and later dates)
- Amendment to IAS 39 regarding the fair value option (effective for the period starting from January 1, 2007 and later dates)

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

**3.6 Reconciliation of Accounting Standards of the Republic of Armenia and IFRS equity and profit (loss) for the year**

Equity and profit/(loss) for the year are reconciled between Accounting Standards of the Republic of Armenia and IFRS as follows:

AMD ths.	2007		2006	
	Equity	Profit for the year	Equity	Profit for the year
<b>Armenian Accounting Standards</b>	<b>5,314,654</b>	<b>156,358</b>	<b>3,258,296</b>	<b>224,929</b>
Opening balance adjustment		73,773		(1,070)
Reversal of impairment of available-for-sale securities		(41,737)		47,968
Deferred tax effect		8,347		( 9,594)
Reversal of impairment of amounts due from other financial institutions	3,283	3,283	2,885	2,885
Deferred tax effect	(657)	(657)	(577)	(577)
Reversal of impairment of other assets	8,686	8,686	5,551	5,551
Deferred tax effect	(1,737)	(1,737)	(1,110)	(1,110)
Impairment of loans and borrowings			(100,652)	(100,652)
Deferred tax effect			20,130	20,130
<b>International Financial Reporting Standards</b>	<b>5,324,220</b>	<b>206,316</b>	<b>3,184,523</b>	<b>188,460</b>



#### **4 Summary of significant accounting policies**

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

##### **4.1 Recognition of income and expenses**

Interest income and expense are recognised on an accrual basis calculated using the effective interest method. Interest income also includes income earned on investments in securities. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

##### **4.2 Foreign currency translation**

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of income as gains less losses from foreign exchange translation.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

If gain and loss concerning non-monetary items is recognized directly in Equity, then exchange differences as regards those items are also recognized directly in Equity as an exchange rate component.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies.

	December 31,2007	December 31,2006
AMD/1USD	304,22	363,5
AMD /1 EUR	446,96	478,73



### **4.3 Taxation**

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Republic of Armenia also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of other expenses in the statement of income.

### **4.4 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, balances on correspondent accounts with the Central Bank of Armenia (excluding those funds deposited for the settlement of ArCa payment cards), and amounts due from other banks, which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost

### **4.5 Precious metals**

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Changes in the bid prices are recorded in net gain/(loss) on operations with precious metals in other income/expense.

### **4.6 Amounts due from other financial institutions**

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from other financial institutions are carried net of any allowance for impairment losses.



#### **4.7 Financial instruments**

The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

When financial assets and liabilities are recognised initially, they are measured at initial value plus the transaction costs, except for the financial instruments accounted for at fair value and adjusted through statement of financial results.

After initial recognition, all financial liabilities other than financial instruments accounted for at fair value through profit and loss account (including instruments held for trading) are measured at amortized cost using effective interest method. After initial recognition, financial liabilities at fair value through profit or loss are measured at fair value.

The Bank classified its financial assets into the following categories: loans and receivables, financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Bank determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

##### ***Financial assets at fair value through profit or loss***

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss. A financial asset is classified in this category if acquired for the purpose of selling in the short-term or if so designated by management from the initial acquisition of that asset.

Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the statement of income.

##### ***Held-to-maturity investments***

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

##### ***Loans and receivables***

Loans and receivables are financial assets with fixed or determinable payments, which arise when the Bank provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Bank with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities



are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

#### ***Available-for-sale financial instruments***

Investments available for sale represent debt and equity investments that are intended to be held for an indefinite period of time.

After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of income. However, interest calculated using the effective interest method is recognised in the statement of income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established.

Net profit from available-for sale investments makes up in the financial results of 2007 AMD 78,119 ths. which consists of the following:

- 1) Net income from trade of available-for sale investments – AMD 89,579ths.
- 2) Net loss from changes in fair value - AMD 16,460ths.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis. Otherwise the investments are stated at cost less any allowance for impairment.

#### **4.8 Allowance for impairment of financial assets**

The Bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

##### ***Assets carried at amortised cost***

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.



If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of allowance for loan impairment in the statement of income.

#### *Available-for-sale financial assets*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement on income, is transferred from equity to the statement of income.

Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of income. Reversals of impairment losses on debt instruments are reversed through the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

## **4.9 Derecognition of financial assets and liabilities**

### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.



***Financial liabilities***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

**4.10 Repurchase and reverse repurchase agreements**

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The corresponding liability is presented within amounts due to financial institutions or customers.

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate.

The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities borrowed are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of income as gains less losses from trading securities. The obligation to return them is recorded at fair value as a trading liability.

**4.11 Leasing**

***Operating lease - Bank as lessee***

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

**4.12 Property, plant and equipment**

Property, plant and equipment (“PPE”) are recorded at historical cost less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied in 2007 and 2006:

	2007	2006
Buildings	20	20
Computers	4	4
Vehicles	5	5
Other fixed assets	5-8	5-8



A revision of useful lives of buildings, computers and other fixed assets, the change in the useful lives is presented in the table above. This is considered as change in the accounting estimates and is applied prospectively. Thus the comparative information has not been changed. For details see Note 17.

Leasehold improvements are capitalized and depreciated over the remaining lease contract period on a straight-line basis.

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

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

#### **4.13 Intangible assets**

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

#### **4.14 Assets held for sale**

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use. Such sale transaction shall be principally completed within one year from the date of classification of an asset as held for sale.

Assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the income statement as loss from assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

#### **4.15 Borrowings**

Borrowings, which include amounts due to other financial institutions, amounts due to customers are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the liabilities are derecognised as well as through the amortisation process.

#### **4.16 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.



#### **4.17 Financial commitments and contingencies**

Contingent liabilities are not recognised in the balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the balance sheet but disclosed when an inflow of economic benefits is probable.

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

In the normal course of business, the Bank enters into credit related commitments, including commitment to extend credit, letters of credit and guarantees. Specific provisions are recorded against credit related commitments when losses are considered more likely than not.

#### **4.18 Share capital**

##### *Share capital*

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

##### *Dividends*

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

#### **4.19 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.

### **5 Critical Accounting Estimates and Judgements**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

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



### ***Classification of investment securities***

Securities owned by the Bank comprise Armenian state and corporate bonds, securities issued by the Central Bank of Armenia and corporate shares. Upon initial recognition, the Bank designates securities as financial assets with recognition of changes in fair value through profit or loss, held to maturity financial assets or available-for-sale financial assets recognition of changes in fair value through equity.

### ***Related party transactions***

In the normal course of business the Bank enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

### ***Allowance for impairment of loans and receivables***

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

### ***Tax legislation***

Armenian tax legislation is subject to varying interpretations. Refer to Note 24.

### ***Impairment of available-for-sale equity investments***

The Bank determined that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged required judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.



## 6 Interest Income and Expense

<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
Loans and advances to customers	1,414,605	909,218
Debt investment securities available-for-sale	69,924	37,325
Amounts due from other financial institutions	19,849	7,984
Reverse repurchase transactions	24,257	7,088
Other interest income	95	
<b>Total interest income</b>	<b>1,528,730</b>	<b>961,615</b>

<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
Amounts due to customers	170,574	11,678
Amounts due to financial institutions	624,092	393,337
Repurchase transactions	4,712	2,469
Other interest expenses	7,415	
<b>Total interest expense</b>	<b>806,793</b>	<b>407,484</b>

## 7 Fee and Commission Income and Expense

<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
Cash collection	39,261	30,433
Wire transfer fees	29,945	18,155
Plastic cards operations	5,171	2,095
Guarantees and letters of credit	1,714	426
Other commissions	21,424	2,206
<b>Total fee and commission income</b>	<b>97,515</b>	<b>53,315</b>

<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
Wire transfer fees	17,697	12,111
<b>Total fee and commission expense</b>	<b>17,697</b>	<b>12,111</b>



## 8 Other Income

<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
Income from sale of fixed assets	(18,440)	
Fines and penalties received	91,591	63,782
Revaluation of other assets	5,500	
Other income	28,684	7,273
<b>Total other income</b>	<b>107,335</b>	<b>71,055</b>

## 9 Other Expenses

<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
Staff costs	347,192	200,878
Social security contributions	32,283	19,650
Depreciation and amortization	56,455	47,995
Tangible assets maintenance	20,171	16,705
Advertising costs	13,970	19,322
Business trip expenses	26,710	15,447
Communications	29,684	23,003
Operating lease	132,646	50,654
Other taxes, except for profit tax	37,354	18,639
Consulting and other services	4,200	20,132
Security	15,598	8,431
Representative expenses	28,473	30,124
Office supplies	19,541	14,904
Penalties paid	12,236	6,574
Losses from operations with precious metals	-	-
Other expenses	34,510	36,897
<b>Total other expenses</b>	<b>811,023</b>	<b>529,355</b>



## 10 Allowances for Impairment and Other Provisions

The movement in allowance for impairment losses on interest bearing assets is presented below:

AMD ths.	Amounts due from other financial institutions	Loans and advances to customers	Total
<b>January 01, 2006</b>	0	44,447	44,447
Increase in provision		111,741	111,741
Write-off of assets		(305,840)	(305,840)
Recoveries of assets previously written off		334,457	334,457
<b>December 31, 2006</b>	0	184,805	184,805
Increase in provision	2,255	5,082	7,337
Write-off of assets		(184,569)	(184,569)
Recoveries of assets previously written off		140,187	140,187
<b>December 31, 2007</b>	2,255	145,505	147,760

The movement in allowance for investment:

AMD ths.

<b>December 31, 2006</b>	0
Increase in provision	271
<b>December 31, 2007</b>	271

## 11 Profit Tax Expense (benefit)

AMD ths.	2007	2006
Current tax expense	55,558	0
Deferred tax	24,675	(31,356)
<b>Total profit tax expense/(benefit)</b>	<b>80,263</b>	<b>(31,356)</b>

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2006: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.



Numerical reconciliation between the tax expenses/(credit) and accounting profit/(loss) is provided below:

AMD ths.	2007	Effective rate (%)	2006	Effective rate (%)
<b>Profit/(loss) before tax</b>	286,579		157,104	
Income tax at the rate of 20%	57,316	20,0	31,421	20,0
Difference between non-taxable income and non-deductible expense	1,886	0,7	(111)	(0,1)
(Positive) /negative exchange rate difference	(3,614)	(1,3)	(757)	(0,5)
Effect of utilization of tax losses carried forward, not recognized previously	3,326	1,2	(61,909)	(39,4)
Impairment loss and expenses as regards other reserves	627	0,2		
Accrued expenses and other liabilities	512	0,2		
Impairment of interest assets	20,210	7,1		
<b>Profit tax expense/(benefit)</b>	<b>80,263</b>	<b>28,0</b>	<b>(31,356)</b>	<b>(20)</b>

Deferred tax calculation in respect of temporary differences:

AMD ths.	2006	Recognized in income statement	Recognized in equity	2007
Accrued expenses and other liabilities	1,352	(512)	-	<b>840</b>
Fair value measurement of the securities	9,594	-	(8,347)	<b>1,247</b>
Impairment of interest-bearing assets	19,553	(20,210)	-	<b>(657)</b>
Accrued tax losses	3,326	(3,326)	-	<b>-</b>
Unrecognized deferred tax assets	33,825	(24,048)	(8,347)	<b>1,430</b>
Allowances for impairment and provisions for other losses	(1,110)	(627)		<b>(1,737)</b>
<b>Total deferred tax assets</b>	<b>(1,110)</b>	<b>(627)</b>	<b>-</b>	<b>(1,737)</b>
<b>Net deferred tax asset/(liability)</b>	<b>32,715</b>	<b>(24,675)</b>	<b>(8,347)</b>	<b>(307)</b>



AMD ths.

	2005	Recognized in income statement	Recognized in equity	2006
Accrued expenses and other liabilities	216	1,136		1,352
Fair value measurement of the securities			9,594	9,594
Allowances for impairment and provisions for other losses	1,613	(1,613)		-
Impairment of interest-bearing assets		19,553		19,553
Accrued tax losses	61,909	(58,583)		3,326
<b>Unrecognized deferred tax assets</b>	63,738	(39,507)	9,594	33,825
Deferred tax asset's assessment	(61,909)	61,909		
<b>Total deferred tax assets</b>	1,829	22,402	9,594	33,825
Impairment losses and other expenses as regards reserves	(268)	(842)		(1,110)
Fair value measurement of the securities	(9,796)	9,796		
<b>Total deferred tax liability</b>	(10,064)	8,954	-	(1,110)
<b>Net deferred tax asset/(liability)</b>	(8,235)	31,356	9,594	32,715

## 12 Cash, Cash Equivalents and Balances with CBA

AMD ths.	2007	2006
Cash on hand	360,133	254,299
Other money market placements	63,198	8,602
Correspondent account with the CBA	1,259,257	1,792,126
<b>Included in cash and cash equivalents</b>	1,682,588	2,055,027
Deposited funds with the CBA	17,978	17,532
<b>Total cash and balances with the CBA</b>	1,700,566	2,072,559
Cash and balances with the CBA, included in cash flow	1,682,588	2,055,027
Placements with other banks (note 14)	170,329	261,462
<b>Total cash and cash equivalents</b>	1,852,917	2,316,489

**BTA INVESTBANK**

Correspondent accounts with Central Bank of Armenia include also the obligatory minimum reserve deposits with the CBA according to the RA Bank Law, which is computed at 8% in Armenian Drams and at 12% in foreign currency accrued on attracted Bank funds, and amounts for the period from 20.12.07 to 03.01.08 (14days) to AMD 1,241,444 thousand, of which AMD160,108 ths. - in Armenian Drams and AMD 1,081,336 – in foreign currency. There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Interest is not extended in respect of mandatory reserves.

Deposited funds with CBA include a guaranteed deposit for settlements via ArCa payment system.

**13 Financial Assets for Trade**

<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
Securities issued by the Ministry of Finance	-	-
<b>Total financial assets for sale</b>	-	-

**14 Amounts due from other financial institutions**

<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
Correspondent accounts with financial institutions	170,329	261,462
<b>Included in cash and cash equivalents</b>	170,329	261,462
Repurchase agreements	222,875	-
Other amounts	1,867,898	-
<b>Total amounts due from other financial institutions</b>	2,261,102	261,462

**15 Loans and advances to customers**

<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
Loans to customers	12,195,299	5,888,631
Overdraft	142,801	184,368
	12,338,100	6,072,999
Less allowance for loan impairment (note 10)	(145,505)	(184,805)
<b>Total loans and advances to customers</b>	12,192,595	5,888,194

As of 31 December 2007, accrued interest income included in loans and advances to customers amounted to AMD 96,595 thousand (2006: AMD 46,790 thousand).



Loans and advances by customer profile may be specified as follows:

<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
State owned enterprises	-	-
Privately held companies	9,026,080	3,898,498
Individuals	2,929,157	1,837,581
Sole proprietors	286,268	289,007
Non-commercial institutions	-	1,123
Accrued interest	96,595	46,790
	<u>12,338,100</u>	<u>6,072,999</u>
Less allowance for loan impairment (note 10)	(145,505)	(184,805)
	<u><u>12,192,595</u></u>	<u><u>5,888,194</u></u>
<b>Total loans and advances to customers</b>		

Loans to individuals comprise the following products:

<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
Mortgage loans	1,511,436	998,356
Consumer loans	1,417,721	162,583
Car loans		288,450
Other		388,192
	<u>2,929,157</u>	<u>1,837,581</u>
<b>Total loans and advances to individuals (gross)</b>		

Loans are made principally within Armenia in the following industry sectors:

<b>AMD ths.</b>	<b>2007</b>	<b>%</b>	<b>2006</b>	<b>%</b>
Manufacturing	817,912	7	772,158	13
Agriculture	28,958	-	32,184	1
Construction	711,521	6	34,928	1
Transport and communication	292,353	2	326,613	5
Trade (distributors)	6,138,962	49	2,546,865	42
Consumer sector	1,417,721	11	827,981	14
Finance sector	288,180	2	16,750	-
Service sector	914,695	7	308,722	5
Mortgage	1,511,436	12	1,009,599	17
Other sectors	345,271	3	149,779	2
Accrued interest	99,219		46,790	-
<b>Total loans and advances to customers (gross)</b>	<u>12,566,228</u>	<u>100</u>	<u>6,072,369</u>	<u>100</u>

The analysis of loan portfolio upon collateral is represented as follows:



<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
Loans collateralized by real estate	8,596,683	4,674,368
Loans collateralized by inventories	3,544,205	164,197
Loans collateralized by shares of other companies	-	22,350
Loans collateralized by equipment	-	798,927
Loans collateralized by cash or other guarantees	56,187	226,361
Loans collateralized by precious metals	126,575	135,644
Other collateral	143,359	4,362
Accrued interest	96,595	46,790
	<u>12,563,604</u>	<u>6,072,999</u>
Less allowance for loan impairment (note 10)	(145,505)	(184,805)
Funds provided to financial organizations	(225,504)	
<b>Total loans and advances to customers</b>	<u><u>12,192,595</u></u>	<u><u>5,888,194</u></u>

At 31 December 2007 the estimated fair value of loans and advances to customers was AMD 12,194,511 thousand (2006: AMD 5,888,194 thousand). Refer to Note 26.

Credit, currency, liquidity and interest rate analyses of loans and advances to customers are disclosed in Note 27. The information on related party balances is disclosed in Note 25.

## 16 Investments available for sale

<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
Securities issued by the Ministry of Finance of Armenia	682,071	644,082
Securities issued by the CBA	346,862	149,008
<b>Debt instruments available for sale</b>	<u>1,028,933</u>	<u>793,090</u>
Shares of Armenian companies	31,718	12,143
Shares of OECD countries companies	1,142	1,365
<b>Equity instruments available for sale</b>	<u>32,860</u>	<u>13,508</u>
<b>Total investments available for sale</b>	<u><u>1,061,793</u></u>	<u><u>806,598</u></u>

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

<b>AMD ths.</b>	<b>2007</b>		<b>2006</b>	
	%	Maturity	%	Maturity
Securities issued the Ministry of Finance of Armenia	4.95-7.8%	2008-2021	5-10%	2008-2021
Securities issued by the CBA	6.49-6.76%	2008	5-6%	2007



## 17 Property, plant and equipment

AMD ths.	Buildings	Computers	Vehicles	Other PPE	Capital investments, leasehold means	Total
<b>COST</b>						
Cost at January 1, 2006	123,791	53,120	26,759	81,629	22,569	307,868
Additions	72,594	9,895	20,634	18,414	1,010	122,547
Reclassification	(34,933)	-	-	-	-	(34,933)
Disposals	-	-	-	-	-	-
<b>As at December 31, 2006</b>	<b>161,452</b>	<b>63,015</b>	<b>47,393</b>	<b>100,043</b>	<b>23,579</b>	<b>395,482</b>
Additions	1,213	34,135	11,368	71,694	6,012	124,422
Disposals	-	-	(10,145)	-	-	(10,145)
<b>As at December 31, 2007</b>	<b>162,665</b>	<b>97,150</b>	<b>48,616</b>	<b>171,737</b>	<b>29,591</b>	<b>509,759</b>
<b>Accumulated depreciation</b>						
Value at January 01, 2006	6,044	31,870	15,417	24,565	2,631	80,527
Depreciation charge	7,495	8,070	8,093	13,390	4,702	41,750
<b>As at December 31, 2006</b>	<b>13,539</b>	<b>39,940</b>	<b>23,510</b>	<b>37,955</b>	<b>7,333</b>	<b>122,277</b>
Additions	8,150	11,789	7,677	16,413	5,934	49,963
Disposals	-	-	(5,534)	-	-	(5,534)
<b>As at December 31, 2007</b>	<b>21,689</b>	<b>51,729</b>	<b>25,653</b>	<b>54,368</b>	<b>13,267</b>	<b>166,706</b>
<b>Carrying value</b>						
<b>As at December 31, 2007</b>	<b>140,976</b>	<b>45,421</b>	<b>22,963</b>	<b>117,369</b>	<b>16,324</b>	<b>343,053</b>
<b>As at December 31, 2006</b>	<b>147,913</b>	<b>23,075</b>	<b>23,883</b>	<b>62,088</b>	<b>16,246</b>	<b>273,205</b>

### *Fully depreciated items*

As at 31 December 2007 fixed assets included fully depreciated and amortized assets in amount of AMD 47,511 thousand (2006: AMD 15, 601 thousand).

### *Revision of estimated useful life*

Starting from January 2006 the Bank has carried out the revision of useful life of its buildings, computers and other fixed assets, as presented in Note 4.12. As a result the Management of the Bank has decided to prolong the useful life of these groups of assets compared to the previous year. This was considered as a change in accounting estimate and the changes were not applied to the previous period and the comparative financial statements were not changed.



## 18 Intangible Assets

AMD ths.	Licenses	Computer Software	Other	Total
<b>COST</b>				
Cost at January 1, 2006	12,461	11,721	38,360	62,542
Additions	-	990	-	990
Disposals	(219)	-	-	(219)
<b>As at December 31, 2006</b>	<b>12,242</b>	<b>12,711</b>	<b>38,360</b>	<b>63,313</b>
Additions	-	1,980	-	1,980
Disposals	-	-	-	-
<b>As at December 31, 2007</b>	<b>12,242</b>	<b>14,691</b>	<b>38,360</b>	<b>65,293</b>
<b>AMORISATION</b>				
As at January 1, 2006	298	2,000	1,279	3,577
Amortisation charge	1,219	1,183	3,836	6,238
Disposals	-	-	-	-
<b>As at December 31, 2006</b>	<b>1,517</b>	<b>3,183</b>	<b>5,115</b>	<b>9,815</b>
Amortisation charge	1,226	1,427	3,836	6,489
Disposals	-	-	-	-
<b>As at December 31, 2007</b>	<b>2,743</b>	<b>4,610</b>	<b>8,951</b>	<b>16,304</b>
<b>Residual value</b>				
<b>As at December 31, 2007</b>	<b>9,499</b>	<b>10,081</b>	<b>29,409</b>	<b>48,989</b>
<b>As at December 31, 2006</b>	<b>10,725</b>	<b>9,528</b>	<b>33,245</b>	<b>53,498</b>

## 19 Other Assets

AMD ths.	2007	2006
Prepayments and other debtors	4,255	9,516
Settlements with employees	-	-
Other assets	4,046	8,950
	8,301	18,466
Less allowance for impairment (note 10)	8,301	18,466
Assets classified as held for sale	40,533	52,797
Other expected amounts	32,582	8,950
Prepaid profit tax	36,143	23,115
Other prepaid taxes	107,522	-
Materials	1,654	1,651
<b>Total other assets</b>	<b>226,735</b>	<b>104,979</b>

As at December 31, 2007 assets classified as held for sale are carried at net realizable value, which include repossessed assets and fixed assets to be disposed.



## 20 Amounts due to financial institutions

<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
Correspondent accounts of other banks	720	720
Loans from banks	6,226,966	5,575,655
Other amounts (see note 14)	2,160,646	-
<b>Total amounts due to financial institutions</b>	<b>8,388,332</b>	<b>5,576,375</b>

The amount of loans from banks is completely comprised of loans from the Bank's shareholder Turan Alem Bank SC, which represent several contract amounts and which interest rate is ranging from 8.37% to 15%. Loans provided to the Bank as at 31.12.2007 and 31.12.06 comprise 100% of attracted loans.

## 21 Amounts Due to Customers

<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
<b>Legal Persons</b>		
Current/Settlement accounts	400,302	427,367
Time deposits	2,812,892	6,921
	3,213,194	434,288
<b>Natural Persons</b>		
Current/Settlement accounts	55,705	119,401
Time deposits	657,805	161,254
Other	16,267	-
	729,777	280,655
<b>Total amounts due to customers</b>	<b>3,942,971</b>	<b>714,943</b>

As at 31 December 2007 included in amounts due to customers are deposits held as security against guarantees issued, credit lines and overdrafts related contingent obligations.

## 22 Other Liabilities and Provisions

<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
Accounts payables	2,906	5,467
Tax payable, other than profit tax	9,648	3,640
Profit tax	55,588	
Payables to personnel	9,243	2,978
Other liabilities and reserves	1,431	5,284
Securities issued by the Bank	100,178	-
<b>Total other liabilities and provisions</b>	<b>178,994</b>	<b>17,369</b>



## **23 Share Capital**

As at 31 December 2007 the Bank’s registered and paid-in share capital was AMD 5,300,000 thousand. In accordance with the Articles of the Bank, the share capital consists of 4,733 ordinary shares and 567 preference shares, all of which have a par value of AMD 1,000,000 each.

The respective shareholdings as at 31 December 2007 and 2006 may be specified as follows:

<b>AMD ths.</b>	<b>Paid-in share capital</b>	<b>% of total paid-in capital</b>
Mobilex Ltd.	1,062,000	20
Turan Alem Bank OC	2,590,000	49
ZUL Beterlingungs	1,648,300	31
	<u>5,300,000</u>	<u>100</u>

As at 31 December 2007, the Bank did not possess any of its own shares.

Preference shares are non-voting and are not guaranteed annual dividends.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank.

The share capital of the Bank was contributed by the shareholders in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams.

## **24 Reserves, Contingent Assets and Contingent Liabilities**

### *Legal and tax obligations*

The taxation system in Armenia is characterized by frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among various taxation authorities and jurisdictions.

Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.

As of 31 December 2007, one legal action was taken against the Bank as regards labour dispute. The ispute was solved in Bank’s favor. That is why corresponding provisions were not provided as regards legal and tax obligations.

### *Obligations containing credit risk*

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.



As of 31 December the nominal or contract amounts were:

<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
Unused part of credit lines	864,428	494,536
Unused part of credit cards	-	14,909
Unused part of overdrafts	-	8,966
Guarantees	4,063	36,659
<b>Total credit related commitments</b>	<b>868,491</b>	<b>555,070</b>

#### *Operating lease commitments*

In the normal course of business the Bank enters into lease agreements for buildings and premises.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
Less than 1 year	-	42,644
From 1 to 5 years	131,297	95,564
From 5 to 20 years	2,920,764	-
<b>Total operating lease commitments</b>	<b>3,052,061</b>	<b>138,208</b>

#### *Insurance*

Starting from 2005 the Bank is member of the obligatory deposit insurance system. The system operates under the Armenian laws and regulations and is governed by the Law on Guarantee of Physical Persons Deposits. Insurance covers Bank's liabilities to individual depositors for the amount up to AMD 2,000 thousand (up to AMD 1,000 thousand for deposits in foreign currency) for each individual in case of business failure and revocation of the banking license.

## **25 Transactions with Related Parties**

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively.

The Bank's parent and the ultimate controlling party is Turan Alem Bank OC.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, interbank relations and other transactions. These transactions were carried out on commercial terms and at market rates.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:



<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
	Shareholders/ Key management	Shareholders/ Key management
Loans outstanding at January 1, gross	16,296	9,950
Loans issued during the year	233,186	189,544
Loan repayments during the year	(160,655)	(183,310)
Accrued interest		273
Loans (balance) outstanding at December 31, gross	88,827	16,457
Less: allowance for loan impairment		(161)
<b>Loans (balance) outstanding at December 31</b>	<b>88,827</b>	<b>16,296</b>
Interest income on loans	10,391	7,037
Deposits at January 1	7,569	10,752
Deposits received during the year	808,359	823,269
Deposits repaid during the year	(775,015)	(826,452)
<b>Deposits at December 31</b>	<b>40,913</b>	<b>7,569</b>
Interest expense on deposits	-	27
<b>AMD ths.</b>	<b>2007</b>	<b>2006</b>
	Shareholders/ Key management	Shareholders/ Key management
<b>Amounts due from other financial institutions at December 31</b>	<b>57,820</b>	<b>19,204</b>
Interest received from other financial institutions	-	358
<b>Amounts due to financial institutions at December 31</b>	<b>6,223,530</b>	<b>5,576,375</b>
Interest expenses paid to financial institutions	617,215	392,337
<b>Guarantees issued at December 31</b>	<b>2,063</b>	<b>581</b>
Income on guarantees issued	40	30
<b>Compensation of key management</b>		
AMD ths.	<b>2007</b>	<b>2006</b>
Salary and other short-term payments	85,221	123,904
Pension fund charges	3,251	8,086
<b>Total key Management compensation</b>	<b>88,472</b>	<b>131,990</b>



## 26 Fair value of financial instruments

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale.

As no readily available published price quotations in an active market exists for a large part of the Bank’s financial instruments, judgment is necessary in arriving at fair value using a valuation technique, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Bank is presented below:

AMD ths.	2007		2006	
	Current value	Fair value	Current value	Fair value
<b>FINANCIAL ASSETS</b>				
Amounts due from other financial institutions	1,700,559	1,700,559	2,072,559	2,072,559
Loans and advances to customers	12,192,595	12,192,595	5,888,194	5,888,194
<b>FINANCIAL LIABILITIES</b>				
Amounts due to financial institutions	8,388,332	8,388,332	5,576,375	5,576,375
Amounts due to customers	3,942,971	3,942,971	714,943	714,943

### *Amounts due from and to financial institutions*

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which correspond to the current interest rates.

### *Loans and advances to customers*

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 15% to 18% per annum, which correspond to the current interest rates.

### *Other borrowings*

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



## 27 Risk Management

Management of risk is fundamental to the banking business and is an essential element of the Bank’s operations. The main risks inherent to the Bank’s operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank’s risk management policies in relation to those risks is presented below.

### *Credit risk*

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Limits on the level of credit risk are approved quarterly by the Credit Committee. Where appropriate, and in the case of most loans, the Bank obtains collateral. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

The exposure to any one borrower including financial institutions is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying financial statements and the disclosed financial commitments.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

The geographical concentration of Bank’s monetary assets and liabilities is as follows:

AMD ths.				2007
	Armenia	OECD countries	Other countries	Total
<b>ASSETS</b>				
Cash and balances with CBA	1,700,559			1,700,559
Amounts due from other financial institutions	2,096,412	59,597	105,092	2,261,102
Loans and advances to customers	12,178,836		13,759	12,192,595
Investments available for sale	1,060,380	1,413		1,061,793
	17,036,977	61,010	118,061	17,216,049
<b>LIABILITIES</b>				
Amounts due to financial institutions	2,160,646	217	6,227,469	8,388,332
Amounts due to customers	1,073,202		2,869,769	3,942,971
<b>Net Position</b>	3,238,323	217	9,092,763	12,331,303
<b>Credit related commitments</b>	868,491			868,491



AMD ths.

				2006
	Armenia	OECD countries	Other countries	Total
<b>ASSETS</b>				
Cash and balances with CBA	2,072,559			2,072,559
Amounts due from other financial institutions	11,913	96,959	152,590	261,462
Loans and advances to customers	5,884,300		3,894	5,888,194
Investments available for sale	805,233	1,365		806,598
	8,774,005	98,324	156,484	9,028,813
<b>LIABILITIES</b>				
Amounts due to financial institutions			5,576,375	5,576,375
Amounts due to customers	661,372		53,571	714,943
	661,372		5,629,946	6,291,318
<b>Net Position</b>	8,112,633	98,324	(5,473,462)	2,737,495
<b>Credit related commitments</b>				555,070
	555,070			555,070

Assets, liabilities and credit related commitments have been classified based on the country in which the counterparty is located.

*Market risk*

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

*Currency risk*

The Bank is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies (primarily US dollar), by branches and in total. These limits also comply with the minimum requirements of the CBA.

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

AMD ths.

				2007
	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
<b>ASSETS</b>				
Cash and balances with CBA	481,551	1,137,019	81,989	1,700,559
Amounts due from other financial institutions	1,980,686	246,305	34,111	2,261,102
Loans and advances to customers	3,236,145	8,956,450		12,192,595
Investments available for sale	1,060,380	1,413		1,061,793
	6,758,674	10,341,275	116,100	17,216,049



**LIABILITIES**

Amounts due to financial institutions	671,178	7,717,154		8,388,332
Amounts due to customers	621,267	3,317,605	4,099	3,942,971
	1,292,445	11,034,759	4,099	12,331,303

**Net Position**

	5,466,229	(693,484)	112,001	4,884,746
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**Credit related commitments**

	868,491			868,491
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AMD ths.

2006

	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
<b>ASSETS</b>				
Cash and balances with CBA	1,155,514	914,250	2,795	2,072,559
Amounts due from other financial institutions	212	142,661	118,589	261,462
Loans and advances to customers	983,840	4,904,354	-	5,888,194
Investments available for sale	806,598	-		5,888,194
	2,946,164	5,961,265	121,384	9,028,813
<b>LIABILITIES</b>				
Amounts due to financial institutions	720	5,575,655		5,576,375
Amounts due to customers	457,755	214,491	42,697	714,943
	458,475	5,790,146	42,697	6,291,318
<b>Net Position</b>	2,487,689	171,119	78,687	2,737,495
<b>Credit related commitments</b>	114,552	440,518		555,070

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

*Liquidity risk*

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Bank monitors, on a daily basis, the expected cash flows on clients' banking operations. This is a part of the normal asset and liability management process. The Board of Directors sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The tables below provide an analysis of banking monetary assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date. As loans are sometimes re-scheduled and re-negotiated actual maturity could exceed contractual maturity.



**AMD ths.**

**2007**

	До востребован ия и менее 1 месяца	От 1 до 3 месяцев	От 3 до 12 месяцев	От 1 года до 5 лет	Более 5 лет	С неопред. сроком погашения	Просроче нные	Итого
<b>ASSETS</b>								
Cash and balances with CBA	1,682,581					17,978		1,700,559
Amounts due from other financial institutions	179,244	1,875,036	53,065	153,758				2,261,102
Loans and advances to customers	-	3,266,446	4,204,682	3,864,560	742,097		114,810	12,192,595
Investments available for sale	-	794,502	16,106	218,325		32,860		1,061,793
	2,084,990	5,712,818	4,273,853	4,236,643	742,097	50,838	114,810	17,216,049
<b>LIABILITIES</b>								
Amounts due to financial institutions	117,926	2,342,281	5,928,125					8,388,332
Amounts due to customers	468,236	250,374	3,160,913	48,913	14,535			3,942,971
	586,162	2,592,655	8,911,605	226,346	14,535			12,331,303
<b>Net gap</b>	1,498,828	3,120,163	(4,637,752)	4,010,297	727,562	50,838	114,810	4,884,746
<b>Accumulated gap</b>	1,498,828	4,618,991	(18,761)	3,991,536	4,719,098	4,769,936	4,884,746	

**AMD ths.**

**2006**

	До востребован ия и менее 1 месяца	От 1 до 3 месяцев	От 3 до 12 месяцев	От 1 года до 5 лет	Более 5 лет	С неопред. сроком погашения	Просроче нные	Итого
<b>ASSETS</b>								
Cash and balances with CBA	2,055,027					17,532		2,072,559
Amounts due from other financial institutions	261,462							261,462
Loans and advances to customers	397,172	539,097	2,453,243	2,098,804	389,105		10,773	5,888,194
Investments available for sale		162,034	12,982	6,475	611,599	13,508		806,598
	2,713,661	701,131	2,466,225	2,105,279	1,000,704	31,040	10,773	9,028,813



**LIABILITIES**

Amounts due to financial institutions	720	533,571	3,703,577	1,338,507				5,576,375
Amounts due to customers	557,560	26,894	115,678	14,811				714,943
	558,280	560,465	3,819,255	1,353,318	-	-	-	6,291,318
<b>Net gap</b>	<u>2,155,381</u>	<u>140,666</u>	<u>(1,353,030)</u>	<u>751,961</u>	<u>1,000,704</u>	<u>31,040</u>	<u>10,773</u>	<u>2,737,495</u>
<b>Accumulated gap</b>	<u>2 155 381</u>	<u>2,296,047</u>	<u>943,017</u>	<u>1,694,978</u>	<u>2,695,682</u>	<u>2,726,722</u>	<u>2,737,495</u>	

The Bank has received significant funds amounting to AMD 10,018,183 thousand from its shareholder Turan Alem Bank OC, of which credits make up AMD359,210 ths., and deposits – AMD 9,658,973. The balances of loans given to the Bank as at 31 December 2007 comprise 100% of the received loans. Any significant amount claimed from these funds will adversely affect the Bank’s activity.

the Bank. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

Long-term loans and overdraft facilities are generally not available in Armenia except for programs set up by international financial institutions. However, in the Armenian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. While trading securities are shown at demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Armenian legislation, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

*Interest rate risk*

Change in interest rates has a direct effect on the interest rate exposure of the Bank and on cash flows associated with assets and liabilities and on their fair values. Therefore, disclosure of maturity analysis of assets and liabilities enables users of financial statements to assess to which extent the Bank is exposed to interest risk and, consequently, its expected gain or loss.

As at December 31, 2007 based on the Bank’s analysis of monetary assets and liabilities the re-pricing dates did not differ significantly from the contractual maturity dates.

As of December 31, the effective average interest rates by currencies for interest generating/bearing financial assets and liabilities were as follows.



AMD ths.	2007		2006	
	RA Drams	Foreign Currency	RA Drams	Foreign Currency
<b>ASSETS</b>				
Cash and balances with CBA				
Amounts due from other financial institutions	11,13	17,81	3,23	8
Loans and advances to customers	17,64	15,28	18,72	15,62
Investments available for sale	6,89	0	6,95	0
<b>LIABILITIES</b>				
Amounts due to financial institutions	10,79	9,4	3,71	8,69
Amounts due to customers	10,47	10,79	7,69	5,81

Balances in foreign currencies mainly represent balances in USD and Euro.

## 28 Capital Adequacy

The Bank's total capital adequacy ratio of risk weighted assets, as at 31 December 2007 was 39,91%.

The Central Bank of Armenia requires banks to maintain a total capital adequacy ratio of 12% of risk-weighted assets and fixed capital adequacy ratio of 8% of risk-weighted assets.

According to the requirements of the RA legislation the standard value of the Bank's total normative capital as at 31 December 2007 makes up AMD 5,317,530 thousand.

Effective July 1, 2005 the Central Bank of RA defines the minimum value of the total normative capital amounting to AMD 2,400,000 thousand.