

**norvikcredit**

“Norvik” UCO cjsc

Financial Statements

For the year ended 31 December 2007



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## Independent Auditors' Report

To the Board of Directors  
"Norvik" UCO cjsc

### Report on the Financial Statements

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

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

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

#### *Auditors' Responsibility*

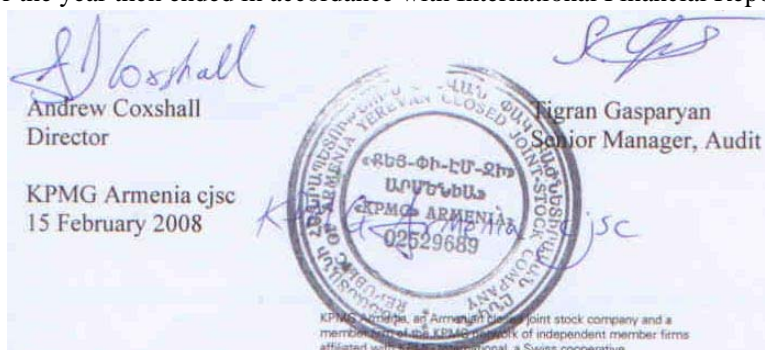
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles 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 opinion.

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



*“Norvik” UCO cjsc*  
*Income Statement for the year ended 31 December 2007*

	Notes	2007 AMD'000	4 July 2006 to 31 December 2006 AMD'000
Interest income	4	1,533,210	40,628
Interest expense	4	(522,564)	(11,136)
<b>Net interest income</b>		<b>1,010,646</b>	<b>29,492</b>
Fee and commission income	5	41,367	5,431
Fee and commission expense	5	(4,940)	(1,030)
<b>Net fee and commission income</b>		<b>36,427</b>	<b>4,401</b>
Net foreign exchange income/(loss)	6	15,552	(10,022)
Other income/(expenses)		1,861	(955)
		<b>17,413</b>	<b>(10,977)</b>
Impairment losses	7	(58,115)	(3,453)
General administrative expenses	8	(241,871)	(76,093)
		<b>(299,986)</b>	<b>(79,546)</b>
<b>Income/(loss) before taxes</b>		<b>764,500</b>	<b>(56,630)</b>
Income tax (expense)/benefit	9	(148,546)	8,167
<b>Net income/(loss)</b>		<b>615,954</b>	<b>(48,463)</b>

The financial statements as set out on pages 4 to 36 were approved on behalf of the Board of Directors on 15 February 2008.

Tigran Bostanjyan  
*Executive Director*



Arman Asatryan  
*Chief Accountant*

*“Norvik” UCO cjsc*  
Balance Sheet as at 31 December 2007

	Notes	<b>2007</b>	<b>2006</b>
		<b>AMD'000</b>	<b>AMD'000</b>
<b>ASSETS</b>			
Cash		28	-
Placements with banks and other financial institutions	10	65,839	49,227
Loans to customers	11	13,357,167	3,208,248
Property and equipment	12	64,932	41,922
Deferred tax asset	13	-	8,167
Other assets	14	28,575	4,901
<b>Total Assets</b>		<b>13,516,541</b>	<b>3,312,465</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits and balances from banks and other financial institutions	15	11,424,606	2,705,979
Other liabilities	16	190,367	40,909
Deferred tax liability	13	20,037	-
<b>Total Liabilities</b>		<b>11,635,010</b>	<b>2,746,888</b>
<b>Shareholders' Equity</b>			
Share capital	17	1,314,040	614,040
Retained earnings/(accumulated losses)		567,491	(48,463)
<b>Total Shareholders' Equity</b>		<b>1,881,531</b>	<b>565,577</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>13,516,541</b>	<b>3,312,465</b>
Commitments and contingences	20-21		

*“Norvik” UCO cjsc*  
Statement of Cash Flows for year ended 31 December 2007

	Notes	2007 AMD'000	4 July 2006 to 31 December 2006 AMD'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest and fee and commission receipts		1,553,223	50,796
Interest and fee and commission payments		(527,547)	(12,166)
Net receipts from foreign exchange		2,439	3,804
Other income/(expenses)		1,860	(955)
General administrative expenses		(220,308)	(65,132)
		<b>809,667</b>	<b>(23,653)</b>
<b>(Increase)/decrease in operating assets</b>			
Loans to customers		(11,649,927)	(3,250,590)
Other assets		(20,063)	(1,263)
<b>Increase/(decrease) in operating liabilities</b>			
Deposits and balances from banks and other financial institutions		10,210,761	2,738,582
Other liabilities		9,298	35,633
<b>Cash flows from operations</b>		<b>(640,264)</b>	<b>(501,291)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net purchases of property and equipment		(34,067)	(48,092)
<b>Cash flows from investing activities</b>		<b>(34,067)</b>	<b>(48,092)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of share capital		700,000	614,040
<b>Cash flows from financing activities</b>		<b>700,000</b>	<b>614,040</b>
<b>Net increase in cash and cash equivalents</b>		<b>25,669</b>	<b>64,657</b>
Effect of changes in exchange rates on cash and cash equivalents		(9,126)	(15,430)
Cash and cash equivalents at the beginning of the period		49,227	-
<b>Cash and cash equivalents at the end of the period</b>	23	<b>65,770</b>	<b>49,227</b>

*“Norvik” UCO cjsc*  
*Statement of Changes in Shareholders’ Equity for the year ended 31 December 2007*

	<b>Share capital</b>	<b>Retained earnings/ (accumulated losses)</b>	<b>Total equity</b>
	<b>AMD’000</b>	<b>AMD’000</b>	<b>AMD’000</b>
<b>Balance at 4 July 2006</b>	-	-	-
Shares issued	614,040	-	<b>614,040</b>
Net loss for the period	-	(48,463)	<b>(48,463)</b>
<b>Balance at 31 December 2006</b>	<b>614,040</b>	<b>(48,463)</b>	<b>565,577</b>
Shares issued	700,000	-	<b>700,000</b>
Net income for the year	-	<b>615,954</b>	<b>615,954</b>
<b>Balance at 31 December 2007</b>	<b>1,314,040</b>	<b>567,491</b>	<b>1,881,531</b>

## **1 Background**

### **Principal activities**

“Norvik” UCO cjsc (the “Company”) was established in the Republic of Armenia as a closed joint stock company and was granted its credit organisation license on 4 July 2006. The Company’s registered office is 41 Khanjyan Street, Yerevan, Republic of Armenia.

The principal activity of the Company is lending. The activities of the Company are regulated by the Central Bank of Armenia (“CBA”). The majority of the Company’s assets and liabilities are located in the Republic of Armenia. The average number of persons employed by the Company during the year was 31 (2006: 15).

### **Shareholders**

The Company’s only shareholder is Norvik Bank jsc a Bank incorporated in Riga, Latvia. The Company’s funding is from, and credit exposure is to this Shareholder. As a result the Company is economically dependent upon the Shareholder. Related party transactions are detailed in Note 22.

### **Armenian business environment**

The Republic of Armenia has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Republic of Armenia involve risks that do not typically exist in other markets. The accompanying financial statements reflect the management’s assessment of the impact of the Armenian business environment on the operations and the financial position of the Company. The future business environment may differ from management’s assessment.

## **2 Basis of preparation**

### **Statement of compliance**

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

### **Basis of measurement**

The financial statements are prepared on the historical cost basis.

### **Functional and presentation currency**

The national currency of the Republic of Armenia is the Armenian Dram (“AMD”). Management has determined the Company’s functional currency to be the AMD as it reflects the economic substance of the underlying events and circumstances of the Company. The AMD is also the Company’s presentation currency for the purposes of these financial statements.

Financial information presented in AMD has been rounded to the nearest thousand.

### **Use of estimates and judgments**

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the Note 11 in relation to the impairment allowance.

## **3 Significant accounting policies**

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied, changes in accounting policies are described at the end of this Note.

### **Foreign currency transactions**

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

The official rate of exchange on 31 December 2007 was AMD 304.22 = USD 1.

### **Cash and cash equivalents**

The Company considers cash and nostro accounts with correspondent banks to be cash and cash equivalents.

### **Financial instruments**

The only financial instruments held by the Company are loans and receivables.

*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 Company intends to sell immediately or in the near term;
- the Company upon initial recognition designates as at fair value through profit or loss;
- the Company upon initial recognition designates as available-for-sale; or
- the Company may not recover substantially all of its initial investment, other than because of credit deterioration.

### ***Recognition***

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

### ***Measurement***

A financial asset or liability is initially measured at its fair value plus, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

All financial liabilities are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

### ***Derecognition***

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

The Company also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

### **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.

### **Property and equipment**

#### ***Owned assets***

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

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

#### ***Leased assets***

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

Operating leases, the terms of which the Company does not assume substantially all the risks and rewards of ownership, are expensed.

### ***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 next month from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Equipment	3 to 5 years
Fixtures and fittings	7 to 20 years
Vehicles	7 years
Other	5 years

### **Intangible assets**

Intangible assets, which are acquired by the Company, are stated at cost less accumulated amortization 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	10 years
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### **Impairment**

#### ***Financial assets carried at amortized cost***

Financial assets carried at amortized cost consist principally of loans and other receivables (“loans and receivables”). The Company 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 had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Company 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 Company 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 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 Company uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized 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.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. The Company writes off a loan balance (and any related allowances for loan losses) when the Company's management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

### ***Non financial assets***

Other non financial assets, other than deferred taxes, 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 recognized 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.

### **Provisions**

A provision is recognised in the balance sheet when the Company 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.

## **Credit related commitments**

In the normal course of business, the Company enters into credit related commitments, comprising undrawn loan commitments and guarantees.

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

## **Dividends**

The ability of the Company to declare and pay dividends is subject to the rules and regulations of the Armenian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

## **Taxation**

Income tax 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 expense 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 is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## **Employee benefits**

The Company makes contributions for the benefit of employees to Armenia’s State pension fund. The contributions are expensed as incurred

### **Income and expense recognition**

Interest income and expense are recognised in the income statement using the effective interest method.

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 life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

### **Changes in accounting policies**

As at 1 January 2007, the Company adopted the International Financial Reporting Standard IFRS 7 “Financial Instruments: Disclosures” and the amendment to International Financial Reporting Standard IAS 1 “Presentation of Financial Statements” – “Capital Disclosures”. The application of the Standard and the amendment resulted in increased disclosure in respect of Company’s financial instruments and the nature and extent of risks arising from financial instruments and increased disclosure in respect of Company’s objectives, policies and processes for managing capital.

### **New Standards and Interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2007, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company’s operations. The Company plans to adopt these pronouncements when they become effective. The Company has not yet analysed the likely impact of these new standards on its financial statements.

International Financial Reporting Standard IAS 1 “Presentation of Financial Statements” (Revised), which is effective for annual periods beginning on or after 1 January 2009, specifies how an entity should present changes in equity not resulting from transactions with owners and other changes in equity in its financial statements, and introduces certain other requirements in respect of presentation of information in the financial statements.

## 4 Net interest income

	2007	2006
	AMD'000	AMD'000
<b>Interest income</b>		
Loans to customers	1,506,320	39,761
Placements with banks and other financial institutions	3,036	867
Other	23,854	-
	<b>1,533,210</b>	<b>40,628</b>
<b>Interest expense</b>		
Deposits and balances from banks and other financial institutions	(514,586)	(11,136)
Other	(7,978)	-
	<b>(522,564)</b>	<b>(11,136)</b>

## 5 Net fee and commission income

	2007	2006
	AMD '000	AMD '000
<b>Fee and commission income</b>		
Fees from retailers for consumer lending	41,367	5,431
<b>Fee and commission expense</b>		
Settlement fees	(4,940)	(1,030)

## 6 Net foreign exchange income/(loss)

	2007	2006
	AMD'000	AMD'000
Gain/(loss) from revaluation of financial assets and liabilities	13,113	(13,826)
Net gain on spot transactions	2,439	3,804
	<b>15,552</b>	<b>(10,022)</b>

## 7 Impairment losses

	2007	2006
	AMD'000	AMD'000
Loans to customers	58,115	3,453

## 8 General administrative expenses

	2007	2006
	AMD'000	AMD'000
Employee compensation	135,617	42,711
Occupancy	38,570	8,800
Payroll related taxes	11,426	3,183
Depreciation and amortization	10,998	6,170
Communications and information services	9,158	2,071
Professional services	8,717	5,183
Repairs and maintenance	3,539	1,276
Credit register expenses	3,481	-
Security	3,216	903
Office supplies	2,889	696
Advertising and marketing	2,450	975
Taxes other than on income	2,073	716
Representative expenses	2,072	1,763
Travel expenses	1,181	468
Insurance	264	-
Other	6,220	1,178
	<b>241,871</b>	<b>76,093</b>

## 9 Income tax expense/(benefit)

	2007	2006
	AMD'000	AMD'000
<b>Current tax expense</b>		
Current year	120,342	-
<b>Deferred tax expense/(benefit)</b>		
Origination and reversal of temporary differences	28,204	(8,167)
Total income tax expense/(benefit) in the income statement	<b>148,546</b>	<b>(8,167)</b>

The Company's applicable tax rate for current and deferred tax is 20% (2006: 20%).

### Reconciliation of effective tax rate:

	2007		2006	
	AMD'000	%	AMD'000	%
Income/(loss) before tax	<b>764,500</b>		<b>(56,630)</b>	
Income tax at the applicable tax rate	152,900	20	(11,326)	(20)
Non-deductible costs/(non-taxable income)	(4,354)	(1)	3,159	6
	<b>148,546</b>	<b>19</b>	<b>(8,167)</b>	<b>(14)</b>

## 10 Placements with banks and other financial institutions

	2007	2006
	AMD'000	AMD'000
<b>Nostro accounts</b>		
Largest 10 Armenian banks	65,770	49,227
Accrued interest	69	-
	<b>65,839</b>	<b>49,227</b>

### Concentration of placements with banks and other financial institutions

As at 31 December 2007 and 2006 the Company had one bank, whose balance exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as of 31 December 2007 and 2006 were AMD 58,544 thousand and AMD 38,223 thousand, respectively.

## 11 Loans to customers

	2007	2006
	AMD'000	AMD'000
<b>Commercial loans</b>		
Loans to large corporates	4,085,619	536,774
Loans to small and medium size companies	2,596,956	520,734
<b>Total commercial loans</b>	<b>6,682,575</b>	<b>1,057,508</b>
<b>Loans to individuals</b>		
Mortgage loans	3,342,951	1,275,846
Consumer loans	2,684,749	576,617
Auto loans	379,779	173,172
Consumer loans secured by real estate	327,575	128,558
<b>Total loans to individuals</b>	<b>6,735,054</b>	<b>2,154,193</b>
<b>Gross loans to customers</b>	<b>13,417,629</b>	<b>3,211,701</b>
Impairment allowance	(60,462)	(3,453)
<b>Net loans to customers</b>	<b>13,357,167</b>	<b>3,208,248</b>

Movements in the loan impairment allowance for the year ended 31 December 2007 are as follows:

### Analysis of movements in the provision for impairment

	2007	2006
	AMD'000	AMD'000
Balance at the beginning of the year/period	3,453	-
Net charge for the year/period	58,115	3,453
Write-offs	(1,106)	-
Balance at the end of the year	<b>60,462</b>	<b>3,453</b>

As at 31 December 2007, interest accrued on impaired loans amounted to AMD 8,582 thousand (31 December 2006: nil).

### Credit quality of commercial loan portfolio

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2007:

	Gross loans	Impairment	Net loans	Impairment to gross loans
	AMD'000	AMD'000	AMD'000	%
<b>Loans to large corporates</b>				
Loans for which no impairment has been identified:				
Standard loans	4,085,619	12,257	4,073,362	0.3%
Total loans for which no impairment has been identified	4,085,619	12,257	4,073,362	0.3%
<b>Total loans to large corporates</b>	<b>4,085,619</b>	<b>12,257</b>	<b>4,073,362</b>	<b>0.3%</b>
<b>Loans to small and medium size companies</b>				
Loans for which no impairment has been identified:				
Standard loans	2,577,404	7,732	2,569,672	0.3%
Total loans for which no impairment has been identified	2,577,404	7,732	2,569,672	0.3%
Impaired loans:				
- overdue between 60 and 90 days	19,552	59	19,493	0.3%
Total impaired loans	19,552	59	19,493	0.3%
<b>Total loans to small and medium size companies</b>	<b>2,596,956</b>	<b>7,791</b>	<b>2,589,165</b>	<b>0.3%</b>
<b>Total commercial loans</b>	<b>6,682,575</b>	<b>20,048</b>	<b>6,662,527</b>	<b>0.3%</b>

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2006:

	Gross loans	Impairment	Net loans	Impairment to gross loans
	AMD'000	AMD'000	AMD'000	%
<b>Loans to large corporates</b>				
Loans for which no impairment has been identified:				
Standard loans	536,774	-	536,774	0.0%
Total loans for which no impairment has been identified	536,774	-	536,774	0.0%
<b>Total loans to large corporates</b>	<b>536,774</b>	<b>-</b>	<b>536,774</b>	<b>0.0%</b>
<b>Loans to small and medium size companies</b>				
Loans for which no impairment has been identified:				
Standard loans	520,734	-	520,734	0.0%
Total loans for which no impairment has been identified	520,734	-	520,734	0.0%
<b>Total loans to small and medium size companies</b>	<b>520,734</b>	<b>-</b>	<b>520,734</b>	<b>0.0%</b>
<b>Total commercial loans</b>	<b>1,057,508</b>	<b>-</b>	<b>1,057,508</b>	<b>0.0%</b>

The Company has estimated loan impairment for commercial loans based on an analysis of the future cash flows for impaired loans and based on its and similar companies past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for commercial loans, the key assumption was the historic loss rate of 0.3%.

Changes in this estimate could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment provision on commercial loans as of 31 December 2007 would be AMD 66,836 thousand higher.

***Analysis of collateral***

The following table provides the analysis of commercial loan portfolio, net of impairment, by types of collateral as at 31 December 2007:

	<b>2007 AMD'000</b>	<b>% of loan portfolio</b>	<b>2006 AMD'000</b>	<b>% of loan portfolio</b>
Real estate	6,516,115	98%	883,486	84%
Other collateral	146,412	2%	174,022	16%
<b>Total</b>	<b>6,662,527</b>	<b>100%</b>	<b>1,057,508</b>	<b>100%</b>

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

The overdue loan with a gross value of AMD 19,552 thousand is secured by real estate collateral with a fair value of AMD 49,000 thousand.

During the year ended 31 December 2007 the Company did not obtain any assets by taking control of collateral accepted as security for commercial loans (31 December 2006: nil).

***Analysis of movements in the impairment allowance***

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2007 are as follows:

	<b>Loans to large corporates AMD'000</b>	<b>Loans to small and medium size companies AMD'000</b>	<b>Total AMD'000</b>
Loan impairment allowance as at 1 January	-	-	-
Loan impairment losses during the year	12,257	7,791	20,048
<b>Loan impairment allowance as at 31 December</b>	<b>12,257</b>	<b>7,791</b>	<b>20,048</b>

### Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals portfolios as at 31 December 2007:

	Gross loans	Impairment	Net loans	Impairment to gross loans
	AMD'000	AMD'000	AMD'000	%
<b>Consumer loans not secured</b>				
- Not past due	2,482,275	7,614	2,474,661	0.3%
- Overdue less than 30 days	133,972	1,368	132,604	1%
- Overdue 30-89 days	47,010	4,702	42,308	10%
- Overdue 90-179 days	16,655	8,327	8,328	50%
- Overdue 180-360 days	4,837	4,837	-	100%
<b>Total consumer loans</b>	<b>2,684,749</b>	<b>26,848</b>	<b>2,657,901</b>	<b>1%</b>
<b>Auto loans</b>				
- Not past due	379,779	1,899	377,880	0.5%
<b>Total auto loans</b>	<b>379,779</b>	<b>1,899</b>	<b>377,880</b>	<b>0.5%</b>
<b>Mortgage loans</b>				
- Not past due	3,254,208	9,763	3,244,445	0.3%
- Overdue less than 30 days	62,590	188	62,402	0.3%
- Overdue 30-89 days	26,153	78	26,075	0.3%
<b>Total mortgage loans</b>	<b>3,342,951</b>	<b>10,029</b>	<b>3,332,922</b>	<b>0.3%</b>
<b>Consumer loans secured by real estate</b>				
- Not past due	280,051	1,400	278,651	0.5%
- Overdue 90-179 days	47,524	238	47,286	0.5%
<b>Total consumer loans secured by real estate</b>	<b>327,575</b>	<b>1,638</b>	<b>325,937</b>	<b>0.5%</b>
<b>Total loans to individuals</b>	<b>6,735,054</b>	<b>40,414</b>	<b>6,694,640</b>	<b>0.6%</b>

The following table provides information on the credit quality of loans to individuals portfolios as at 31 December 2006:

	Gross loans	Impairment	Net loans	Impairment to gross loans
	AMD'000	AMD'000	AMD'000	%
<b>Consumer loans</b>				
Not past due	576,617	3,453	573,164	0.6%
<b>Total consumer loans</b>	<b>576,617</b>	<b>3,453</b>	<b>573,164</b>	<b>0.6%</b>
<b>Auto loans</b>				
Not past due	173,172	-	173,172	0.0%
<b>Total auto loans</b>	<b>173,172</b>	<b>-</b>	<b>173,172</b>	<b>0.0%</b>
<b>Mortgage loans</b>				
Not past due	1,275,846	-	1,275,846	0.0%
<b>Total mortgage loans</b>	<b>1,275,846</b>	<b>-</b>	<b>1,275,846</b>	<b>0.0%</b>
<b>Consumer loans secured by real estate</b>				
Not past due	128,558	-	128,558	0.0%
<b>Total consumer loans secured by real estate</b>	<b>128,558</b>	<b>-</b>	<b>128,558</b>	<b>0.0%</b>
<b>Total loans to individuals</b>	<b>2,154,193</b>	<b>3,453</b>	<b>2,150,740</b>	<b>0.2%</b>

The significant assumptions used in determining the impairment losses for loans to individuals are based on historical and market experience and include the following loan loss rates”:

- Consumer loans not secured by real estate - 1%.
  - Auto loans - 0.5%
  - Mortgage loans - 0.3%
  - Consumer loans secured by real estate - 0.5%
- In respect of overdue loans secured by real estate Management have estimated a delay of 12 months in obtaining proceeds from the foreclosure of collateral, which is not compensated by related interest income and a discount of 20% to the originally appraised value if the property pledged is sold through the court procedure.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment on retail loans as of 31 December 2007 would be AMD 67,350 thousand higher.

### *Analysis of collateral*

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by underlying car. Consumer loans are secured by consumer appliances.

The Company estimates that the fair value of the collateral for overdue or impaired mortgage loans is at least equal to 95% of the mortgage balance. Management believes that it is impracticable to estimate fair value of collateral held in respect of other overdue and impaired loans to individuals.

### *Analysis of movements in the impairment allowance*

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2007 are as follows:

	<b>Consumer loans</b>	<b>Auto loans</b>	<b>Mortgage loans</b>	<b>Consumer loans secured by real estate</b>	<b>Total</b>
	<b>AMD'000</b>	<b>AMD'000</b>	<b>AMD'000</b>	<b>AMD'000</b>	<b>AMD'000</b>
Loan impairment allowance as at 1 January	3,453	-	-	-	3,453
Loans written-off during the year	(1,106)	-	-	-	(1,106)
Loan impairment losses during the year	24,501	1,899	10,029	1,638	38,067
<b>Loan impairment allowance as at 31 December</b>	<b>26,848</b>	<b>1,899</b>	<b>10,029</b>	<b>1,638</b>	<b>40,414</b>

Movements in the loan impairment allowance by classes of retail loans for the period ended 31 December 2006 are as follows:

	<b>Consumer loans</b>	<b>Auto loans</b>	<b>Mortgage loans</b>	<b>Consumer loans secured by real estate</b>	<b>Total</b>
	<b>AMD'000</b>	<b>AMD'000</b>	<b>AMD'000</b>	<b>AMD'000</b>	<b>AMD'000</b>
Loan impairment allowance as at 4 July	-	-	-	-	-
Loan impairment losses during the period	3,453	-	-	-	3,453
<b>Loan impairment allowance as at 31 December</b>	<b>3,453</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,453</b>

### **Industry and geographical analysis of the loan portfolio**

Loans to customers are issued primarily to customers located within the Republic of Armenia, who operate in the following economic sectors:

	<b>2007</b>	<b>2006</b>
	<b>AMD'000</b>	<b>AMD'000</b>
<b>Commercial customers</b>		
Construction	3,033,598	81,871
Trade	2,687,804	748,441
Real estate	382,821	-
Other	344,392	-
Transportation	148,438	63,540
Processing	44,580	163,656
Manufacturing	40,942	-
Loans to individuals	6,735,054	2,154,193
	<b>13,417,629</b>	<b>3,211,701</b>
Impairment allowances	(60,462)	(3,453)
	<b>13,357,167</b>	<b>3,208,248</b>

### **Significant credit exposures**

As at 31 December 2007 and 2006 the Company had one group of related borrowers and two borrowers, respectively, whose loan balances exceeded more than 10% of loans to customers. The gross value of these loans as of 31 December 2007 and 2006 was AMD 1,938,666 thousand and AMD 727,000 thousand, respectively.

### **Loan maturities**

The maturity of the Company's loan portfolio is presented in Note 27, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio.

## 12 Property and equipment

AMD'000	Equipment	Fixtures and fittings	Vehicles	Computer software	Other	Out of use	Total
<b>Cost</b>							
At 1 January 2007	17,961	7,457	15,486	4,740	2,448	-	48,092
Additions	5,844	3,153	24,456	366	248	-	34,067
Disposals	(173)	-	-	-	-	-	(173)
Transfers	(502)	(373)	-	-	288	587	-
<b>At 31 December 2007</b>	<b>23,130</b>	<b>10,237</b>	<b>39,942</b>	<b>5,106</b>	<b>2,984</b>	587	<b>81,986</b>
<b>Depreciation</b>							
At 1 January 2007	4,253	637	1,032	122	126	-	6,170
Depreciation charge	4,903	1,108	3,917	478	592	-	10,998
Disposals	(114)	-	-	-	-	-	(114)
Transfers	(125)	-	-	-	(20)	145	-
<b>At 31 December 2007</b>	<b>8,917</b>	<b>1,745</b>	<b>4,949</b>	<b>600</b>	<b>698</b>	145	<b>17,054</b>
<b>Carrying value</b>							
<b>At 31 December 2007</b>	<b>14,213</b>	<b>8,492</b>	<b>34,993</b>	<b>4,506</b>	<b>2,286</b>	442	<b>64,932</b>
At 31 December 2006	13,708	6,820	14,454	4,618	2,322	-	41,922
<b>AMD'000</b>							
AMD'000	Equipment	Fixtures and fittings	Vehicles	Computer software	Other	Out of use	Total
<b>Cost</b>							
At 4 July 2006	-	-	-	-	-	-	-
Additions	17,961	7,457	15,486	4,740	2,448	-	48,092
At 31 December 2006	17,961	7,457	15,486	4,740	2,448	-	48,092
<b>Depreciation</b>							
At 4 July 2006	-	-	-	-	-	-	-
Depreciation charge	4,253	637	1,032	122	126	-	6,170
At 31 December 2006	4,253	637	1,032	122	126	-	6,170
<b>Carrying value</b>							
<b>At 31 December 2006</b>	<b>13,708</b>	<b>6,820</b>	<b>14,454</b>	<b>4,618</b>	<b>2,322</b>	-	<b>41,922</b>
At 4 July 2006	-	-	-	-	-	-	-

## 13 Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities and assets as of 31 December 2007 and 2006.

These deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

AMD'000	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
Loans to customers	-	-	(16,637)	(1,566)	(16,637)	(1,566)
Property and equipment	-	-	(2,455)	-	(2,455)	-
Other assets	950	672	(195)	(107)	755	565
Other liabilities	1,041	858	(2,741)	(55)	(1,700)	803
Tax loss carry-forwards	-	8,365	-	-	-	8,365
Total deferred tax (liability)/assets	<b>1,991</b>	<b>9,895</b>	<b>(22,028)</b>	<b>(1,728)</b>	<b>(20,037)</b>	<b>8,167</b>

The rate of tax applicable for deferred taxes was 20% (2006: 20%).

### Movement in temporary differences during the year

AMD '000	Balance 1 January 2007	Recognised in income	Balance 31 December 2007
Loans to customers	(1,566)	(15,071)	(16,637)
Property and equipment	-	(2,455)	(2,455)
Other assets	565	190	755
Other liabilities	803	(2,503)	(1,700)
Tax loss carry-forwards	8,365	(8,365)	-
	<b>8,167</b>	<b>(28,204)</b>	<b>(20,037)</b>

## 14 Other assets

	2007 AMD'000	2006 AMD'000
Prepayments	16,329	540
Commissions receivable	8,519	3,638
Materials and supplies	1,031	448
Other	2,696	275
	<b>28,575</b>	<b>4,901</b>

## 15 Deposits and balances from banks and other financial institutions

	2007	2006
	AMD'000	AMD'000
Bank overdraft	11,424,606	2,705,979

## 16 Other liabilities

	2007	2006
	AMD'000	AMD'000
Income tax payable	103,672	-
Payables on settlement	55,923	29,023
Non-income taxes payable	6,844	5,300
Salary payable	5,206	2,851
Other	18,722	3,735
	<b>190,367</b>	<b>40,909</b>

## 17 Share capital

The authorised, issued and outstanding share capital comprises 1,314,040 ordinary shares (2006: 614,040). All shares have a par value of AMD 1,000. During 2007 700,000 ordinary shares (2006: 614,040) were issued at their nominal value.

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

## 18 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Company's operations. The major risks faced by the Company are those related to market risk, which includes price, fair value interest rate and currency risks, credit risk and liquidity risk.

### **Risk management policies and procedures**

The Company's risk management policies aim to identify, analyse and manage the risks faced by the Company, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors of the Company has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board of the Company is responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operate within the established risk parameters. The Head of Risk Department of the Company is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports to the Executive Director of the Company and to the Board of Directors.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee.

### **Market risk**

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Company’s income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the Executive Director of the Company.

The Company manages its currency risk by setting open position limits in relation to currency positions which are monitored on a regular basis and reviewed and approved by the Asset and Liability Management Committee.

The management of interest rates risk is managed by monitoring interest rate gap periods.

### ***Interest rate risk***

Interest rate risk is the risk that movements in interest rates will affect the Company’s income or the value of its portfolios of financial instruments.

The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

An analysis of sensitivity of the Company’s projected profit for the year and equity to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2007 and 31 December 2006 is as follows:

<b>AMD’000</b>	<b>2007</b>		<b>2006</b>	
	<b>Profit</b>	<b>Equity</b>	<b>Profit</b>	<b>Equity</b>
100 bp parallel increase	(51,092)	(51,092)	(7,702)	(7,702)
100 bp parallel decrease	51,092	51,092	7,702	7,702

### ***Currency risk***

The Company has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Company’s exposure to currency risk at year end refer to Note 28.

An analysis of sensitivity of the Company’s profit for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2007 and 2006 and a simplified scenario of a 5% change in USD to AMD exchange rates is as follows:

AMD’000	2007		2006	
	Profit	Equity	Profit	Equity
5% appreciation of USD against AMD	(8,925)	(8,925)	(2,947)	(2,947)
5% depreciation of USD against AMD	8,925	8,925	2,947	2,947

### ***Price risk***

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Company takes a long or short position in a financial instrument. During 2007 the Company did not have any financial instruments which may give rise to the price risk.

### ***Credit risk***

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Company. The Company has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Company’s credit risk. The Company’s credit policy is reviewed and approved by the Board of Directors.

The Company’s credit policy establishes:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan applications are originated by the relevant credit officers and are forwarded to the Head of the Corporate Loan Department, which is responsible for the Company’s corporate loan portfolio. Reports produced by the department’s credit officers are based on a structured analysis focusing on the customer’s business and financial performance. The loan application and the report are then reviewed by the Credit Committee. Individual transactions are also reviewed by the Company’s Legal specialist depending on the specific risks and pending final approval of the Credit Committee.

The Company continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer’s most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Company.

Consumer loan applications are reviewed by the Company’s Consumer Lending Division through the use of scoring models and application data verification procedures developed together with the Risk Department.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The Company’s maximum exposure to on and off balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet and guarantees and credit commitments included in Note 20. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Company monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 11 “Loans to customers”.

### **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Company. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Company manages its liquidity primarily by requesting funding from its Parent when needed.

The following tables show the undiscounted cash flows on the Company’s financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The total gross amount outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment.

<b>AMD’000</b>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Total gross amount outflow</b>	<b>Carrying amount</b>
<b>Liabilities</b>							
Deposits and balances from banks and other financial institutions	64,009	1,193,360	174,190	10,521,563	-	11,953,122	<b>11,424,606</b>
Other liabilities	86,695	-	103,672	-	-	190,367	<b>190,367</b>
<b>Total</b>	<b>150,704</b>	<b>1,193,360</b>	<b>277,862</b>	<b>10,521,563</b>	-	<b>12,143,489</b>	<b>11,614,973</b>
<b>Credit related commitments</b>	<b>994,809</b>	-	-	-	-	<b>994,809</b>	<b>994,809</b>

The position of the Company as at 31 December 2006 was as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
<b>Liabilities</b>							
Deposits and balances from banks and other financial institutions	13,419	40,257	40,257	2,732,928	-	2,826,861	2,705,979
Other liabilities	40,909	-	-	-	-	40,909	40,909
<b>Total</b>	<b>54,328</b>	<b>40,257</b>	<b>40,257</b>	<b>2,732,928</b>	-	<b>2,867,770</b>	<b>2,746,888</b>
<b>Credit related commitments</b>	<b>27,263</b>	-	-	-	-	<b>27,263</b>	<b>27,263</b>

For further information on the Company's exposure to liquidity risk at year end refer to Note 27.

## 19 Capital management

The Central Bank of Armenia sets and monitors capital requirements for the Company.

The Company defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia credit organizations have to maintain a minimum level of capital of AMD 150,000 thousand. The Company was in compliance with the minimum level capital requirement during the year (period) ended 31 December 2007 and 31 December 2006.

There were no changes in the Company's approach to capital management during the year.

## 20 Commitments

At any time the Company has outstanding commitments to extend credit to borrowers. This commitment takes the form of approved loans. The Company provides financial guarantees. These agreements have a period of one year.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2007 AMD'000	2006 AMD'000
<b>Contracted amount</b>		
Credit line commitments	994,809	27,263
Guarantees	375,590	-

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

## **21 Contingencies**

### **Insurance**

The insurance industry in the Republic of Armenia is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to the Company’s operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company’s operations and financial position.

### **Litigation**

The company’s management is unaware of any significant actual, pending or threatened claims against the Company.

### **Taxation contingencies**

The taxation system in the Republic of Armenia is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. Recent events within the Republic of Armenia suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Republic of Armenia that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

## **22 Related party transactions**

### **Control relationships**

The Company’s Parent is Norvik Bank jsc. The party with ultimate control over the Company is Jon Helgi Gudmundsson. The Company’s Parent produces publicly available financial statements.

### **Transactions with key Management**

Total key management remuneration included in employee compensation in 2007 (refer Note 8) is AMD 91,132 thousand (2006: AMD 32,343 thousand).

The outstanding balance and average interest rate as of 31 December 2007 with key management is as follows:

	<b>2007</b>	<b>Average</b>	<b>2006</b>	<b>Average</b>
	<b>AMD'000</b>	<b>interest rate</b>	<b>AMD'000</b>	<b>interest rate</b>
<b>Balance sheet</b>				
Loans to customer	66,302	7%	762	18%

Amount included in the income statement in relation to transactions with key management is as follows:

	<b>2007</b>	<b>2006</b>
	<b>AMD'000</b>	<b>AMD'000</b>
<b>Income statement</b>		
Interest income	1,498	11

### Transactions with the Parent

The outstanding balances and the related average interest rates as of 31 December 2007 and 2006 and related income statement amounts of transactions for the period ended 31 December 2007 and 2006 with the Company's Parent are as follows:

	<b>2007</b>		<b>2006</b>	
	<b>Parent company</b>		<b>Parent company</b>	
	<b>AMD'000</b>	<b>Average interest rate</b>	<b>AMD'000</b>	<b>Average interest rate</b>
<b>Balance sheet</b>				
<b>Assets</b>				
Other assets	12,528		-	
<b>Liabilities</b>				
Deposits and balances from banks and other financial institutions	11,424,606	7%	2,705,979	6%
<b>Income statement</b>				
Interest expense	522,564		11,136	
Fee and commission expense	4,835		725	
Gain on forward contract	-		4,336	
<b>Off-balance sheet</b>				
Guarantees received	375,590		-	

## 23 Cash and cash equivalents

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

	<b>2007</b>	<b>2006</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Cash	28	-
Nostro accounts	65,742	49,227
	<b>65,770</b>	<b>49,227</b>

## 24 Fair value of financial instruments

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

The Company 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, 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

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 realizable in an immediate sale of the assets or settlement of liabilities.

## 25 Average effective interest rates

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

	2007		2006	
	Value AMD '000	Average effective interest rate	Value AMD'000	Average effective interest rate
<b>Interest Bearing Assets</b>				
<b>Placements with banks and other financial institutions</b>				
<i>Nostro accounts</i>				
- AMD	51,415	2%	45,905	2%
- USD	10,479	2%	2,664	1%
- other currencies	3,945	2%	658	2%
<b>Loans to customers</b>				
- AMD	3,197,743	24%	579,530	24%
- USD	10,091,041	16%	2,563,441	15%
- other currencies	68,383	16%	65,277	15%
<b>Interest Bearing Liabilities</b>				
<b>Deposits and balances from banks and other financial institutions</b>				
<i>Bank overdraft</i>				
- AMD	1,019,170	7%	-	-
- USD	10,324,932	7%	2,639,385	6%
- other currencies	80,504	6%	66,594	4%

## 26 Interest rate repricing

The following table shows assets and liabilities of the Company by their contractual interest rate repricing dates as at 31 December 2007.

	<b>Less than 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>More than 1 year</b>	<b>Non- interest bearing</b>	<b>Total</b>
	<b>AMD’000</b>	<b>AMD’000</b>	<b>AMD’000</b>	<b>AMD’000</b>	<b>AMD’000</b>	<b>AMD’000</b>
<b>As at 31 December 2007</b>						
<b>Assets</b>						
Cash	-	-	-	-	28	28
Placements with banks and other financial institutions	65,839	-	-	-	-	65,839
Loans to customers	515,393	796,175	2,266,334	9,779,265	-	13,357,167
Property and equipment	-	-	-	-	64,932	64,932
Other assets	-	-	-	-	28,575	28,575
<b>Total assets</b>	<b>581,232</b>	<b>796,175</b>	<b>2,266,334</b>	<b>9,779,265</b>	<b>93,535</b>	<b>13,516,541</b>
<b>Liabilities</b>						
Deposits and balances from banks and other financial institutions	80,504	11,344,102	-	-	-	11,424,606
Deferred tax liability	-	-	-	-	20,037	20,037
Other liabilities	-	-	-	-	190,367	190,367
<b>Total liabilities</b>	<b>80,504</b>	<b>11,344,102</b>	<b>-</b>	<b>-</b>	<b>210,404</b>	<b>11,635,010</b>
<b>Net position as at 31 December 2007</b>	<b>500,728</b>	<b>(10,547,927)</b>	<b>2,266,334</b>	<b>9,779,265</b>	<b>(116,869)</b>	<b>1,881,531</b>
Net position as at 31 December 2006	52,080	116,844	(1,916,660)	2,250,005	14,081	565,577

## 27 Maturity analysis

The following table shows assets and liabilities of the Company by their remaining contractual maturity as at 31 December 2007.

	Overdue	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
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
<b>Assets</b>								
Cash	-	-	-	-	-	-	28	28
Placements with banks and other financial institutions	-	-	-	-	-	-	65,839	65,839
Loans to customers	38,473	505,479	827,831	2,442,475	7,826,225	1,716,684	-	13,357,167
Property and equipment	-	-	-	-	-	-	64,932	64,932
Other assets	-	10,268	16,330	-	-	-	1,977	28,575
<b>Total assets</b>	<b>38,473</b>	<b>515,747</b>	<b>844,161</b>	<b>2,442,475</b>	<b>7,826,225</b>	<b>1,716,684</b>	<b>132,776</b>	<b>13,516,541</b>
<b>Liabilities</b>								
Deposits and balances from banks and other financial institutions	-	-	1,019,170	10,405,436	-	-	-	11,424,606
Deferred tax liability	-	-	-	-	-	-	20,037	20,037
Other liabilities	-	86,695	-	103,672	-	-	-	190,367
<b>Total liabilities</b>	<b>-</b>	<b>86,695</b>	<b>1,019,170</b>	<b>10,509,108</b>	<b>-</b>	<b>-</b>	<b>20,037</b>	<b>11,635,010</b>
<b>Net position as at 31 December 2007</b>	<b>38,473</b>	<b>429,052</b>	<b>(175,009)</b>	<b>(8,066,633)</b>	<b>7,826,225</b>	<b>1,716,684</b>	<b>112,739</b>	<b>1,881,531</b>
Net position as at 31 December 2006	-	22,956	128,282	(1,864,622)	1,407,442	772,203	99,316	565,577

The amounts in the tables above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments. The overdue column includes only the contractually overdue portion of financial instruments.

## 28 Currency analysis

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

	AMD	USD	Other currencies	Total
	AMD '000	AMD '000	AMD '000	AMD '000
<b>Assets</b>				
Cash	28	-	-	28
Placements with banks and other financial institutions	51,415	10,479	3,945	65,839
Loans to customers	3,197,743	10,091,041	68,383	13,357,167
Property and equipment	64,932	-	-	64,932
Other assets	27,844	317	414	28,575
<b>Total assets</b>	<b>3,341,962</b>	<b>10,101,837</b>	<b>72,742</b>	<b>13,516,541</b>
<b>Liabilities</b>				
Deposits and balances from banks and other financial institutions	1,019,170	10,324,932	80,504	11,424,606
Deferred tax	20,037	-	-	20,037
Other liabilities	190,367	-	-	190,367
<b>Total liabilities</b>	<b>1,229,574</b>	<b>10,324,932</b>	<b>80,504</b>	<b>11,635,010</b>
<b>Net on balance sheet position as of 31 December 2007</b>	<b>2,112,388</b>	<b>(223,095)</b>	<b>(7,762)</b>	<b>1,881,531</b>
Net on balance sheet position as of 31 December 2006	639,913	(73,677)	(659)	565,577