Grant Thornton

Financial Statements and Independent Auditor's Report

SEF INTERNATIONAL UNIVERSAL CREDIT ORGANIZATION limited liability company

31 December 2008

Contents

Independent auditor's report

¶ñ³ÝÃ ÂáñÝÃáÝ ²ÙÇû êäÀ
ÐÐ, ù. ºñ»õ³Ý 0012
ì³Õ³ñß³Ý 8/1

Ð. +374 10 260 964
ü.+374 10 260 961

Grant Thornton Amyot LLC
8/1 Vagharshyan Str.
0012 Yerevan, Armenia

T +374 10 260 964
F +374 10 260 961
www.gta.am

To the Participant of "SEF INTERNATIONAL UNIVERSAL CREDIT ORGANIZATION":

We have audited the accompanying financial statements of "SEF INTERNATIONAL UNIVERSAL CREDIT ORGANISATION" (the "Organization"), which comprise the balance sheet as at December 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 Organization as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Armand Pinarbasi, CA
Managing partner

Aren Aghajanyan
Auditor

22 May 2009
Yerevan
Grant Thornton Amyot LLC

Income statement

In thousand Armenian drams	Notes	**Year ended December 31, 2008 (audited)**	Year ended December 31, 2007 (audited)
Interest and similar income	6	**459,925**	311,193
Interest and similar expense	6	**(166,527)**	(74,891)
Net interest income		**293,398**	236,302
Fees and commission income	7	**52,865**	27,260
Fees and commission expense	7	**(6,601)**	(4,920)
Net fee and commission income		**46,264**	22,340
Income from grants	8	**14,928**	20,294
Net trading expense	9	**(30,814)**	(32,604)
Other income	10	**9,195**	68,642
Impairment charge for credit losses	11	**(38,647)**	(15,596)
Staff costs	12	**(165,667)**	(121,925)
Depreciation of property and equipment	18	**(25,696)**	(21,351)
Amortization of intangible assets	19	**(2,074)**	(1,990)
Other expenses	13	**(95,078)**	(102,640)
Profit before income tax		**5,809**	51,472
Income tax expense	14	**(1,685)**	(10,881)
Profit for the year		**4,124**	40,591

The accompanying notes on pages 7 to 42 are an integral part of these financial statements.

Balance sheet

In thousand Armenian drams	Notes	As of December 31, 2008 (audited)	As of December 31, 2007 (audited)
ASSETS			
Cash	15	**2,320**	998
Amounts due from financial institutions	16	**894,081**	198,002
Loans and advances to customers	17	**2,396,469**	1,540,848
Prepaid income taxes		**5,422**	15,206
Property, plant and equipment	18	**74,058**	93,835
Intangible assets	19	**14,412**	16,332
Deferred income tax assets	14	**5,740**	7,425
Other assets	20	**10,396**	6,266
TOTAL ASSETS		**3,402,898**	1,878,912
LIABILITIES AND EQUITY			
Liabilities			
Borrowings	21	**2,697,588**	1,144,219
Grants	22	**38,288**	53,216
Derivative financial instruments	23	**6,806**	22,073
Other liabilities	24	**33,647**	28,976
Total liabilities		**2,776,329**	1,248,484
Equity			
Charter capital	25	**512,160**	490,000
Statutory general reserve		**4,424**	2,414
Additional contribution		**14,787**	14,787
Other reserves		**43**	423
Retained earnings		**95,155**	122,804
Total equity		**626,569**	630,428
TOTAL LIABILITIES AND EQUITY		**3,402,898**	1,878,912

The financial statements from pages 3 to 6 were compiled and signed by the Organization’s Executive Director and Chief Accountant on 22 May 2009. The accompanying notes on pages 7 to 42 are an integral part of these financial statements.

Garegin Gevorgyan
Executive Director

Irina Ohanyan
Chief accountant

Statement of changes in equity

In thousand Armenian drams	Charter capital	Statutory general reserve	Additional contribu-tion	Revaluation reserve of PPE	Retained earnings	Total
Balance as of January 1, 2007 (audited)	454,000	-	-	778	132,416	587,194
Increase in equity from a loan granted by the related party of the participant at rates below market (see note 21)	-	-	14,787	-	-	14,787
Total income and expense recognized directly in equity	-	-	14,787	-	-	14,787
Profit for the year	-	-	-	-	40,591	40,591
Total income and expense for the year	-	-	14,787	-	40,591	55,378
Adjustment to reserve due to depreciation of PPE	-	-	-	(355)	355	-
Increase in charter capital	16,823	-	-	-	-	16,823
Distribution from retained earnings	19,177	-	-	-	(19,177)	-
Dividends to shareholders	-	-	-	-	(28,967)	(28,967)
Distribution to reserve	-	2,414	-	-	(2,414)	-
Balance as of December 31, 2007 (audited)	490,000	2,414	14,787	423	122,804	630,428
Profit for the year	**-**	**-**	**-**	**-**	**4,124**	**4,124**
Total income and expense for the year	**-**	**-**	**-**	**-**	**4,124**	**4,124**
Adjustment to reserve due to depreciation of PPE	**-**	**-**	**-**	**(380)**	**380**	**-**
Increase in charter capital	**6,084**	**-**	**-**	**-**	**-**	**6,084**
Distribution from retained earnings	**16,076**	**-**	**-**	**-**	**(16,076)**	**-**
Dividends to shareholders	**-**	**-**	**-**	**-**	**(14,067)**	**(14,067)**
Distribution to reserve	**-**	**2,010**	**-**	**-**	**(2,010)**	**-**
Balance as of December 31, 2008 (audited)	**512,160**	**4,424**	**14,787**	**43**	**95,155**	**626,569**

Statement of cash flows

In thousand Armenian drams	**Year ended December 31, 2008 (audited)**	Year ended December 31, 2007 (audited)
Cash flows from operating activities		
Profit before income tax	**5,809**	51,472
Adjustments for:		
Increase in provision for impairment	**38,647**	15,596
Depreciation and amortization	**27,770**	23,342
Income from grants related to assets	**(14,928)**	(20,294)
Interest expenses and other accounts payable	**4,594**	10,870
Derivative instruments	**(15,267)**	22,073
Cash flows from operating activities before changes in operating assets and liabilities	**46,625**	103,059
Net (increase)/decrease in operating assets		
Deposits in banks	**(618,927)**	(118,425)
Loans and advances to customers	**(894,298)**	(503,019)
Other assets	**(4,101)**	(2,695)
Increase/(decrease) in operating liabilities		
Other liabilities	**77**	(15,951)
Net cash used in operating activities before income tax	**(1,470,624)**	(537,031)
Income tax paid	**-**	(43,085)
Net cash used in operating activities	**(1,470,624)**	(580,116)
Cash flows from investing activities		
Purchase of property and equipment	**(6,029)**	(64,799)
Proceeds from sale of property and equipment	**115**	127
Purchase of intangible assets	**(154)**	(1,299)
Net cash used in investing activities	**(6,068)**	(65,971)
Cash flow from financing activities		
Issue of capital	**6,084**	16,823
Borrowings	**1,549,082**	652,326
Grants	**-**	(8)
Net cash flow from financing activities	**1,555,166**	669,141
Net increase in cash and cash equivalents	**78,474**	23,054
Cash and cash equivalents at the beginning of the year	**80,395**	57,341
Cash and cash equivalents at the end of the year (Note 15)	**158,869**	80,395

Accompanying notes to the financial statements

1 Principal activities

“SEF INTERNATIONAL UNIVERSAL CREDIT ORGANIZATION” LLC (the “Organization”) is a limited liability company, which was incorporated in the Republic of Armenia in 2003 as a legal successor of SEF International LLC of World Vision International Charitable Organisation, which has been involved in microfinance since 1998. The Organization is regulated by the legislation of RA and conducts its business under license number 3, granted on 11 April 2003 by the Central Bank of Armenia (the “CBA”).

The Organization is involved in microfinance and provides solidarity group-based micro credits in Armenia, individual loans and modified version of the group micro-loan, as well as agriculture fixed asset loans. Its main office is in Yerevan and it has 2 branches and 3 representative offices in different regions.

The registered office of the Organization is located at: 19/19 Yervand Kochar str., Yerevan, Armenia.

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. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base and regional instability.

The international rating agency Moody's Investors Service has assessed Armenia’s sovereign rating *Ba2* “Stable Outlook” in its annual report produced at the end of 2008. According to the report, the country's low government debt and minimal refinancing risks are allowing its rating to maintain a stable outlook in the current environment. A weak revenue base is the main fiscal risk, although it is ameliorated by the very comfortable debt service profile, its good relations with its official creditors, and the liquidity provided by the Diaspora.

Due to smaller extent of the involvement of foreign capital in the equities of Armenian businesses, as well as the comparably small foreign investments in the Armenian economy and the isolation of its relevant sectors from the rest of the world, the ongoing financial crisis observable in more developed and mature economies is not particularly severe and observable in Armenia as of the reporting date.

The Government of Armenia is in the process of researching the causes and consequences of the crisis with the purposes of developing a set of measures to fight against those consequences when the crisis becomes inevitable for Armenia.

However, in times of more severe market stress, the Armenian economy as well as the Organization may be subject to that crisis and the effects of the crisis may be significant. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Organization may be affected.

Accordingly, the financial statements of the Organization do not include the effects of adjustments, if any, which might have been considered necessary, had the effects of the current global crisis become observable and reliably measurable in Armenia.

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Organization 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, with the exception of computers, which are stated at revalued amount.

3.3 Functional and presentation currency

Functional currency of the Organization is the currency of the primary economic environment in which the Organization operates. The Organization's functional currency and the Organization's presentation currency is Armenian Drams ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Organization. The Organization 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 Organization'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 Reclassifications

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

3.5 Adoption of new and revised standards

In the current year the Organization has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2008.

3.6 Standards and Interpretations not yet applied by the Organization

At the date of authorization of these financial statements, certain new Standards, amendments and Interpretations to the existing Standards have been published but are not yet effective. The Organization has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Organization's accounting policy for the first period beginning after the effect date of the pronouncement.

The new Standards, amendments and Interpretations to the existing Standards that are not yet effective but are expected to be relevant to the Organization's financial statements in the future

IAS 1 *Presentation of Financial Statements* (revised 2007)

New amendments in this standard affect the presentation of owner changes in equity and introduce a statement of comprehensive income. Preparers will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Organization, but will give rise to additional disclosures. Management is currently assessing the detailed impact of this amendment on the Organization’s financial statements.

IAS 23 *Borrowing Costs* (revised 2007)

Amendments in this standard require the capitalization of borrowing costs, to the extent they are directly attributable to the acquisition, production or construction of qualifying assets that need a period of time to get ready for their intended use or sale. The option of immediately expensing those borrowing costs will be removed. In accordance with the transitional provisions of the amended Standard, no changes will be made for borrowing costs incurred to this date that have been expensed. This amendment will decrease the Organization's reported interest expense and increase the capitalized cost of qualifying assets under construction in future periods.

Based on Organization's current business model and accounting policies, management does not expect material impact on Organization's financial statements when these Standard, amendments and Interpretations to the existing Standards become effective.

The new Standards, amendments and Interpretations to the existing Standards that are not yet effective and are not expected to be relevant to the Organization’s financial statements

IFRIC 13 *Customer Loyalty Programmes*

This interpretation clarifies that when goods or services are sold together with a customer loyalty incentive (loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Organization currently is not running a similar programme. Accordingly, management believes that this interpretation is not relevant to the Organization’s financial statements.

Amendment to IFRS 2 *Share-based Payment*

This amendment relates to vesting conditions and cancellations. The Organization currently is not running any share-based payment scheme. Accordingly, management believes that this amendment is not relevant to the Organization’s financial statements.

Annual improvements 2008

The IASB has issued *Improvements for International Financial Reporting Standards 2008*. Most of these amendments become effective in annual periods beginning on or after January 1, 2009. Management believes that these improvements will not have significant impact on the Organization’s financial statements.

IAS 23 (Amendment) *Borrowing Costs* (effective from January 1, 2009).

The definition of borrowings costs has been amended so that interest expense is calculated using the effective interest rate method defined in IAS 39 *Financial Instruments: Recognition and Measurement* (effective from January 1, 2009). The Organization will apply the IAS 23 (Amendment) prospectively to the capitalization of borrowing costs from January 1, 2009.

IAS 36 (Amendment) *Impairment of Assets* (effective from January 1, 2009)

Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Organization will apply the IAS 36 (Amendment) and provide the required disclosures where applicable for impairment tests from January 1, 2009.

IAS 38 (Amendment) *Intangible Assets* (effective from January 1, 2009)

A prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services.

Additionally, the amendment deletes the wording that states that there is "rarely if ever" support for use of a method that results in a lower rate of amortization than the straight-line method. The amendment will not have an impact on the Organization's operations, since all intangible assets are amortized using the straight-line method.

IAS 40 (Amendment) *Investment Property (and consequential amendments to IAS 16)* (effective from January 1, 2009)

Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is therefore measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which the fair value becomes reliably measurable. The Organization will apply the IAS 40 (Amendment) from January 1, 2009.

IAS 20 (Amendment) *Accounting for Government Grants and Disclosure of Government Assistance* (effective from January 1, 2009)

The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39 and the proceeds received with the benefit to be accounted for in accordance with IAS 20. The Organization will apply the IAS 20 (Amendment) from January 1, 2009.

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

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Organization and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Organization and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income

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.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences related to trading assets and liabilities. Net trading income also includes gains less losses from trading in foreign currencies.

4.2 Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

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.

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 in net trading income.

The exchange rates at year-end used by the Organization in the preparation of the financial statements are as follows:

	December 31, 2008	December 31, 2007
AMD/1 US Dollar	**306.73**	304.22

4.3 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized 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 utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized 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 Organization'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 and amounts due from 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 Amounts due from banks

In the normal course of business, the Organization maintains advances or deposits for various periods of time with banks. Deposits in 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 banks are carried net of any allowance for impairment losses.

4.6 Derivative financial instruments

In the normal course of business, the Organization enters into derivative financial instruments including forwards in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognized in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of income as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

4.7 Financial instruments

The Organization 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 fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

After initial recognition all financial liabilities, other than liabilities at fair value through profit or loss (including 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 Organization 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 Organization determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Loans and receivables

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

Loans granted by the Organization 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.

4.8 Impairment of financial assets

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

Assets carried at amortized cost

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Criteria used to determine that there is objective evidence of an impairment loss may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty (for example, equity ratio, net income percentage of sales), default or delinquency in interest or principal payments, breach of loan covenants or conditions, deterioration in the value of collateral, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Organization 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 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. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Organization may measure impairment on the basis of an instrument's fair value using an observable market price.

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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Organization's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Organization to reduce any differences between loss estimates and actual loss experience.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Organization. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If future write-off is later recovered, the recovery is credited to the allowance account.

Renegotiated loans

Where possible, the Organization seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original effective interest rate.

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 Organization 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 Organization 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 Organization 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 Organization’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 Organization 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 Organization’s continuing involvement is the amount of the transferred asset that the Organization 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 Organization’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 Leases

Operating - Organization as leasee

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.

4.11 Property, plant and equipment

Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation, with the exception of computers, which are recorded at revalued amount. 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:

	Useful life (years)	Rate (%)
Buildings	20	5
Computers	3	33
Vehicles	7	14
Other fixed assets	5	20

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are not depreciated.

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 Organization. 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.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in the revaluation reserve for property and equipment in equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

When revalued assets are sold, the amounts attributed to disposed item of assets and included in the revaluation reserve are transferred to retained earnings.

4.12 Intangible assets

Intangible assets include computer software 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 on a straight-line basis 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.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

4.13 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.

4.14 Grants

Grants are reflected at fair value in the balance sheet as deferred income. Grants related to income are recognised as income in the same period as corresponding expenses are recognized.

Grants relating to the assets are included in other liabilities and are credited to the income statement on a straight line basis over the expected lives of the related assets.

4.15 Borrowings

Borrowings, which include amounts due to funds, charitable organisations, banks and other financial institutions, 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 Organization participates in 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. Besides the pension stated above, Employee Prudence Fund (EPF) is created in the Organization due to integrated investments of employers and employees. The monthly payments equal to 2.5 % of the calculated net salary of employees are transferred to the fund. Simultaneously, the employer is also making a payment of the same amount to the fund. In case of leaving the Organization the employees are remunerated for the good performed work and for the years worked in the Organization by resources of the Fund. The expenses related to the allowances to the mentioned fund are reflected in the statement of income in the period, which they are related to.

4.17 Provisions

Provisions are recognised when the Organization 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.

4.18 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, and income and expenses, are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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 these financial statements are presented below:

Related party transactions

In the normal course of business the Organization 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 Organization reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Organization also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 26.

6 Interest and similar income and expense

In thousand Armenian drams	2008	2007
Amounts due from financial institutions	**11,685**	2,333
Loans and advances to customers	**448,240**	308,860
Total interest and similar income	**459,925**	311,193

In thousand Armenian drams	2008	2007
Borrowings	**166,527**	74,891
Total interest and similar expense	**166,527**	74,891

7 Fee and commission income and expense

In thousand Armenian drams	2008	2007
Service fees	**52,865**	27,260
Total fee and commission income	**52,865**	27,260

In thousand Armenian drams	2008	2007
Settlement operations	**834**	231
Cash operations	**591**	500
Other expenses	**5,176**	4,189
Total fee and commission expense	**6,601**	4,920

8 Income from grants

In thousand Armenian drams	2008	2007
Grants related to assets	**14,387**	10,819
Grants related to income	**541**	9,475
Total income from grants	**14,928**	20,294

9 Net trading expenses

In thousand Armenian drams	2008	2007
Gains less losses from trading in foreign currencies	**(1,421)**	(993)
Gains less losses from realization of forward transactions	**(44,660)**	(9,538)
Net income/(loss) from fair value measurement of derivatives	**15,267**	(22.073)
Total net trading income	**(30,814)**	(32,604)

10 Other income

In thousand Armenian drams	2008	2007
Income from sale of fixed assets	**5**	2,164
Fines and penalties received	**7,699**	4,137
Foreign currency translation net gains of non-trading assets	**-**	59,254
Other income	**1,491**	3,087
Total other income	**9,195**	68,642

11 Impairment charge/(reversal of impairment) for credit losses

In thousand Armenian drams	2008	2007
Loans and advances to customers (Note 17)	**38,676**	15,440
Other assets (Note 20)	**(29)**	156
Total impairment charge for credit losses	**38,647**	15,596

12 Staff costs

In thousand Armenian drams	2008	2007
Wages and salaries	**149,687**	110,134
Social security contributions	**15,980**	11,791
Total staff costs	**165,667**	121,925

13 Other expenses

In thousand Armenian drams	**2008**	2007
Fixed assets maintenance	**16,153**	14,965
Advertising costs	**1,911**	1,660
Business trip expenses	**3,432**	1,771
Communications	**9,962**	10,012
Operating lease	**19,221**	17,599
Taxes, other than income tax, duties	**8,605**	1,185
Consulting and other services	**14,909**	8,923
Security	**3,128**	2,156
Representative expenses	**2,720**	4,168
Office supplies	**2,847**	2,544
Penalties paid	**172**	1,569
Foreign currency translation net losses of non-trading assets	**5,090**	-
Other expenses	**6,928**	36,088
Total other expense	**95,078**	102,640

14 Income tax expense

In thousand Armenian drams	**2008**	2007
Current tax expense	**-**	7,225
Deferred tax	**1,685**	3,656
Total income tax expense	**1,685**	10,881

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2007: 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 and accounting profit is provided below:

In thousand Armenian drams	**2008**	**Effective rate (%)**	2007	Effective Rate (%)
Profit before tax	**5,809**		51,472	
Income tax at the rate of 20%	**1,162**	**20**	10,294	20
Non-taxable income	**(7,178)**	**(124)**	(2,922)	(6)
Non-deductible expenses	**6,683**	**115**	14,649	29
Foreign exchange (gains)	**1,018**	**18**	(11,851)	(23)
Other			711	1
Income tax expense	**1,685**	**29**	10,881	21

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2007	Recognized in income statement	**2008**
Grants	**6,207**	**(231)**	**5,976**
Accrued expenses and other liabilities	**2,713**	**351**	**3,064**
Tax losses carried forward	**-**	**178**	**178**
Total deferred tax asset	**8,920**	**290**	**9,218**
Revaluation of the PPE	**(106)**	**95**	**(11)**
Allowances for impairment of loan commitments	**(956)**	**(724)**	**(1,680)**
Allowances for impairment of bank accounts and other assets	**(433)**	**(1,354)**	**(1,787)**
Total deferred tax liability	**(1,495)**	**(1,983)**	**(3,478)**
Net deferred tax asset	**7,425**	**(1,685)**	**5,740**

In thousand Armenian drams	2006	Recognized in income statement	2007
Grants	9,300	(3,093)	6,207
Accrued expenses and other liabilities	2,373	340	2,713
Total deferred tax asset	11,673	(2,753)	8,920
Revaluation of the PPE	(195)	89	(106)
Allowances for impairment of loan commitments	(283)	(673)	(956)
Allowances for impairment of bank accounts and other assets	(114)	(319)	(433)
Total deferred tax liability	(592)	(903)	(1,495)
Net deferred tax asset	11,081	(3,656)	7,425

15 Cash and cash equivalents

In thousand Armenian drams	**2008**	2007
Cash on hand	**2,320**	998
Placements with other banks (note 16)	**156,549**	79,397
Total cash and cash equivalents	**158,869**	80,395

16 Amounts due from financial institutions

In thousand Armenian drams	**2008**	2007
Bank accounts	**156,549**	79,397
Included in cash and cash equivalents	**156,549**	79,397
Deposits	**737,532**	118,605
Total amounts due from other financial institutions	**894,081**	198,002

As of 31 December 2008 deposits include USD 2,290,000 (2007: USD 280,000) deposit at HSBC Armenia, which is a guarantee deposit against the overdraft and loans received from the same bank (see note 21).

17 Loans and advances to customers

In thousand Armenian drams	2008	2007
Loans to customers	**2,438,407**	1,567,268
Less allowance for loan impairment	**(41,938)**	(26,420)
Total loans and advances to customers	**2,396,469**	1,540,848

As of December 31, 2008 the accrued interest income included in loans and advances to customers amounted to AMD 23,957 thousand (2007: AMD 16,655 thousand).

As of December 31, 2008, the Organization had a concentration of loans represented by AMD 279,230 thousand due from the 20 largest third party entities and parties related with them (12% of gross loan portfolio) (2007: AMD 167,343 thousand or 11%). An allowance of AMD 15,011 thousand (2007: AMD 4,892 thousand) was made against these loans.

Reconciliation of allowance account for losses on loans and advances by industry sectors is as follows:

In thousand Armenian drams	Industry	Trade	Consumer	Agriculture	Service	Other	2008 Total
At 1 January 2008	-	4,573	4,253	12,207	-	5,387	26,420
Charge for the year	3,253	12,490	10,470	16,194	1,656	(5,387)	38,676
Amounts written off	-	(4,817)	(7,977)	(15,778)	-	-	(28,572)
Recoveries	174	-	647	4,593	-	-	5,414
At 31 December 2008	3,427	12,246	7,393	17,216	1,656	-	41,938
Individual impairment	3,427	3,026	4,932	220	1,656	-	13,261
Collective impairment	-	9,220	2,461	16,996	-	-	28,677
	3,427	12,246	7,393	17,216	1,656	-	41,938
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	16,559	9,301	13,417	2,208	8,566	-	50,051

2007

In thousand Armenian drams	Industry	Trade	Consumer	Agriculture	Service	Other	Total
At 1 January 2007	277	1,238	5,598	14,895	211	175	22,394
Charge for the year	(277)	3,155	738	6,823	(211)	5,212	15,440
Amounts written off	-	(4,801)	(2,083)	(25,540)	-	-	(32,424)
Recoveries	-	4,981	-	16,029	-	-	21,010
At 31 December 2007	-	4,573	4,253	12,207	-	5,387	26,420
Individual impairment	-	1,139	2,242	616	-	5,387	9,384
Collective impairment	-	3,434	2,011	11,591	-	-	17,036
	-	4,573	4,253	12,207	-	5,387	26,420
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	-	5,351	6,488	2,132	-	8,028	21,999

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

In thousand Armenian drams	**2008**	2007
Privately held companies	**16,365**	31,085
Individuals	**1,894,486**	1,294,097
Sole proprietors	**362,962**	169,428
Non-commercial institutions	**140,637**	56,003
Accrued interest	**23,957**	16,655
	2,438,407	1,567,268
Less allowance for loan impairment	**(41,938)**	(26,420)
Total loans and advances to customers	**2,396,469**	1,540,848

As of December 31, 2008 and December 31, 2007 the calculated fair value of the loans and advances approximates their carrying value (see Note 28).

Credit, currency and liquidity analyses of loans and advances to customers are disclosed in Note 30. The analyses of related parties are disclosed in Note 27.

18 Property, plant and equipment

In thousand Armenian drams	Buildings	Computers	Vehicles	Office equipment	Leasehold improvement	Total
COST						
Cost/Revalued amount at January 1, 2007	825	27,854	22,538	12,369	-	63,586
Additions	-	6,259	20,103	15,960	22,477	64,799
Disposals	-	(681)	(4,514)	(4,279)	-	(9,474)
At December 31, 2007	**825**	**33,432**	**38,127**	**24,050**	**22,477**	**118,911**
Additions	**-**	**2,835**	**-**	**3,194**	**-**	**6,029**
Disposals	**-**	**(3,414)**	**-**	**(2,656)**	**-**	**(6,070)**
At December 31, 2008	**825**	**32,853**	**38,127**	**24,588**	**22,477**	**118,870**
DEPRECIATION						
At January 1, 2007	248	839	5,298	6,687	-	13,072
Depreciation charge	41	10,279	5,013	3,534	2,484	21,351
Disposals	-	(564)	(4,513)	(4,270)	-	(9,347)
At December 31, 2007	**289**	**10,554**	**5,798**	**5,951**	**2,484**	**25,076**
Depreciation charge	**41**	**10,906**	**5,164**	**4,811**	**4,774**	**25,696**
Disposals	**-**	**(3,363)**	**-**	**(2,597)**	**-**	**(5,960)**
At December 31, 2008	**330**	**18,097**	**10,962**	**8,165**	**7,258**	**44,812**
CARRYING VALUE						
Revalued amounts at December 31, 2008	**495**	**14,756**	**27,165**	**16,423**	**15,219**	**74,058**
At December 31, 2007	536	22,878	32,329	18,099	19,993	93,835

Revaluation of assets

The computers owned by the Organization were revalued by the management as at 31 December 2006 using a market method resulting in a revaluation of AMD 214 thousand.

The net value of computers that would have been recognized under the historic cost method is AMD 14,703 thousand, as at 31 December 2008 (2007: AMD 21,555 thousand)

19 Intangible assets

In thousand Armenian drams	Computer software	Other	Total
COST			
At January 1, 2007	18,900	410	19,310
Additions	1,299	-	1,299
At December 31, 2007	**20,199**	**410**	**20,609**
Additions	**154**	**-**	**154**
At December 31, 2008	**20,353**	**410**	**20,763**
AMORTISATION			
At January 1, 2007	2,243	44	2,287
Amortisation charge	1,949	41	1,990
At December 31, 2007	**4,192**	**85**	**4,277**
Amortisation charge	**2,033**	**41**	**2,074**
At December 31, 2008	**6,225**	**126**	**6,351**
CARRYING VALUE			
At December 31, 2008	**14,128**	**284**	**14,412**
At December 31, 2007	16,007	325	16,332

20 Other assets

In thousand Armenian drams	2008	2007
Prepayments and other debtors	**7,826**	3,652
Settlements with employees	**83**	-
	7,909	3,652
Less allowance for impairment	**(33)**	(18)
	7,876	3,634
Accounts receivable	**115**	343
Assets classified as held for sale	**1,904**	1,904
Materials	**501**	385
Total other assets	**10,396**	6,266

As at December 31, 2008 and December 31, 2007 assets classified as held for sale include AMD 1,871 thousand repossessed assets and AMD 33 thousand assets out of use and held for sale.

Reconciliation of allowance account for losses on other assets is as follows:

In thousand Armenian drams	**Total**
At January 1, 2007	10
Charge for the year	156
Amounts written off	(740)
Recoveries	592
At December 31, 2007	**18**
Reversal for the year	**(29)**
Amounts written off	**(149)**
Recoveries	**193**
At December 31, 2008	**33**

21 Borrowings

In thousand Armenian drams	**2008**	2007
Amounts due to banks	**624,669**	37,880
Foundations and charitable organisations	**2,072,919**	1,106,339
Total amounts due to financial institutions	**2,697,588**	1,144,219

During 2008 the Organization signed an overdraft and loan contracts with HSBC Armenia, which are secured by the deposits at the same bank. See note 16.

All loans from financial institutions have fixed interest rates.

The borrowings as of 31 December 2008 and 31 December 2007 are provided with the following terms:

			2008
In thousand Armenian drams	Amount	Interest rate, %	Period
“World Vision International”			
	92,019	**5**	**27.07.04 – 30.06.10**
Accrued interests	**13**		
	92,032		
“Vision Fund International”			
	40,540	**10**	**09.07.07 – 30.06.12**
	15,337	**10**	**03.12.07 – 30.12.12**
	14,177	**6.7**	**24.06.05 – 25.06.10**
	14,789	**6.7**	**30.06.06 – 30.06.11**
	122,691	**10.8**	**21.05.07 – 30.06.09**
	107,356	**9.2**	**15.08.06 – 30.06.09**
	18,057	**6.7**	**04.10.04 – 06.10.09**
	119,625	**10.83**	**30.06.07 – 30.06.09**
	10,002	**6.7**	**08.07.05 – 11.07.10**
	46,673	**0**	**23.10.07 – 30.12.12**
	23,365	**9.7**	**05.09.08-20.12.13**
	15,336	**9.7**	**15.10.08-30.12.13**
	10,736	**9.7**	**17.12.08-30.12.13**
Accrued interests	**1,227**		
	559,911		
Jinishian Memorial Foundation			
	11,175	**2**	**30.12.05 – 03.01.09**
Accrued interests	**54**		
	11,229		
Pettelaar Effectenbewaarbedrijf N.V			
	230,048	**10.25**	**20.07.07 – 20.07.11**
Accrued interests	**10,087**		
	240,135		
responsAbility SICAV (LUX) Mikrofinanz-Fonds			
	138,029	**10**	**07.12.07 – 12.06.10**
Accrued interests	**852**		
	138,881		
DEXIA MICRO-CREDIT FUND			
	153,365	**9.5**	**25.04.08 – 27.10.09**
Accrued interests	**2,969**		
	156,334		
CPP Incofin			
	306,730	**10**	**05.22.08 – 05.22.10**
Accrued interests	**3,334**		
	310,064		
Oikocredit Ecumenical Development			
	352,740	**9.7**	**09.08.08-09.08.11**
Accrued interests	**8,264**		
	361,004		
Credit Suisse Microfinance Fund			
	214,711	**10.4**	**06.16.08-12.16.10**
Accrued interests	**986**		
	215,697		
Total borrowings	**2,085,287**		

			2007
In thousand Armenian drams	Amount	Interest rate, %	Period
"World Vision International"			
	91,266	5	27.07.04 – 30.06.10
Accrued interests	13		
	91,279		
"Vision Fund International"			
	40,208	10	09.07.07 – 30.06.12
	15,211	10	03.12.07 – 30.12.12
	14,061	6.7	24.06.05 – 25.06.10
	14,668	6.7	26.06.06 – 30.06.11
	121,688	10.8	16.05.07 – 30.06.09
	106,477	9.2	15.08.06 – 30.06.09
	17,911	6.7	04.10.04 – 06.10.09
	118,646	7.6	07.12.05 – 30.06.09
	9,920	6.7	08.07.05 – 11.07.10
	46,291	0	23.10.07 – 30.12.12
Accrued interests	920		
	506,001		
Jinishian Memorial Foundation			
	53,640	2	30.12.05 – 03.01.09
Accrued interests	51		
	53,691		
Pettelaar Effectenbewaarbedrijf N.V			
	228,165	10.25	20.07.07 – 20.07.11
Accrued interests	9,991		
	238,156		
responsAbility SICAV (LUX) Mikrofinanz-Fonds			
	136,899	10	07.12.07 – 12.06.10
Accrued interests	803		
	137,702		
DEXIA MICRO-CREDIT FUND			
	91,266	Libor+5	09.03.07 – 09.09.08
Accrued interests	3,348		
	94,614		
Total borrowings	1,121,443		

As of December 31, 2008 the difference between the total borrowings of AMD 2,085,287 thousand (2007: AMD 1,121,443 thousand) and the borrowings from foundations and charitable organizations (note 21) in amount of AMD 2,072,919 thousand (2007: AMD 1,106,339 thousand) is a result of presentation of the borrowings with the interest rate below the market rate at fair value.

In October 2007 the Organization attracted a borrowing of USD 152,162 for 5 years at 0% annual rate from "Vision Fund International", which is a related party of the participant of the Organization. The income, which was gained from the calculation of fair value of the borrowing, calculated at 8% rate, amounts to AMD 14,787 thousand and is included in the equity as an additional contribution. The unwinding of the gain in the year 2008 has resulted in interest expense of AMD 2,535 thousand (2007: nil).

During 2006 the income of AMD 4,675 thousands has been recognized in income statement as a result of gains on initial recognition of liabilities at rates below market. The interest expense of

AMD 317 has occurred from the use of the above mentioned income in 2008 (2007: AMD 2,059 thousand).

The Organization has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2007: nil).

22 Grants

In thousand Armenian drams	**2008**	2007
Grants related to assets	**38,288**	52,675
Deferred income from grants related to income	**-**	541
Total other liabilities and provisions	**38,288**	53,216

During 2008 an amount of AMD 14,387 thousand (2007: AMD 10,819 thousand) has been recognised as income in the income statement to the extent of depreciation of granted assets.

Grants

In thousand Armenian drams	**2008**	**2007**
At January 1	**53,216**	61,451
Increase	**-**	12,067
Recognition of income from grants related to assets	**(14,387)**	(10,819)
Recognition of income from grants related to income	**(541)**	(9,475)
Decrease	**-**	(8)
At December 31	**38,288**	53,216

23 Derivative financial instruments

In thousand Armenian drams	**2008**		2007	
	Nominal value	**Fair value**	Nominal value	Fair value
Derivative instruments held for sale				
Foreign currency forward	**433,161**	**6,806**	432,770	22,073
Total derivative instruments	**433,161**	**6,806**	432,770	22,073

24 Other liabilities

In thousand Armenian drams	**2008**	2007
Accounts payables	**15,166**	13,638
Tax payable, other than income tax	**2,039**	-
Due to personnel	**15,775**	12,708
Other	**667**	2,630
Total other liabilities	**33,647**	28,976

25 Equity

As at 31 December 2008 the Organisation's registered and paid-in charter capital was AMD 512,160 thousand (2007: AMD 490,000 thousand). Charter capital consists of 100 shares, all of which have a par value of AMD 5,121.6 each.

The only participant of the Organisation as of 31 December 2008 and 31 December 2007 is "World Vision International" international Charitable organization.

In November 2008 the only participant of the organisation "World Vision International" Humanitarian Organisation (WVI) has decided to begin the process of transformation of the ownership of the Organization to Vision Fund International, which is specialised affiliate of the WVI.

In 2008 the Organization increased its equity by the amount of AMD 22,160. The increase was made by the participant of the Organization with the amount of AMD 6,084 and also with the result of the distribution from the retained earnings by the amount of AMD 16,076.

26 Contingent liabilities

Tax and legal matters

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 Organization has complied with all regulations and has completely settled all its tax liabilities.

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Organization, will not have a material adverse impact on the financial condition or results of future operations of the Organization.

Credit related commitments

In the normal course of business, the Organization 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:

In thousand Armenian drams	**2008**	2007
Undrawn loan commitments	**813,181**	478,268
Total commitments and contingent liabilities	**813,181**	478,268

Operating lease commitments – Organization as a lessee

In the normal course of business the Organization enters into commercial lease agreements for its buildings and premises.

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

In thousand Armenian drams	**2008**	2007
Not later than 1 year	**19,533**	19,260
Later than 1 year and not later than 5 years	**36,790**	71,847
Total operating lease receivable	**56,323**	91,107

Insurance

The Organization's vehicles are insured. The Organization has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Armenia at present.

27 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 participant of the Organization, members of Organization's Management as well as other persons and enterprises related with and controlled by them respectively.

The Organization's only participant and its ultimate controlling party is "World Vision International" Charitable Organization.

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

In thousand Armenian drams	**2008**	2007
	Participant	Participant
Borrowings at January 1	**596,346**	445,621
Amounts collected during the year	**376,021**	150,725
Amounts paid during the year	**(321,663)**	-
Borrowings at December 31	**650,704**	596,346
Interest expense on borrowings	**59,278**	43,843
Grants at January 1	**39,619**	43,629
Grants received during the year	**-**	12,067
Grants recognised as income during the year	**(11,248)**	(16,077)
Grants at December 31	**28,371**	39,619
Income statement items		
Consulting received from	**9,217**	-
Grants provided to	**1,035**	26,854

Borrowings represent loans received from the only participant of the Organization - World Vision International and Vision Fund International, which is related to it (Note 21).

Grants have been received from participant of the Organisation and the organisation related to it.

According to the Organization's policies no loans are provided to employees (insiders).

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	**2008**	2007
Salaries and other short-term benefits	**26,387**	19,685
Social security costs	**1,919**	1,648
Total key management compensation	**28,306**	21,333

28 Fair value of financial instruments

The fair value of financial assets and liabilities, not presented on the balance sheet at their fair value, are presented below with their carrying values:

In thousand Armenian drams	**2008**		2007	
	Carrying value	**Fair value**	Carrying value	Fair value
FINANCIAL ASSETS				
Cash	**2,320**	**2,320**	998	998
Amounts due from financial institutions	**894,081**	**894,081**	198,002	198,002
Loans and advances to customers	**2,396,469**	**2,396,469**	1,540,848	1,540,848
FINANCIAL LIABILITIES				
Borrowings	**2,697,588**	**2,697,588**	1,144,219	1,144,219

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.

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. The carrying value of loans approximates its fair value.

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. The carrying value of deposits and borrowings approximates their fair value

29 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 30.3 for the Organization's contractual undiscounted repayment obligations.

In thousand Armenian drams						**2008**
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**Total**
ASSETS						
Cash	**2,320**	**-**	**-**	***2,320***	**-**	**2,320**
Amounts due from banks	**165,716**	**25,953**	**217,778**	***409,447***	**484,634**	**894,081**
Loans and advances to customers	**193,280**	**317,718**	**1,329,290**	***1,840,288***	**556,181**	**2,396,469**
	361,316	**343,671**	**1,547,068**	***2,252,055***	**1,040,815**	**3,292,870**
LIABILITIES						
Amounts due to financial institutions	**23,553**	**101,571**	**769,013**	***894,137***	**1,803,451**	**2,697,588**
Derivative financial instruments	**6,806**	**-**	**-**	***6,806***	**-**	**6,806**
	30,359	**101,571**	**769,013**	***900,943***	**1,803,451**	**2,704,394**
Net position	**330,957**	**242,100**	**778,055**	***1,351,112***	**(762,636)**	**588,476**
Accumulated gap	**330,957**	**573,057**	**1,351,112**		**588,476**	

In thousand Armenian drams						2007
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	Total
ASSETS						
Cash	998	-	-	*998*	-	998
Amounts due from banks	79,397	2,610	115,995	*198,002*	-	198,002
Loans and advances to customers	110,162	169,012	804,314	*1,083,488*	457,360	1,540,848
	190,557	171,622	920,309	*1,282,488*	457,360	1,739,848
LIABILITIES						
Borrowings	9,569	59,110	118,059	*186,738*	957,481	1,144,219
Derivative financial instruments	-	12,444	9,629	*22,073*	-	22,073
	9,569	71,554	127,688	*208,811*	957,481	1,166,292
Net position	180,988	100,068	792,621	*1,073,677*	(500,121)	573,556
Accumulated gap	180,988	281,056	1,073,677		573,556	

30 Risk management

The Organization's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Organization’s aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Organization’s financial performance.

The Organization’s risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Organization regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by Asset and Liabilities Management Committee under policies approved by the participant of the Organisation. The Liabilities Management Committee identifies, evaluates and hedges financial risks in close co-operation with the Organization’s operating units. The participant of the Organisation provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

30.1 Credit risk

The Organization takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Organization by failing to discharge an obligation. Credit risk is the most important risk for the Organization’s business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Organization’s asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Organization’s Asset Liabilities Management Department and reported to the participant of the Organisation.

30.1.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below represents a worst case scenario of credit risk exposure to the Organization at 31 December 2008 and 2007, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

In thousand Armenian drams	Notes	**Gross maximum exposure as of December 31, 2008**	Gross maximum exposure as of December 31, 2007
Amounts due from other financial institutions	16	**894,081**	198,002
Loans and advances to customers	17	**2,396,469**	1,540,848
Total		**3,290,550**	1,738,850
Commitments and contingent liabilities	26	**813,181**	478,268
Total credit risk exposure		**4,103,731**	2,217,118

When financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

30.1.2 Risk concentrations of the maximum exposure to credit risk

Geographical sectors

As of December 31, 2008 and December 31, 2007 all balance sheet assets which are subject to credit risk are allocated in Republic of Armenia.

In thousand Armenian drams	Armenia	OECD countries	Total
Amounts due from other financial institutions	**894,081**	**-**	**894,081**
Loans and advances to customers	**2,396,469**	**-**	**2,396,469**
As at 31 December 2008	**3,290,550**	**-**	**3,290,550**
As at 31 December 2007	1,738,850	-	1,738,850

Assets have been classified based on the country in which the counterparty is located.

Industry sectors

The following table breaks down the Organization's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December.

In thousand Armenian drams	Financial institutions	Manufacturing	Trade	Consumer sector	Agriculture	Consumer sector	Other	Total
Amounts due from other financial institutions	**894,081**	**-**	**-**	**-**	**-**	**-**	**-**	**894,081**
Loans and advances to customers	**-**	**54,454**	**307,898**	**949,770**	**947,081**	**29,347**	**107,919**	**2,396,469**
As at 31 December 2008	**894,081**	**54,454**	**307,898**	**949,770**	**947,081**	**29,347**	**107,919**	**3,290,550**
As at 31 December 2007	198,002	26,880	139,666	657,015	652,073	1,161	64,053	1,738,850

30.1.3 Risk limit control and mitigation policies

The Organization 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 geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Executive Director.

The exposure to any one borrower including banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

Collateral

The Organization employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Organization implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises inventory and accounts receivable.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument.

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

In thousand Armenian drams	**2008**	2007
Loans collateralized by real estate	**1,063,817**	546,762
Loans collateralized by precious metals	**615,571**	374,790
Loans collateralized by inventories	**-**	4,226
Loans collateralized by movable property	**64,219**	53,687
Other collateral	**670,843**	571,148
Accrued interest	**23,957**	16,655
Total loans and advances to customers (gross)	**2,438,407**	1,567,268

Credit-related commitments

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Organization is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Organization monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

30.1.4 Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Organization addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Organization determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Loans and advances neither past due or impaired

The table below shows the credit quality by class of asset for loans and advances neither past due or impaired, based on the historical counterparty default rates.

In thousand Armenian drams	**2008**	2007
Loans and advances to customers		
Agriculture	**1,8%**	1,8%
Trade	**3,1%**	2,6%
Consumer	**0,3%**	0,3%

Past due but not impaired loans

Past due loans and advances include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired. Analysis of past due loans by age and by class is provided below.

In thousand Armenian drams					**2008**
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Individuals	**10,000**	**8,784**	**4,838**	**26,227**	**49,849**
Sole proprietors	**8,036**	**-**	**-**	**5,279**	**13,315**
Total	**18,036**	**8,784**	**4,838**	**31,506**	**63,164**

In thousand Armenian drams	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	2007 Total
Loans and advances to customers					
Individuals	2,138	2,073	1,864	17,582	23,657
Sole proprietors	-	335	-	-	335
Total	2,138	2,408	1,864	17,582	23,992

The fair value of collateral that the Organization holds relating to past due loans at 31 December 2008 amounts to AMD 172,050 thousand (2007: AMD 122,146 thousand). The collateral consists of precious metals and properties.

Loans and advances individually impaired

The total gross amount of individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is AMD 50,051 thousand (2007: AMD 21,999 thousand). Refer to Note 17. The fair value of collateral that the Organization holds relating to loans individually determined to be impaired at 31 December 2008 amounts to AMD 98,191 thousand. (2007: AMD 31,200 thousand).

30.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Executive director has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Organization income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2007, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, at 31 December 2007 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

In thousand Armenian drams 2007

			Sensitivity of equity		
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	Total
USD	+2.7	(2,341)	(1,438)	(903)	(2,341)
USD	-2.7	2,341	1,438	903	2,341

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Executive director has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Organization had significant exposure at 31 December 2008 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	**2008**		2007	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
USD	**+20**	(49,250)	+5	(9,139)
USD	**-20**	49,250	-5	9,139

The Organization’s exposure to foreign currency exchange risk is as follow:

In thousand Armenian drams	**Armenian Dram**	**Freely convertible currencies**	**Total**
ASSETS			
Cash	**1,863**	**457**	**2,320**
Amounts due from banks	**35,267**	**858,814**	**894,081**
Loans and advances to customers	**1,817,577**	**578,892**	**2,396,469**
	1,854,707	**1,438,163**	**3,292,870**
LIABILITIES			
Borrowings	**635,898**	**2,061,690**	**2,697,588**
Derivative financial instruments	**6,806**	**-**	**6,806**
	642,704	**2,061,690**	**2,704,394**
Net position as at 31 December 2008	**1,212,003**	**(623,527)**	**588,476**
Credit related commitments	**511,987**	**301,194**	**813,181**
Total financial assets	1,269,233	470,615	1,739,848
Total financial liabilities	113,326	1,052,966	1,166,292
Net position as at 31 December 2007	1,155,907	(582,351)	573,556
Credit related commitments as at 31 December 2007	264,448	213,820	478,268

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.

30.3 Liquidity risk

Liquidity risk is the risk that the Organization will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily bases. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Organization maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Organization also has committed lines of credit that it can access to meet liquidity needs. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Organization.

The table below summarises the maturity profile of the Organization's financial liabilities at 31 December 2008 based on contractual undiscounted repayment obligations. See note 29 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

In thousand Armenian drams					**2008**
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Total**
FINANCIAL LIABILITIES					
Amounts due to financial institutions	**23,553**	**101,571**	**769,013**	**1,803,451**	**2,697,588**
Amounts due to customers	**6,806**	**-**	**-**	**-**	**6,806**
Total undiscounted financial liabilities	**30,359**	**101,571**	**769,013**	**1,803,451**	**2,704,394**
Commitments and contingent liabilities	**710**	**-**	**29,143**	**783,328**	**813,181**

In thousand Armenian drams					2007
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Total
FINANCIAL LIABILITIES					
Borrowings	9,569	59,110	80,409	995,131	1,144,219
Derivative financial instruments	-	12,444	9,629	-	22,073
Total undiscounted financial liabilities	9,569	71,554	90,038	995,131	1,166,292
Commitments and contingent liabilities	-	-	4,604	473,664	478,268

The Organization has received significant funds from its participants and parties related to it. Any significant withdrawal of these funds would have an adverse impact on the operations of the Organization. Management believes that this level of funding will remain with the Organization for the foreseeable future and that in the event of withdrawal of funds, the Organization would be given sufficient notice so as to realise its liquid assets to enable repayment.

31 Capital adequacy

The Organization maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Organization’s capital is monitored by the Central Bank of Armenia.

The primary objectives of the Organization’s capital management are to ensure that the Organization complies with externally imposed capital requirements and that the Organization maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise participant’s value.

According to the requirements of the RA legislation the Organization’s total normative capital as at 31 December 2008 makes up AMD 496,081 thousand.

Effective July 1, 2005 the Central Bank of RA defines the minimum value of the total normative capital amounting to AMD 150,000 thousand.

The Organization has complied with all externally imposed capital requirements through the period.

32 Subsequent events

On March 3, 2009 the Central Bank of Armenia has decided to go to floating exchange rate of dram against US dollar and other freely convertible currencies. This change has affected the exchange rate risk and financial position of the Bank in 2009 due to the fact that most of the debts of the Organization are denominated in those currencies. Refer to note 30.2 for the exchange rate risk of the Organization as of December 31, 2008.

On May 22, 2009 the following exchange rates were estimated:

AMD/1USD	**372.37**