

Financial statements and independent auditor's report
ARDSHININVESTBANK closed joint stock company

31 December 2006

Grant Thornton Amyot 

Contents

	Page
Independent auditor's report	1
Income statement.....	3
Balance sheet	4
Statement of changes in equity	5
Statement of cash flows.....	6
Accompanying notes to the financial statements	7

Independent auditor's report

To the Shareholders and Board of Directors of Closed Joint Stock Company Ardshininvestbank:

Report on the financial statements

We have audited the accompanying financial statements of Ardshininvestbank CJSC (the "Bank"), which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Ardshininvestbank CJSC as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Yerevan

21 February 2007

Grant Thornton Ararat



Income statement

In thousand Armenian drams	Notes	Year ended December 31, 2006 (audited)	Year ended December 31, 2005 (audited)
Interest income	6	4,743,574	4,566,733
Interest expense	6	(1,300,865)	(1,324,629)
Net interest income		3,442,709	3,242,104
Impairment of interest bearing assets	10	(256,875)	(42,119)
Net interest income after impairment of interest bearing assets		3,185,834	3,199,985
Gains less losses from trading in foreign currencies		1,099,769	1,224,916
Gains less losses from foreign exchange translation		(70,120)	(137,638)
Fee and commission income	7	1,982,751	1,714,658
Fee and commission expense		(31,979)	(21,483)
Gains less losses on investments available for sale		476,893	71,887
Other income	8	69,473	114,082
Impairment of other assets	10	(30,052)	(23,565)
Other provisions (reversals)	10	(10,470)	22,773
Other expenses	9	(4,017,039)	(3,282,878)
Profit before income tax		2,655,060	2,882,737
Income tax expense	11	(554,340)	(648,366)
Profit for the year		2,100,720	2,234,371

The accompanying notes on pages 7 to 40 are an integral part of these financial statements.

Balance sheet

In thousand Armenian drams		As of December 31, 2006 (audited)	As of December 31, 2005 (audited)
	Notes		
ASSETS			
Cash and balances with CBA	12	12,527,134	11,994,517
Amounts due from other financial institutions	13	12,622,783	3,470,951
Loans and advances to customers	14	23,405,293	24,589,244
Investments available for sale	15	14,665,005	8,474,117
Property, plant and equipment	16	5,330,469	4,859,295
Intangible assets	17	108,780	103,713
Other assets	18	491,592	317,674
TOTAL ASSETS		69,151,056	53,809,511
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to financial institutions	19	1,503,859	286,673
Amounts due to customers	20	55,882,612	43,724,521
Current income tax liabilities		92,290	249,982
Deferred income tax liabilities	11	292,966	332,027
Other liabilities and provisions	21	235,613	206,375
Total liabilities		58,007,340	44,799,578
Equity			
Statutory capital	22	7,391,552	3,020,024
Share premium		8,430	-
Statutory general reserve		362,353	248,891
Other reserves		1,308,149	1,306,577
Retained earnings		2,073,232	4,434,441
Total equity		11,143,716	9,009,933
TOTAL LIABILITIES AND EQUITY		69,151,056	53,809,511

The financial statements from pages 3 to 40 were approved by the Board of the Bank on 21 February 2007 and signed by the Bank's Chairman of Executive Board and Chief Accountant. The accompanying notes on pages 7 to 40 are an integral part of these financial statements.

Aram Andreasian
Chairman of Executive Board

Manvel Sahakyan
Chief accountant

Statement of changes in equity

In thousand Armenian drams	Statutory capital	Share premium	Statutory general reserve	Revaluation reserve of PPE	Revaluation reserve of securities available for sale	Retained earnings	Total
Balance as of January 1, 2005 (audited)	2,946,250	-	70,051	-	-	2,378,910	5,395,211
Increase in statutory capital	73,774	-	-	-	-	-	73,774
Profit for the year	-	-	-	-	-	2,234,371	2,234,371
Distribution to reserve	-	-	178,840	-	-	(178,840)	-
Revaluation of PPE	-	-	-	1,527,962	-	-	1,527,962
Net gains from changes in fair value	-	-	-	-	105,260	-	105,260
Effect of deferred taxes	-	-	-	(305,593)	(21,052)	-	(326,645)
Balance as of December 31, 2005 (audited)	3,020,024	-	248,891	1,222,369	84,208	4,434,411	9,009,933
Increase in statutory capital	4,371,528	-	-	-	-	-	4,371,528
Share premium	-	8,430	-	-	-	-	8,430
Profit for the year	-	-	-	-	-	2,100,720	2,100,720
Distribution to reserve	-	-	113,462	-	-	(113,462)	-
Net gains from changes in fair value	-	-	-	-	357,815	-	357,815
Net gains transferred to net profit on disposal of available- for-sale instruments	-	-	-	-	(375,782)	-	(375,782)
Dividends to shareholders	-	-	-	-	-	(4,348,467)	(4,348,467)
Effect of deferred taxes	-	-	-	16,039	3,593	-	19,632
Adjustment of PPE revaluation	-	-	-	(93)	-	-	(93)
Balance as of December 31, 2006 (audited)	7,391,552	8,430	362,353	1,238,315	69,834	2,073,232	11,143,716

Statement of cash flows

In thousand Armenian drams	Year ended December 31, 2006 (audited)	Year ended December 31, 2005 (audited)
Cash flows from operating activities		
Interest received	4,618,278	4,503,346
Interest paid	(1,275,368)	(1,234,405)
Fees and commissions received	1,982,751	1,775,805
Fees and commissions paid	(31,979)	(21,483)
Realised gains less losses from dealing in foreign currencies	1,099,769	1,224,916
Other income received	368,168	5,885
Salaries and benefits paid	(1,940,049)	(1,396,372)
Other operating expenses paid	(305,599)	(1,377,694)
Cash flows from operating activities before changes in operating assets and liabilities	4,515,971	3,609,732
<i>Net (increase)/decrease in operating assets</i>		
Amounts due from other financial institutions	-	91,919
Loans and advances to customers	2,006,687	(6,722,540)
Other assets	12,813	(51,899)
<i>Increase/(decrease) in operating liabilities</i>		
Amounts due to financial institutions	343,727	(876,362)
Amounts due to customers	12,668,123	13,676,766
Other liabilities	(1,802,594)	(96,813)
Net cash flow from operating activities before income tax	17,744,727	9,630,803
Income tax paid	(731,476)	(717,835)
Net cash from operating activities	17,013,251	8,912,968
Cash flows from investing activities		
Purchase of investment securities	(5,333,663)	(5,800,471)
Purchase of property and equipment	(883,817)	(692,633)
Proceeds from sale of property and equipment	36,620	19,709
	-	29,646
Net cash used in investing activities	(6,180,860)	(6,503,041)
Cash flow from financing activities		
Proceeds from issue of share capital	4,371,528	73,774
Share premium	8,430	-
Loans received/(redeemed) from financial institutions	281,068	(488,750)
Dividends paid to shareholders	(4,348,466)	-
Net cash flow from/ (used in) financing activities	312,560	(414,976)
Effect of exchange rate changes on cash and cash equivalents	(70,120)	(137,638)
Net increase in cash and cash equivalents	11,074,831	1,857,313
Cash and cash equivalents at the beginning of the year	13,369,449	11,512,136
Cash and cash equivalents at the end of the year (note 12)	24,444,280	13,369,449

Accompanying notes to the financial statements

1 Principal activities

Ardshininvestbank CJSC (the “Bank”) is a closed joint-stock bank, which was incorporated in the Republic of Armenia in 2003. The Bank is regulated by the legislation of RA and conducts its business under license number 83, granted on 25 February 2003 by the Central Bank of Armenia (the “CBA”).

During the period from April 2, 2003 to May 22, 2003 the Bank has acquired OJSC Adshingbank.

During the period from November 6, 2003 to December 11, 2003 the Bank has acquired OJSC HaiAgrobank.

The Bank accepts deposits from the public and extends credit, transfers payments in Armenia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its main office is in Yerevan and it has 50 branches in Yerevan and in different regions and one representative office in Paris.

The registered office of the Bank is located at: 13/1 Grigor Lusavorichi 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. Consequently, operations carried out in Armenia involve certain risks that are not typically associated with those in developed countries.

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

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

3 Basis of preparation

3.1 Statement of compliance

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Reclassifications

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

3.5 New standards and interpretations

In 2006 the following interpretations and amendments applicable to the Bank became effective:

- Amendment to IAS 39 regarding the financial guarantee contracts (effective January 1, 2006)
- Amendment to IAS 39 regarding the fair value option (effective January 1, 2006)

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

At the date of authorization of these financial statements, the following Standards and Interpretations applicable to the Bank were issued but not yet effective:

- IFRS 7 *Financial Instruments: Disclosures* (effective January 1, 2007)
- Amendment to IAS 1 *Amendments to Capital Disclosures* (effective January 1, 2007)

3.6 Reconciliation of Accounting Standards of the Republic of Armenia and IFRS equity and profit for the year

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

In thousand Armenian drams	2006		2005	
	Equity	Profit for the year	Equity	Profit for the year
Armenian Accounting Legislation	11,073,077	2,072,427	8,876,118	2,267,959
Opening balance adjustment	-	27,488	6,100	-
Revaluation of available-for-sale securities	-	(87,293)	-	(105,260)
Deferred taxes on revaluation of available-for-sale securities	-	17,459	-	21,052
Revaluation of buildings	-	-	96,369	-
Deferred taxes on revaluation of buildings	-	-	(19,274)	-
Reversal of provision for bank guarantees and other provisions	74,229	74,229	56,279	56,279
Deferred taxes on reversal of provision for bank guarantees and other provisions	(3,590)	(3,590)	(11,256)	(11,256)
Amortization of intangible assets	-	-	7,625	7,625
Deferred taxes on amortization of intangible assets	-	-	(1,525)	(1,525)
Impairment of fixed assets	-	-	(503)	(503)
Reversal of impairment of other assets	129,766	129,766	-	-
Impairment of loans	(129,766)	(129,766)	-	-
International Financial Reporting Standards	11,143,716	2,100,720	9,009,933	2,234,371

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

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

4.2 Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of income as gains less losses from foreign exchange translation. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value

in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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.

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

	December 31, 2006	December 31, 2005
AMD/1 US Dollar	363.5	450.19
AMD/1 Euro	478.73	532.35

4.3 Taxation

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

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

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

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

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

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

4.4 Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost.

4.5 Amounts due from other financial institutions

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

4.6 Financial instruments

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

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

Financial assets at fair value through profit or loss

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

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

Held-to-maturity investments

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

Loans and receivables

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

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

Available-for-sale financial instruments

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

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

4.7 Allowance for impairment of financial assets

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

Assets carried at amortised cost

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

asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of income.

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

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

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

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement on income, is transferred from equity to the statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of income. Reversals of impairment losses on debt instruments are reversed through the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4.8 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

4.9 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements, and are disclosed in the balance sheet separately. The corresponding liability is presented within amounts due to financial institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

4.10 Leases

Operating - Bank as lessor

The Bank presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognised in statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

4.11 Property, plant and equipment

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

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

	Useful life (years)	Rate (%)
Buildings	20	5
Computers	1	100
Vehicles	5	20
Other fixed assets	5	20

Leasehold improvements are capitalized and depreciated over the remaining lease contract period 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 Bank. Major renovations are depreciated over the remaining useful life of the related asset.

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

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, licences and other.

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

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.

Goodwill arising in a business combination represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets. Goodwill is not amortized, instead it is tested for impairment at least once a year.

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 Borrowings

Borrowings, which include amounts due to the Central Bank and Government, amounts due to financial institutions, amounts due to customers, debt securities issued and subordinated debt 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.

4.15 Pensions

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Armenia, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

4.16 Financial commitments and contingencies

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

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

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

4.17 Share capital

Share capital

Ordinary shares are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where the Bank purchases its shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

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.

4.18 Offsetting

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

4.19 Fiduciary activities

The Bank provides trustee services to its customers. Also the Bank provides depository services to its customers that include transactions with securities on their depo accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Bank's financial statements. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations.

Commissions received from fiduciary activities are shown in fee and commission income.

5 Critical accounting estimates and judgements

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

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

Classification of investment securities

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

Related party transactions

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

Allowance for impairment of loans and receivables

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

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 23.

Impairment of available-for-sale equity investments

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

6 Interest income and expense

In thousand Armenian drams	2006	2005
Loans and advances to customers	4,284,736	4,134,614
Debt investment securities available-for-sale	139,694	185,662
Amounts due from other financial institutions	296,681	215,404
Reverse repurchase transactions	22,269	30,604
Other interest income	194	449
Total interest income	4,743,574	4,566,733

In thousand Armenian drams	2006	2005
Amounts due to customers	1,271,943	1,317,402
Amounts due to financial institutions	27,758	4,029
Repurchase transactions	1,164	3,198
Total interest expense	1,300,865	1,324,629

7 Fee and commission income

In thousand Armenian drams	2006	2005
Cash collection	170,170	158,549
Wire transfer fees	403,488	281,868
Plastic cards operations	79,326	24,520
Service fee for account maintenance of Municipal and State budgets	39,440	37,648
Guarantees and letters of credit	72,217	74,975
Encashment	970,609	969,381
Other fees and commissions	247,501	167,717
Total fee and commission income	1,982,751	1,714,658

8 Other income

In thousand Armenian drams	2006	2005
Income from sale of fixed assets	364	377
Fines and penalties received	20,626	18,932
Other income	48,483	94,773
Total other income	69,473	114,082

9 Other expenses

In thousand Armenian drams	2006	2005
Staff costs	1,883,166	1,389,206
Social security contributions	220,310	165,636
Depreciation and amortization	480,852	392,001
Fixed assets maintenance (buildings, intangibles, etc)	70,941	50,044
Advertising costs	97,909	96,323
Business trip expenses	38,512	40,078
Communications	118,140	102,720
Operating lease	127,248	144,514
Taxes, other than income tax, duties	139,797	135,348
Consulting and other services	176,508	206,636
Security	121,359	103,373
Impairment of PPE and intangibles	22,875	503
Loss on disposal of PPE	-	486
Representative expenses	19,771	17,864
Office supplies	28,802	29,402
Penalties paid	4,165	537
Other expenses	466,684	408,207
Total other expense	4,017,039	3,282,878

10 Allowances for impairment and other provisions

The movement in allowance for impairment losses on interest bearing assets were as follows:

In thousand Armenian drams	Amounts due from other financial institutions	Loans and advances to customers	Total
At January 1, 2005	52,831	234,207	287,038
Increase/(decrease) in provision	(19,744)	61,863	42,119
Write-off of assets	-	(126,179)	(126,179)
Recoveries of assets previously written off	-	121,192	121,192
At December 31, 2005	33,087	291,083	324,170
Increase/(decrease) in provision	(33,087)	289,962	256,875
Write-off of assets	-	(584,509)	(584,509)
Recoveries of assets previously written off	-	428,177	428,177
At December 31, 2006	-	424,713	424,713

The movement in allowance for impairment losses on other assets were as follows:

In thousand Armenian drams	Other assets
At January 1, 2005	2,447
Increase in provision	23,565
Write-off of assets	(30,302)
Recoveries of assets previously written off	7,669
At December 31, 2005	3,379
Increase in provision	30,052
Write-off of assets	(64,557)
Recoveries of assets previously written off	34,427
At December 31, 2006	3,301

The movement in other provisions were as follows:

In thousand Armenian drams	Legal claims	Guarantees and commitments	Total
At January 1, 2005	-	22,773	22,773
Decrease in provision	-	(22,773)	(22,773)
At December 31, 2005	-	-	-
Increase in provision	10,470	-	10,470
At December 31, 2006	10,470	-	10,470

11 Income tax expense

In thousand Armenian drams	2006	2005
Current tax expense	573,769	628,637
Deferred tax	(19,429)	19,729
Total income tax expense	554,340	648,366

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2005: 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	2006	Effective rate (%)	2005	Effective rate (%)
Profit before tax	2,655,060	-	2,882,737	-
Income tax at the rate of 20%	531,012	20	576,547	20
Non-taxable income	(13,013)	(0.5)	(3,960)	(0.1)
Non-deductible expenses	22,317	0.9	48,251	1.6
Foreign exchange negative	14,024	0.5	27,528	1
Income tax expense	554,340	20.9	648,366	22.5

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	2005	Recognized in income statement	Recognized in equity	2006
Accrued expenses and other liabilities	13,674	3,963	-	17,637
Total deferred tax assets	13,674	3,963	-	17,637
Revaluation of the PPE	(305,593)	-	16,039	(289,554)
Adjustment of goodwill	(3,050)	3,050	-	-
Allowances for impairment and provisions for other losses	(11,256)	7,666	-	(3,590)
Accrued income	(4,750)	4,750	-	-
Fair value measurement of the securities	(21,052)	-	3,593	(17,459)
Total deferred tax liability	(345,701)	15,466	19,632	(310,603)
Net deferred tax liability	(332,027)	19,429	19,632	(292,966)

In thousand Armenian drams	2004	Recognized in income statement	Recognized in equity	2005
Accrued expenses and other liabilities	15,872	(2,198)	-	13,674
Total deferred tax assets	15,872	(2,198)	-	13,674
Revaluation of the PPE	-	-	(305,593)	(305,593)
Adjustment of goodwill	(1,525)	(1,525)	-	(3,050)
Allowances for impairment and provisions for other losses	-	(11,256)	-	(11,256)
Accrued income	-	(4,750)	-	(4,750)
Fair value measurement of the securities	-	-	(21,052)	(21,052)
Total deferred tax liability	(1,525)	(17,531)	(326,645)	(345,701)
Net deferred tax liability	14,347	(19,729)	(326,645)	(332,027)

12 Cash, cash equivalents and balances with CBA

In thousand Armenian drams	2006	2005
Cash on hand	4,392,285	4,477,770
Other money market placements	12,813	68,417
Correspondent account with the CBA	7,794,037	6,124,192
Included in cash and cash equivalents	12,199,135	10,670,379
Impairment of other money market placements	-	(684)
Deposits with the CBA	-	1,000,000
Deposited funds with the CBA	327,999	324,767
Accrued interest	-	55
Total cash and balances with the CBA	12,527,134	11,994,517
Cash and balances with the CBA, included in cash flow	12,199,135	10,670,379
Placements with other banks (note 13)	12,245,145	2,699,070
Total cash and cash equivalents	24,444,280	13,369,449

As at 31 December 2006 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 8% of certain obligations of the Bank and amounts to AMD 4,574,817 thousand (2005: AMD 3,504,480 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Interest is not extended in respect of mandatory reserves.

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

13 Amounts due from other financial institutions

In thousand Armenian drams	2006	2005
Correspondent accounts with financial institutions	4,963,394	2,699,070
Deposits for less than 90 days	7,281,751	-
Included in cash and cash equivalents	12,245,145	2,699,070
Loans and deposits to financial institutions	377,638	553,167
Reverse repurchase agreements	-	251,117
	377,638	804,284
Less allowance for impairment (note 10)	-	(32,403)
Total amounts due from other financial institutions	12,622,783	3,470,951

As at 31 December 2006 the amounts due from other financial institutions in amounts of AMD 4,168,699 thousand (34%) (2005: AMD 2,070,874 thousand (77%)) were due from four banks, which represent significant concentration.

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December are presented as follows:

In thousand Armenian drams	2006		2005	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
State obligations of the RA Ministry of Finance	-	-	226,489	251,117
Total assets pledged and loans under reverse repurchase agreements	-	-	226,489	251,117

14 Loans and advances to customers

In thousand Armenian drams	2006	2005
Loans to customers	23,729,251	24,614,670
Overdrafts	100,755	265,657
	23,830,006	24,880,327
Less allowance for loan impairment (note 10)	(424,713)	(291,083)
Total loans and advances to customers	23,405,293	24,589,244

As of 31 December 2006 accrued interest income included in loans and advances to customers amounted to AMD 230,697 thousand (2005: AMD 198,635 thousand).

As of December 31, 2006, the Bank had a concentration of loans represented by AMD 6,186,743 thousand due from the ten largest third party entities and parties related with them (26% of gross loan portfolio) (2005: AMD 6,994,344 thousand or 28%). An allowance of AMD 181,387 thousand (2005: AMD 69,943 thousand) was made against these loans.

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

In thousand Armenian drams	2006	2005
State owned enterprises	155,364	84,499
Privately held companies	13,638,124	14,345,896
Individuals	9,126,732	9,772,407
Sole proprietors	675,939	478,890
Non-commercial institutions	3,150	-
Accrued interest	230,697	198,635
	23,830,006	24,880,327
Less allowance for loan impairment (note 10)	(424,713)	(291,083)
Total loans and advances to customers	23,405,293	24,589,244

Loans to individuals comprise the following products:

In thousand Armenian drams	2006	2005
Mortgage loans	15,822	48,278
Consumer loans	4,058,857	3,107,928
Car loans	1,697,032	1,992,400
Durables	1,256,276	2,311,426
Other	2,098,745	2,312,375
Total loans and advances to individuals (gross)	9,126,732	9,772,407

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

In thousand Armenian drams	2006	%	2005	%
Manufacturing	5,260,003	22	4,260,350	17
Agriculture	773,120	3	306,182	1
Construction	3,236,455	14	1,595,924	7
Transport and communication	285,903	1	782,374	3
Energy	690,420	3	1,235,000	5
Trade (distributors)	3,341,401	14	4,691,767	19
Consumer sector	8,865,934	38	9,390,667	38
Service sector	1,146,073	5	1,414,911	6
Other sectors	-	-	1,004,517	4
Accrued interest	230,697	-	198,635	-
Total loans and advances to customers (gross)	23,830,006	100	24,880,327	100

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

In thousand Armenian drams	2006	2005
Loans collateralized by real estate	9,501,066	7,212,423
Loans collateralized by guarantees of enterprises	261,831	90,959
Loans collateralized by current assets	2,354,743	1,957,768
Loans collateralized by equipment	4,348,776	5,835,829
Loans collateralized by cash or Armenian Government guarantees	332,526	3,643,299
Other collateral	7,031,064	6,140,049
	23,830,006	24,880,327
Less allowance for loan impairment (note 10)	(424,713)	(291,083)
Total loans and advances to customers	23,405,293	24,589,244

At 31 December 2006 the estimated fair value of loans and advances to customers was AMD 23,405,293 thousand (2005: AMD 24,589,244 thousand). Refer to Note 25.

Credit, currency, liquidity and interest rate analyses of loans and advances to customers are disclosed in Note 26. The information on related party balances is disclosed in Note 24.

15 Investments available for sale

In thousand Armenian drams	2006	2005
Securities issued by the Ministry of Finance of Armenia	3,974,982	8,346,632
Securities issued by the CBA	10,676,683	109,487
Debt instruments available for sale	14,651,665	8,456,119
Shares of Armenian companies	12,008	16,609
Shares of OECD countries companies	1,332	1,389
Equity instruments available for sale	13,340	17,998
Total investments available for sale	14,665,005	8,474,117

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

In thousand Armenian drams	2006		2005	
	%	Maturity	%	Maturity
Securities issued the Ministry of Finance of Armenia	4.2-9.4	2007-2020	3.5-14	2006-2020
Securities issued by the CBA	4.5-6.1	2007	3.7-5	2006

16 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Computers	Vehicles	Other fixed assets	Assets under construc- tion	Leasehold improve- ments	Total
COST							
Cost/Revalued amount at January 1, 2005	2,618,203	305,183	84,885	228,824	33,510	72,233	3,342,838
Additions	121,667	274,116	66,777	60,237	155,698	41,804	720,299
Disposals	(17,596)	(9,927)	(11,402)	(670)	-	(3,534)	(43,129)
Revaluations	1,637,967	-	-	-	-	-	1,637,967
Reclassifications	63,314	-	-	(407)	(56,229)	(6,678)	-
At December 31, 2005	4,423,555	569,372	140,260	287,984	132,979	103,825	5,657,975
Additions	248,627	219,988	26,007	62,800	457,185	4,852	1,019,459
Disposals	(18,844)	(7,283)	(1,974)	(2,077)	(29,929)	(36,263)	(96,370)
Reclassifications	463	-	-	1,418	10,086	(11,967)	-
At December 31, 2006	4,653,801	782,077	164,293	350,125	570,321	60,447	6,581,064
DEPRECIATION							
At January 1, 2005	61,340	174,193	16,800	60,576	-	10,320	323,229
Depreciation charge	129,975	168,561	20,833	58,486	-	10,801	388,656
Impairment losses	110,508	-	-	-	-	-	110,508
Disposals	-	(9,927)	(9,640)	(612)	-	(3,534)	(23,713)
At December 31, 2005	301,823	332,827	27,993	118,450	-	17,587	798,680
Depreciation charge	221,120	155,129	29,448	59,006	-	11,400	476,103
Disposals	(2,840)	(6,979)	(1,667)	(2,077)	-	(10,625)	(24,188)
Reclassifications	-	-	-	163	-	(163)	-
At December 31, 2006	520,103	480,977	55,774	175,542	-	18,199	1,250,595
CARRYING VALUE							
At December 31, 2006	4,133,698	301,100	108,519	174,583	570,321	42,248	5,330,469
At December 31, 2005	4,121,732	236,545	112,267	169,534	132,979	86,238	4,859,295

Revaluation of assets

The buildings owned by the Bank were evaluated by an independent appraiser during the year 2005 using a combination of the market, income and cost methods resulting in a revaluation of AMD 1,527,459 thousand. Management have based their estimate of the fair value of the buildings on the results of the independent appraisal.

The net book value of buildings that would have been recognized under the historic cost method is AMD 2,550,395 thousand, as at 31 December 2006 (2005: AMD 4,121,732 thousand).

Assets under registration

Government of RA has transferred to the Bank property rights for land lots, currently used by the Bank (previously the land lots were given to the Bank for a 99 year lease). At 31 December 2006 the Bank has submitted necessary documents for registration. Until the registration is completed, the Bank does not possess the title for this property and hence is not allowed to perform any transactions with this asset.

Fixed assets in the phase of installation

As at 31 December 2006 fixed assets included assets in the phase of installation in amount of AMD 178,132 thousand (2005: AMD 103,357 thousand), which are not amortized and are classified in accordance with their type.

17 Intangible assets

In thousand Armenian drams

	Licenses	Acquired software licenses	Goodwill	Total
COST				
At January 1, 2005	27,008	6,449	75,528	108,985
Additions	-	-	-	-
At December 31, 2005	27,008	6,449	75,528	108,985
Additions	10,800	22,080	-	32,880
At December 31, 2006	37,808	28,529	75,528	141,865
AMORTISATION				
At January 1, 2005	943	984	-	1,927
Amortisation charge	2,700	645	-	3,345
At December 31, 2005	3,643	1,629	-	5,272
Amortisation charge	3,601	1,337	-	4,938
Impairment	-	-	22,875	22,875
At December 31, 2006	7,244	2,966	22,875	33,085
CARRYING VALUE				
At December 31, 2006	30,564	25,563	52,653	108,780
At December 31, 2005	23,365	4,820	75,528	103,713

18 Other assets

In thousand Armenian drams

	2006	2005
Advances to suppliers	190,744	141,090
Settlements with employees	-	580
Accounts receivables	79,707	46,503
Other assets	114,777	72,094
	385,228	260,267
Less allowance for impairment (note 10)	(3,301)	(3,379)
	381,927	256,888
Other prepaid taxes	1,263	2,107
Materials	104,564	54,841
Other	3,838	3,838
Total other assets	491,592	317,674

19 Amounts due to financial institutions

In thousand Armenian drams	2006	2005
Correspondent accounts of other banks	326,263	286,673
Current accounts of other financial institutions	523,103	-
Deposits from financial institutions	654,493	-
Total amounts due to financial institutions	1,503,859	286,673

20 Amounts due to customers

In thousand Armenian drams	2006	2005
Government of the RA		
Current/Settlement accounts	2,327	2,928
Time deposits	1,516,327	1,246,093
	1,518,654	1,249,021
Corporate customers		
Current/Settlement accounts	23,368,095	15,803,962
Time deposits	17,903,251	15,679,138
	41,271,346	31,483,100
Retail customers		
Current/Settlement accounts	3,215,953	1,631,490
Time deposits	9,876,659	9,360,910
	13,092,612	10,992,400
Total amounts due to customers	55,882,612	43,724,521

As at 31 December 2006 included in amounts due to RA government are deposits from World Bank “Businesses Development Program”, “Agriculture Improvement Support Program”, and from “Agricultural and Small Businesses Development Program” and related to them accrued interest.

As at 31 December 2006 included in amounts due to customers are deposits amounting to AMD 109,428 thousand (2005: nil) held as security against letters of credit issued, and AMD 165,039 thousand (2005: AMD 103,306 thousand) held as security against guarantees issued.

At 31 December 2006 the aggregate balance of top ten customers of the Bank (including relating parties, see Note 24) amounts to AMD 23,251,434 thousand (2005: AMD 23,808,784 thousand) or 43% of total customer accounts (2005: 56%).

21 Other liabilities and provisions

In thousand Armenian drams	2006	2005
Accounts payables	40,086	29,794
Tax payable, other than income tax	52,080	59,832
Revenues of future periods	77,776	50,946
Due to personnel	51,392	41,252
Provisions (Note 23)	10,470	-
Other	3,809	24,551
Total other liabilities and provisions	235,613	206,375

22 Equity

As at 31 December 2006 the Bank's registered statutory and paid-up share was AMD 7,391,552 thousand. In accordance with the Bank's statutes, the share capital consists of 125,440 ordinary shares, all of which have a par value of AMD 58,925 each.

The respective shareholdings as at 31 December 2006 and 2005 may be specified as follows:

In thousand Armenian drams	2006		2005	
	Statutory capital	% of total statutory capital	Statutory capital	% of total statutory capital
Rasco Armenia CJSC	1,473,596	59.8	603,981	20
Business Investment Center Ltd	4,420,790	19.9	1,812,062	60
International Business Center CJSC	1,473,596	19.9	603,981	20
Safaryan Karen	11,785	0.2	-	-
Andreasian Aram	11,785	0.2	-	-
	7,391,552	100	3,020,024	100

As at 31 December 2006 the Bank did not possess any of its own shares.

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

In 2006 the shareholders of the Bank increased its statutory capital by AMD 4,371,528 thousand (2005: AMD 73,774 thousand).

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

At the Shareholders' Meeting in April 2006, the Bank declared dividends in respect of the year ended December 31, 2005, amounting to AMD 2,155,786 thousand on ordinary shares and in respect of undistributed earnings of previous years amounting to AMD 2,192,681 thousand, with total of AMD 4,348,467 thousand, which amounted to AMD 84,845 per share, computed according to the legislation of RA.

Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other

unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Bank's share capital reported in statutory books.

23 Financial commitments and contingencies

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

As of 31 December 2006 there were no legal actions or complaints taken against the Bank. Therefore, the Bank has not made any respective provision related to such tax and legal matters.

The Bank has made a provision of AMD 10,470 thousand for the expenses, related to the recovery of foreclosed assets.

Credit related commitments

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

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	2006	2005
Undrawn loan commitments	4,270,083	2,960,770
Unused credit cards	302,124	148,606
Unused overdrafts	448,073	97,701
Letters of credit	104,357	-
Guarantees	2,180,138	2,418,572
Total credit related commitments	7,304,775	5,625,649

Operating lease commitments

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

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

In thousand Armenian drams	2006	2005
Not later than 1 year	8,946	90,235
Later than 1 year and not later than 5 years	263,594	198,596
Later than 5 years	-	99,381
Total operating lease commitments	272,540	388,212

Capital commitments

In 2006 the Bank has started capital renovations of its office building, which as of 31 December 2006 are still in process. The costs to complete the building for its use are estimated to be AMD 213,271 thousand with renovations expected to be completed by September 2007.

Insurance

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

24 Transactions with related parties

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

The Bank's parent is RasxoArmenia CJSC. The ultimate controlling party is the Chairman of the Board of the Bank – K. Safaryan, who is a related party with other shareholders of the Bank, as well as with the shareholders of the parent company.

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

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

In thousand Armenian drams	2006		2005
	Shareholders	Key management personnel	Shareholders/ Key management personnel
Loans outstanding at January 1, gross	-	95,780	463,427
Loans issued during the year	4,158	1,411,829	2,680,437
Loan repayments during the year	(523)	(1,446,069)	(3,048,084)
Loans outstanding at December 31, gross	3,635	61,541	95,780
Less: allowance for loan impairment	(36)	(604)	(958)
Loans outstanding at December 31	3,599	60,937	94,822
Interest income on loans	57	51,380	11,113
Deposits at January 1	39,899	522,108	429,606
Deposits received during the year	35,176,486	222,415,857	42,290,232
Deposits repaid during the year	(34,947,840)	(207,046,942)	(42,157,831)
Deposits at December 31	266,356	14,002,175	562,007
Interest expense on deposits	2,973	49,665	49,625
Guarantees at January 1	-	-	-
Guarantees received during the year	-	59,386	-
Guarantees repaid during the year	-	(35,256)	-
Guarantees at December 31	-	24,130	-
Income on issued guarantees	-	431	-
Other transactions			
Sale of buildings	36,000	-	-
Purchase of fixed assets	589	-	8,234
Purchase of inventory	2,777	-	-
Capital construction	193,276	-	47,172
Other expenses			
Consulting and other services	200,899	-	198,754
Rent expense	9,685	-	13,027

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2006	2005
Salaries and other short-term benefits	861,283	648,700
Social security costs	24,764	19,331
Total key management compensation	886,047	668,031

25 Fair value of financial instruments

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available published price quotations in an active market exists for a large part of the Bank’s financial instruments, judgment is necessary in arriving at fair value using a valuation technique, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

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

In thousand Armenian drams	2006		2005	
	Current value	Fair value	Current value	Fair value
FINANCIAL ASSETS				
Amounts due from other financial institutions	12,622,783	12,622,783	3,470,951	3,470,951
Loans and advances to customers	23,405,293	23,405,293	24,589,244	24,589,244
FINANCIAL LIABILITIES				
Amounts due to financial institutions	1,503,859	1,503,859	286,673	286,673
Amounts due to customers	55,882,612	55,882,612	43,724,521	43,724,521

Amounts due from and to financial institutions

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

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 17.2% to 18.7% per annum, which mainly correspond to the current interest rates.

26 Risk management

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

Credit risk

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and

to industry and geographical segments. Limits on the level of credit risk are approved monthly by the Credit Committee. Where appropriate, and in the case of most loans, the Bank obtains collateral. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

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

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

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

In thousand Armenian drams				2006
	Armenia	Other non-OECD countries	OECD countries	Total
ASSETS				
Cash and balances with CBA	12,527,134	-	-	12,527,134
Amounts due from other financial institutions	404,732	11,835,085	382,966	12,622,783
Loans and advances to customers	23,393,107	-	12,186	23,405,293
Investments available for sale	14,663,673	1,332	-	14,665,005
	50,988,646	11,836,417	395,152	63,220,215
LIABILITIES				
Amounts due to financial institutions	934,526	-	569,333	1,503,859
Amounts due to customers	53,852,535	-	2,030,077	55,882,612
	54,787,061	-	2,599,410	57,386,471
Net position	(3,798,415)	11,836,417	(2,204,258)	5,833,744
Credit related commitments	7,303,315	-	1,460	7,304,775

In thousand Armenian drams				2005
	Armenia	Other non-OECD countries	OECD countries	Total
ASSETS				
Cash and balances with the CBA	11,994,517	-	-	11,994,517
Amounts due from other financial institutions	873,435	2,298,527	298,989	3,470,951
Loans and advances to customers	23,887,848	-	701,396	24,589,244
Investments available for sale	8,472,728	1,389	-	8,474,117
	45,228,528	2,299,916	1,000,385	48,528,829
LIABILITIES				
Amounts due to financial institutions	16,076	-	270,597	286,673
Amounts due to customers	43,724,521	-	-	43,724,521
	43,740,597	-	270,597	44,011,194
Net position	1,487,931	2,299,916	729,788	4,517,635
Credit related commitments	5,426,665	-	198,984	5,625,649

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

Market risk

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

Currency risk

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

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

In thousand Armenian drams				2006
	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
ASSETS				
Cash and balances with the CBA	6,682,249	5,784,902	59,983	12,527,134
Amounts due from other financial institutions	236	12,468,882	153,665	12,622,783
Loans and advances to customers	10,135,493	13,269,800	-	23,405,293
Investments available for sale	14,665,005	-	-	14,665,005
	31,482,983	31,523,584	213,648	63,220,215
LIABILITIES				
Amounts due to financial institutions	1,116,557	387,287	15	1,503,859
Amounts due to customers	24,700,636	31,084,611	97,365	55,882,612
	25,817,193	31,471,898	97,380	57,386,471
Net position	5,665,790	51,686	116,268	5,833,744
Credit related commitments	4,477,232	2,787,523	40,020	7,304,775

In thousand Armenian drams				2005
	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
ASSETS				
Cash and balances with the CBA	7,066,864	4,867,880	59,773	11,994,517
Amounts due from other financial institutions	251,262	3,078,915	140,774	3,470,951
Loans and advances to customers	7,065,683	17,523,561	-	24,589,244
Investments available for sale	8,474,117	-	-	8,474,117
	22,857,926	25,470,356	200,547	48,528,829
LIABILITIES				
Amounts due to financial institutions	80	286,590	3	286,673
Amounts due to customers	18,552,369	25,077,498	94,654	43,724,521
	18,552,449	25,364,088	94,657	44,011,194
Net position	4,305,477	106,268	105,890	4,517,635
Credit related commitments	3,563,489	2,023,842	38,318	5,625,649

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

Liquidity risk

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

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

In thousand Armenian drams								2006
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No stated maturity	Overdue	Total
ASSETS								
Cash and balances with CBA	12,199,135	-	-	-	-	327,999	-	12,527,134
Amounts due from other financial institutions	12,233,321	270,555	103,313	-	-	15,594	-	12,622,783
Loans and advances to customers	1,120,554	2,897,954	10,164,109	9,107,771	1,113	-	113,792	23,405,293
Investments available for sale	1,143,329	5,572,667	5,202,269	1,540,342	1,193,058	13,340	-	14,665,005
	<u>26,696,339</u>	<u>8,741,176</u>	<u>15,469,691</u>	<u>10,648,113</u>	<u>1,194,171</u>	<u>356,933</u>	<u>113,792</u>	<u>63,220,215</u>
LIABILITIES								
Amounts due to financial institutions	1,402,714	70,617	30,528	-	-	-	-	1,503,859
Amounts due to customers	40,674,418	4,098,489	8,492,006	2,617,565	134	-	-	55,882,612
	<u>42,077,132</u>	<u>4,169,106</u>	<u>8,522,534</u>	<u>2,617,565</u>	<u>134</u>	<u>-</u>	<u>-</u>	<u>57,386,471</u>
Net position	<u>(15,380,793)</u>	<u>4,572,070</u>	<u>6,947,157</u>	<u>8,030,548</u>	<u>1,194,037</u>	<u>356,933</u>	<u>113,792</u>	<u>5,833,744</u>
Accumulated gap	<u>(15,380,793)</u>	<u>(10,808,723)</u>	<u>(3,861,566)</u>	<u>4,168,982</u>	<u>5,363,019</u>	<u>5,719,952</u>	<u>5,833,744</u>	

In thousand Armenian drams								2005
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No stated maturity	Overdue	Total
ASSETS								
Cash and balances with CBA	11,669,750	-	-	-	-	324,767	-	11,994,517
Amounts due from other financial institutions	2,923,424	547,216	311	-	-	-	-	3,470,951
Loans and advances to customers	3,270,403	3,536,875	10,159,547	7,540,266	-	-	82,153	24,589,244
Investments available for sale	130,258	453,177	6,398,378	1,405,439	68,867	17,998	-	8,474,117
	<u>17,993,835</u>	<u>4,537,268</u>	<u>16,558,236</u>	<u>8,945,705</u>	<u>68,867</u>	<u>342,765</u>	<u>82,153</u>	<u>48,528,829</u>
LIABILITIES								
Amounts due to financial institutions	286,665	8	-	-	-	-	-	286,673
Amounts due to customers	19,494,664	15,034,714	7,910,518	1,244,476	40,149	-	-	43,724,521
	<u>19,781,329</u>	<u>15,034,722</u>	<u>7,910,518</u>	<u>1,244,476</u>	<u>40,149</u>	<u>-</u>	<u>-</u>	<u>44,011,194</u>
Net position	<u>(1,787,494)</u>	<u>(10,497,454)</u>	<u>8,647,718</u>	<u>7,701,229</u>	<u>28,718</u>	<u>342,765</u>	<u>82,153</u>	<u>4,517,635</u>
Accumulated gap	<u>(7,878,494)</u>	<u>(12,284,948)</u>	<u>(3,637,230)</u>	<u>4,063,999</u>	<u>4,092,717</u>	<u>4,435,482</u>	<u>4,517,635</u>	

The Bank has a significant cumulative maturity mismatch of the assets and liabilities up to one year. This liquidity mismatch arises due to the fact that the major source of finance for the Bank as at 31 December 2006 was customer accounts maturing in up to one year. Management believes that in spite of a substantial portion of customer accounts with maturity up to one year, the past experience of the Bank indicates that these deposits provide a long-term and stable source of finance for the Bank. However, such an unmatched position may increase the likelihood of future losses.

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

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

Interest rate risk

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

As at December 31, 2006 based on the Bank's analysis of monetary assets and liabilities the re-pricing dates did not differ significantly from the contractual maturity dates.

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

In thousand Armenian drams	2006		2005	
	Armenian Dram	Foreign currency	Armenian Dram	Foreign currency
ASSETS				
Cash and balances with the CBA	1.0	-	1	-
Amounts due from other financial institutions	7.9	5.2	-	-
Loans and advances to customers	17.2	18.7	17.1	18.5
Investments available for sale	4.9	-	4.9	-
LIABILITIES				
Amounts owed to financial institutions	5.4	-	-	-
Amounts owed to customers	6.1	5.3	5.6	5.5

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

27 Capital adequacy

The Bank's total capital adequacy ratio of risk weighted assets, as at 31 December 2006 was 24.18 %.

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

According to the requirements of the RA legislation the standard value of the Bank's total normative capital as at 31 December 2006 makes up AMD 8,234,884 thousand.

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