Financial statements and independent auditor’s report

“Armswissbank” CJSC

31 December 2006

Grant Thornton Amyot

Contents

Independent auditor's report

To the Shareholders of "Armswissbank" CJSC

Report on the financial statements

We have audited the accompanying financial statements of "Armswissbank" 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 entity'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 "Armswissbank" 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.

13 March 2007
Yerevan

Income statement

In thousand Armenian drams	Notes	**Year ended December 31, 2006 (audited)**	Year ended December 31, 2005 (audited)
Interest income	6	**625,864**	258,802
Interest expense	6	**(234,285)**	(44,686)
Net interest income		**391,579**	214,116
Impairment of interest bearing assets	11	**(56,203)**	(25,838)
Net interest income after impairment of interest bearing assets		**335,376**	188,278
Net trading loss	7	**(4,958)**	-
Gains less losses from trading in foreign currencies		**20,209**	4,897
Gains less losses from foreign exchange translation		**5,344**	(6,496)
Fee and commission income	8	**14,007**	2,141
Fee and commission expense	8	**(6,217)**	(4,396)
Gains less losses on investments available for sale		**17,157**	7,476
Dividend received		**59**	**-**
Other income	9	**102**	71
(Impairment) reversals of other assets	11	**86**	(86)
Other expenses	10	**(296,929)**	(206,253)
Profit/(loss) before income tax		**84,236**	(14,368)
Income tax (expense)/benefit	12	**(17,512)**	3,329
Profit/(loss) for the year		**66,724**	(11,039)

The accompanying notes on pages 7 to 38 are an integral part of these financial statements.

Balance sheet

In thousand Armenian drams	Notes	**As of December 31, 2006 (audited)**	As of December 31, 2005 (audited)
ASSETS			
Cash and balances with CBA	13	**684,244**	330,100
Amounts due from other financial institutions	14	**1,063,395**	403,078
Loans and advances to customers	15	**2,572,866**	2,351,717
Investments available for sale	16	**1,691,984**	2,404,198
Investments held to maturity	16	**18,374**	-
Securities pledged under repurchase agreements		**3,288,538**	255,060
Property, plant and equipment	17	**63,783**	47,101
Intangible assets	18	**25,432**	27,436
Deferred income tax assets	12	**-**	3,227
Other assets	19	**9,182**	10,175
TOTAL ASSETS		**9,417,798**	5,832,092
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to financial institutions	20	**4,142,293**	1,932,376
Amounts due to customers	21	**1,604,721**	911,911
Trading liabilities	22	**590,054**	-
Current income tax liabilities		**10,853**	-
Deferred income tax liabilities	12	**1,407**	-
Other liabilities and provisions	23	**10,366**	8,914
Total liabilities		**6,359,694**	2,853,201
Equity			
Share capital	24	**3,000,000**	3,000,000
Other reserves		**12,898**	409
Retained earnings/ (Accumulated losses)		**45,206**	(21,518)
Total equity		**3,058,104**	2,978,891
TOTAL LIABILITIES AND EQUITY		**9,417,798**	5,832,092

The financial statements from pages 3 to 38 were approved by the management of the Bank on March 13, 2007 and signed by the Bank’s General Director and Chief Accountant. The accompanying notes on pages 7 to 38 are an integral part of these financial statements.

G. MACHANYAN

General Director

G. MOVSISYAN

Chief accountant

Statement of changes in equity

In thousand Armenian drams	**Share capital**	**Revaluation reserve of investments available for sale**	**Accumulated profit/(loss)**	**Total**
Balance as of January 1, 2005 (audited)	**120,000**	**-**	**(10,479)**	**109,521**
Increase in share capital	2,880,000	-	-	2,880,000
Profit for the year	-	-	(11,039)	(11,039)
Net gains from changes in fair value	-	511	-	511
Effect of deferred taxes	-	(102)	-	(102)
Balance as of December 31, 2005 (audited)	**3,000,000**	**409**	**(21,518)**	**2,978,891**
Profit for the year	-	-	66,724	66,724
Net gains from changes in fair value	-	45,702	-	45,702
Net losses transferred to net profit on disposal of available-for-sale instruments	-	(30,091)	-	(30,091)
Effect of deferred taxes	-	(3,122)	-	(3,122)
Balance as of December 31, 2006 (audited)	**3,000,000**	**12,898**	**45,206**	**3,058,104**

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	**602,211**	229,406
Interest paid	**(224,627)**	(32,670)
Fees and commissions received	**14,007**	2,141
Fees and commissions paid	**(6,217)**	(4,396)
Gains less losses from trading securities	**(4,958)**	-
Realised gains less losses from dealing in foreign currencies	**20,209**	4,897
Recovery of loans written off previously	**17,259**	71
Salaries and benefits paid	**(160,159)**	(100,861)
Other operating expenses paid	**(116,020)**	(82,068)
Cash flows from operating activities before changes in operating assets and liabilities	**141,705**	16,520
Net (increase)/decrease in operating assets		
Securities available for sale	**(2,285,917)**	(2,631,402)
Amounts due from other financial institutions	**(553,122)**	(315,445)
Loans and advances to customers	**(278,406)**	(2,359,208)
Other assets	**485**	(2,926)
Increase/(decrease) in operating liabilities		
Amounts due to financial institutions	**(305,631)**	814,881
Amounts due to customers	**782,411**	911,787
Other liabilities	**1,024**	-
Net cash flow used in operating activities before income tax	**(2,497,451)**	(3,565,793)
Income tax paid	**(3,976)**	(1,171)
Net cash used in operating activities	**(2,501,427)**	(3,566,964)
Cash flows from investing activities		
Purchase of investment securities	**(18,355)**	**-**
Dividends received	**59**	**-**
Purchase of property and equipment	**(33,938)**	(17,294)
Proceeds from sale of property and equipment	**23**	-
Purchase of intangible assets	**(1,681)**	(28,575)
Net cash used in investing activities	**(53,892)**	(45,869)
Cash flow from financing activities		
Issue of share capital	**-**	2,880,000
Loans received/(redeemed) from financial institutions	**3,006,343**	1,109,381
Net cash flow from financing activities	**3,006,343**	3,989,381
Effect of exchange rate changes on cash and cash equivalents	**5,344**	(6,496)
Net increase/(decrease) in cash and cash equivalents	**456,368**	370,052
Cash and cash equivalents at the beginning of the year	**419,662**	49,610
Cash and cash equivalents at the end of the year (Note 13)	**876,030**	419,662

Accompanying notes to the financial statements

1 Principal activities

"ARMSWISSBANK" CJSC ("the Bank") was formed in 2004 as a Closed Joint Stock Company under the laws of Republic of Armenia ("RA"). The Bank was registered on October 7, 2004 under the license N84 granted by the Central Bank of Armenia ("CBA").

The Bank provides banking services peculiar to corporate, investment and private banking activity, particularly: investments in financial instruments, acceptance of deposits from commercial and retail customers, financing (making loans and factoring) and other banking services.

The Bank's main office is in Yerevan. The Bank's registered legal address is Yerevan, 13/2 Khangyan str., Republic of Armenia, 0010.

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.

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	Loss for the year
Armenian Accounting Legislation	**3,055,369**	**64,571**	2,978,309	(11,621)
Opening balance adjustment	**-**	**(582)**	-	-
Decrease in allowance for impairment losses on off balance sheet items	**954**	**954**	727	727
Decrease in allowance for impairment losses on amounts from other financial institutions	**2,082**	**2,082**	-	-
Decrease in allowance for impairment losses on other assets	**201**	**201**	-	-
Deferred tax	**(502)**	**(502)**	(145)	(145)
International Financial Reporting Standards	**3,058,104**	**66,724**	2,978,891	(11,039)

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 purposed, 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 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 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 Derivative financial assets

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps, options and other derivative instruments. Such financial instruments are held for trading and are initially recognised 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.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

4.7 Financial instruments

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

When financial assets and liabilities are recognised initially, they are measured at 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.

4.8 Allowance for impairment of financial assets

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

Assets carried at amortised cost

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

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

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

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

When a loan is uncollectible, 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.

4.9 Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

4.10 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified and faced the balance sheet as securities pledged under sale and repurchase agreements.

The corresponding liability is presented within amounts due to financial institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate.

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

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

4.11 Leases

Operating - Bank as lessee

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

4.12 Property, plant and equipment

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

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

	Useful life (years)	Rate (%)
Computers	4	25
Vehicles	5	20
Office equipment	5	20
Other fixed assets	3-5	33.33-20

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

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

4.13 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives during 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.

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 and non-redeemable preference shares with discretionary dividends 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 or its subsidiaries purchases the Bank's 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 depositary 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 and corporate bonds, securities issued by the Central Bank of Armenia and corporate shares. Upon initial recognition, the Bank designates securities as financial assets with recognition of changes in fair value through profit or loss, held to maturity financial assets or available-for-sale financials assets recognition of changes in fair value through equity.

Related party transactions

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

Allowance for impairment of loans and receivables

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

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 25.

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	**360,659**	134,874
Debt investment securities available-for-sale	**213,318**	104,040
Amounts due from financial institutions	**21,029**	12,356
Reverse repurchase transactions	**30,858**	7,532
Total interest income	**625,864**	258,802

In thousand Armenian drams	**2006**	2005
Amounts due to customers	**104,812**	5,853
Amounts due to financial institutions	**77,397**	28,324
Repurchase transactions	**52,076**	10,509
Total interest expense	**234,285**	44,686

7 Net trading loss

In thousand Armenian drams	**2006**	2005
Gains less losses arising on adjustment of fair value of trading assets	**(6,481)**	-
Gains less losses from sale of trading assets	**1,523**	-
Total loss from trading securities	**(4,958)**	-

Gains less losses from adjustment of fair value of trading assets amounting to AMD 6,481 thousand have comprised as a result of adjustment of fair value of derivative instruments. Liability arising from the adjustment of fair value of derivative instrument has been offset with the guarantee amount kept for the given transactions in financial organizations.

8 Fee and commission income and expenses

In thousand Armenian drams	**2006**	2005
Cash collection	**4,182**	2,141
Wire transfer fees	**4,776**	-
Guarantees	**2,996**	-
Other fees and commissions	**2,053**	-
Total fee and commission income	**14,007**	2,141

In thousand Armenian drams	**2006**	2005
Wire transfer fees	**5,882**	4,343
Cash operations	**259**	-
Other expenses	**76**	53
Total fee and commission expense	**6,217**	4,396

9 Other income

In thousand Armenian drams	**2006**	2005
Fines and penalties received	**2**	68
Other income	**100**	3
Total other income	**102**	71

10 Other expenses

In thousand Armenian drams	**2006**	2005
Staff costs	**147,310**	103,238
Social security contributions	**14,301**	8,815
Depreciation and amortization	**20,345**	12,132
Fixed assets maintenance	**5,747**	2,840
Advertising costs	**1,590**	525
Business trip expenses	**5,675**	5,322
Communications	**32,108**	15,867
Operating lease	**28,620**	20,363
Taxes, other than income tax, duties	**12,372**	6,529
Consulting and other services	**4,002**	8,267
Security	**4,525**	681
Loss on disposal of PPE	**21**	-
Representative expenses	**8,930**	3,289
Office supplies	**2,280**	1,020
Penalties paid	**2,641**	-
Other expenses	**6,462**	17,365
Total other expense	**296,929**	206,253

11 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	**-**	**-**	**-**
Increase in provision	2,246	23,592	25,838
At December 31, 2005	**2,246**	**23,592**	**25,838**
Increase/(decrease) in provision	(2,246)	58,449	56,203
Write-off of assets	-	(56,839)	(56,839)
At December 31, 2006	**-**	**25,202**	**25,202**

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

In thousand Armenian drams	Other assets	Investments available for sale	Total
At January 1, 2005	**-**	**-**	**-**
Increase in provision	86	86	86
At December 31, 2005	**86**	**86**	**86**
Increase/(decrease) in provision	(86)	(86)	(86)
At December 31, 2006	**-**	**-**	**-**

12 Income tax expense/(benefit)

In thousand Armenian drams	**2006**	2005
Current tax expense	**16,000**	-
Deferred tax	**1,512**	(3,329)
Total income tax expense/(benefit)	**17,512**	(3,329)

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/(benefit) and accounting profit/(loss) is provided below:

In thousand Armenian drams	**2006**	**Effective rate (%)**	2005	Effective rate (%)
Profit/(loss) before tax	**84,236**	**-**	(14,368)	-
Income tax at the rate of 20%	**16,847**	**20**	(2,874)	20
Non-taxable income	**(12)**	**-**	-	-
Non-deductible expenses	**2,995**	**4**	380	(3)
Foreign exchange (gains)/negative	**(1,069)**	**(1)**	1,299	(9)
Change in unrecognized deferred tax assets	**-**	**-**	(2,134)	15
Other	**(1,249)**	**(1)**	-	-
Income tax expense/(benefit)	**17,512**	**22**	(3,329)	23

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	846	(49)	-	**797**
Adjustment of fair value of trading assets	-	1,522	-	**1,522**
Tax losses carried forward	2,628	(2,628)	-	**-**
Total deferred tax assets	3,474	(1,155)	-	**2,319**
Recovery of allowances for impairment and provisions for other income	(145)	(357)	-	**(502)**
Adjustment of fair value of securities available for sale	(102)	-	(3,122)	**(3,224)**
Total deferred tax liability	(247)	(357)	(3,122)	**(3,726)**
Net deferred tax asset/(liability)	3,227	(1,512)	(3,122)	**(1,407)**

In thousand Armenian drams	2004	Recognized in income statement	Recognized in equity	**2005**
Accrued expenses and other liabilities	63	783	-	**846**
Tax losses carried forward	2,071	557	-	**2,628**
Gross deferred tax asset	2,134	1,340	-	**3,474**
Revaluation of deferred tax assets	(2134)	2,134	-	**-**
Total deferred tax assets	-	3,474	-	**3,474**
Recovery of allowances for impairment and provisions for other income	-	(145)	-	**(145)**
Adjustment of fair value of securities available for sale	-	-	(102)	(102)
Total deferred tax liability	-	(145)	(102)	**(247)**
Net deferred tax asset	-	3,329	(102)	**3,227**

13 Cash, cash equivalents and balances with CBA

In thousand Armenian drams	**2006**	2005
Cash on hand	**5,203**	-
Correspondent account with the CBA	**679,041**	330,100
Included in cash and cash equivalents with the CBA	**684,244**	330,100
Cash and balances with the CBA, included in cash flow	**684,244**	330,100
Placements with other banks (note 13)	**191,786**	89,562
Total cash and cash equivalents	**876,030**	419,662

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 142,603 thousand (2005: AMD 92,436 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.

14 Amounts due from other financial institutions

In thousand Armenian drams	**2006**	2005
Correspondent accounts with financial institutions	**191,786**	89,562
Included in cash and cash equivalents	**191,786**	89,562
Deposits to financial institutions	**20,049**	135,105
Reverse repo agreements	**851,560**	180,657
	871,609	315,762
Less allowance for impairment on financial institutions (note 11)	**-**	(2,246)
	871,609	313,516
Total amounts due from other financial institutions	**1,063,395**	403,078

Item "Deposits in financial institutions" includes balance at the amount of AMD 20,049 thousand which is guarantee amount for making trade operations in international markets.

Information on related parties is disclosed in Note 26.

Fair value of securities obtained under reverse repurchase agreements and carrying value of loans 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
Securities of the RA Ministry of Finance	**844,492**	**851,560**	195,153	180,657
Total securities under reverse repurchase agreements	**844,492**	**851,560**	195,153	180,657

15 Loans and advances to customers

In thousand Armenian drams	2006	2005
Loans to customers	**2,500,051**	2,375,309
Loans granted under reverse repurchase agreements	**98,017**	-
	2,598,068	2,375,309
Less allowance for loan impairment (note 11)	**(25,202)**	(23,592)
Total loans and advances to customers	**2,572,866**	2,351,717

As of 31 December 2006 accrued interest income included in loans and advances to customers amounted to AMD 17,293 thousand (2005: AMD 16,101 thousand).

As of December 31, 2006, 88% of the Bank's loan portfolio at the total amount of AMD 2,283,728 thousand have been provided to 8 borrowers and parties related with them (2005: AMD 2,133,814 thousand or 90 % provided to 7 borrowers and parties related with them). An allowance of AMD 22, 152 thousand (2005: AMD 21,338 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	**7,000**	20,000
Privately held companies	**2,106,301**	1,913,362
Individuals	**467,474**	425,846
Accrued interest	**17,293**	16,101
	2,598,068	2,375,309
Less allowance for loan impairment (note 11)	**(25,202)**	(23,592)
Total loans and advances to customers	**2,572,866**	2,351,717

Loans to individuals comprise the following products:

In thousand Armenian drams	2006	2005
Mortgage loans	**38,957**	92,846
Consumer loans	**9,259**	-
Car loans	**970**	-
Other	**418,288**	333,000
Total loans and advances to individuals (gross)	**467,474**	425,846

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

In thousand Armenian drams	2006	%	2005	%
Manufacturing	**1,003,977**	**38**	1,463,304	61
Construction	**250,000**	**10**	450,057	19
Energy	**403,227**	**16**	-	-
Trade	**374,256**	**14**	-	-
Consumer sector	**49,185**	**2**	92,847	4
Finance sector	**32,003**	**1**		
Service sector	**363,838**	**14**	333,000	14
Other sectors	**104,289**	**4**	20,000	1
Accrued interest	**17,293**	**1**	16,101	1
Total loans and advances to customers (gross)	**2,598,068**	**100**	2,375,309	100

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

In thousand Armenian drams	2006	2005
Loans collateralized by real estate	**1,927,615**	1,984,891
Loans collateralized by movable property	**209,831**	241,276
Loans collateralized by guarantees of enterprises	**132,416**	-
Loans collateralized by shares of other companies	**82,765**	113,041
Loans collateralized by cash	**130,859**	20,000
Loans collateralized by guarantees of financial institutions	**97,289**	-
Other collateral	**17,293**	16,101
Accrued interests	**2,598,068**	2,375,309
Less allowance for loan impairment (note 11)	**(25,202)**	(23,592)
Total loans and advances to customers	**2,572,866**	2,351,717

Fair value of securities under reverse repurchase agreements and carrying value of loans 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
Securities issued by the Ministry of Finance	**101,363**	**97,289**	-	-
Total assets pledged and loans under reverse repurchase agreements	**101,363**	**97,289**	**-**	**-**

At 31 December 2006 the estimated fair value of loans and advances to customers was AMD 2,572 866 thousand (2005: AMD 2,351,717 thousand). Refer to Note 27.

Credit, currency, liquidity and interest rate analyses of loans and advances to customers are disclosed in Note 28. The information on related party balances is disclosed in Note 26.

16 Investment securities

Investments available for sale

In thousand Armenian drams	2006	2005
Securities issued by the Ministry of Finance of Armenia	**1,298,008**	1,616,346
Securities issued by the CBA	**-**	265,827
Government securities of OECD countries	**316,736**	399,819
Government securities of non-OECD countries	**75,334**	122,206
Debt instruments available for sale	**1,690,078**	2,404,198
Shares of OECD countries companies	**1,906**	-
Total equity instruments available for sale	**1,906**	-
Total investments available for sale	**1,691,984**	2,404,198

Available for sale securities by maturity date and profitability comprise:

In thousand Armenian drams	2006		2005	
	%	**Maturity**	%	Maturity
Securities issued the Ministry of Finance of Armenia	**5-10%**	**2007-2021**	5-10%	2006-2020
Securities issued by the CBA	-	-	5%	2006
Government securities of OECD	**4%**	**2015**	4%	2015
Government securities of non- OECD	**8.25%**	**2010**	8.25%	2010

As at 31 December 2006 investments available for sale amounting to AMD 643,961 thousand (2005: AMD 1,349,709 thousand) have been pledged as collateral under the deposit received from other bank. (Notes 20).

Investments held to maturity

In thousand Armenian drams	**2006**	2005
Nominal value	**20,000**	-
Discount	**(1,626)**	-
Total investments held to maturity	**18,374**	-

Held-to-maturity securities upon profitability and maturity terms:

In thousand Armenian drams	**2006**		**2005**	
	%	**Maturity**	%	Maturity
Non-state bonds	**9%**	**2007**	-	-

17 Property, plant and equipment

In thousand Armenian drams	**Computers and communication means**	**Vehicles**	**Fixtures and fittings**	**Total**
COST				
Cost at January 1, 2005	29,807	5,073	6,310	41,190
Additions	11,277	-	6,017	17,294
Disposals	-	-	-	-
At December 31, 2005	**41,084**	**5,073**	**12,327**	**58,484**
Additions	**13,959**	**16,998**	**2,981**	**33,938**
Disposals	**(56)**	**-**	**-**	**(56)**
At December 31, 2006	**54,987**	**22,071**	**15,308**	**92,366**
DEPRECIATION				
At January 1, 2005	352	103	80	535
Depreciation charge	7,987	1,014	1,847	10,848
Disposals	**-**	**-**	**-**	**-**
At December 31, 2005	**8,339**	**1,117**	**1,927**	**11,383**
Depreciation charge	**11,237**	**3,003**	**2,972**	**17,212**
Disposals	**(12)**	**-**	**-**	**(12)**
At December 31, 2006	**19,564**	**4,120**	**4,899**	**28,583**
CARRYING VALUE				
At December 31, 2006 before revaluation	**35,423**	**17,951**	**10,409**	**63,783**
At December 31, 2005	32,745	3,956	10,400	47,101

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 1,500 thousand (2005: AMD 1,901 thousand), which are not amortized and are classified in accordance with their type.

18 Intangible assets

In thousand Armenian drams

	Trademarks, licenses and patents	Acquired software licenses	Other	Total
COST				
At January 1, 2005	-	120	25	145
Additions	529	27,755	291	28,575
Disposals	-	-	-	-
At December 31, 2005	**529**	**27,875**	**316**	**28,720**
Additions	**-**	**1,681**	**-**	**1,681**
Disposals	**-**	**(274)**	**(316)**	**(590)**
At December 31, 2006	**529**	**29,282**	**-**	**29,811**
AMORTISATION				
At January 1, 2005	-	-	-	-
Amortisation charge	216	1,049	19	1,284
Disposals	-	-	-	-
At December 31, 2005	**216**	**1,049**	**19**	**1,284**
Amortisation charge	**313**	**2,812**	**8**	**3,133**
Disposals	**-**	**(11)**	**(27)**	**(38)**
At December 31, 2006	**529**	**3,850**	**-**	**4,379**
CARRYING VALUE				
At December 31, 2006	**-**	**25,432**	**-**	**25,432**
At December 31, 2005	313	26,826	297	27,436

19 Other assets

In thousand Armenian drams	**2006**	2005
Prepayments and other debtors	**1,819**	3,815
Settlements with employees	**5**	161
Accounts receivable	**4,500**	4,524
Less allowance for impairment (note 11)	**-**	(86)
	6,324	8,414
Assets classified as held for sale	**-**	540
Prepaid income taxes	**-**	1,171
Other prepaid taxes	**2,494**	-
Materials	**364**	50
Total other assets	**9,182**	10,175

20 Amounts due to financial institutions

In thousand Armenian drams	**2006**	2005
Loans under repurchase agreements from the CBA	**401,047**	**-**
Correspondent accounts of other banks	**99,901**	415,415
Current accounts of other financial institutions	**9,598**	148
Deposits from financial institutions	**727,363**	1,261,297
Loans under repurchase agreements from international financial institutions	**2,904,384**	255,516
Total amounts due to financial institutions	**4,142,293**	1,932,376

As at 31 December 2006 for the deposits at the amount of 1,110,000 US Dollar attracted from resident bank the Bank has pledged securities available for sale at the amount of AMD 643,961 thousand (2005: securities at the amount of AMD 1,349,709 thousand pledged against deposits attracted from resident and non-resident banks) (See Note 16).

21 Amounts due to customers

In thousand Armenian drams	**2006**	2005
Corporate customers		
Current/Settlement accounts	**93,953**	115,400
Time deposits	**257,055**	-
	351,008	115,400
Retail customers		
Current/Settlement accounts	**61,537**	6,797
Time deposits	**1,192,176**	789,714
	1,253,713	796,511
Total amounts due to customers	**1,604,721**	911,911

As at 31 December 2006 included in amounts due to corporate customers are deposits amounting to AMD 145,400 thousand (In 2005 such transactions have been performed) held as security against loans.

58% of amounts due to the Bank's customers (2005: 80%) at the amount of AMD 987,880 thousand (2005: AMD 731,615 thousand) are the funds of the party related to the Bank's shareholder (See Note 26).

22 Trading liabilities

The trading liabilities have been arisen as a result of sale of securities under the repurchase agreements from financial organizations and individuals, which the Bank intended to repurchase them in the short period.

23 Other liabilities and provisions

In thousand Armenian drams	**2006**	2005
Accounts payables	**3,776**	5,137
Tax payable, other than income tax	**2,292**	1,068
Due to personnel	**3,986**	2,534
Other	**312**	175
Total other liabilities and provisions	**10,366**	8,914

24 Equity

As at 31 December 2006 the Bank's registered and paid-in share capital was AMD 3,000,000 thousand. In accordance with the Bank's statues, the share capital consists of 5,000 ordinary shares, all of which have a par value of AMD 600,000 each.

The only shareholder of the Bank is Swiss businessman Vardan Sirmakes.

Distributable reserves of the Bank are limited by accumulated gain and recorded according to the Armenian legislation, and as at December 31, 2006 amount to AMD 42,471 thousand.

25 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 at 31.12.2006 there have not been any legal actions and complaints taken against the Bank. Therefore, the Bank has not made any respective provision related to such tax and legal matters.

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	**73,948**	72,689
Guarantees	**21,411**	-
Total credit related commitments	**95,359**	72,689

Operating lease commitments

In the normal course of business the Bank enters into other lease agreements for business areas.

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	**31,200**	21,069
Later than 1 year and not later than 5 years	**117,000**	**61,451**
Later than 5 years	**-**	-
Total operating lease commitments	**148,200**	82,520

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Armenia at present.

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 Law on Guarantees of Bank Deposits to Physical Persons. 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.

Maintenance of depo accounts

By the commission of its customers, the Bank obtains securities and maintains depo accounts.

These assets are not included in the Bank's balance sheet as they are not assets of the Bank. Nominal values disclosed below are normally different from the fair values of respective securities. The balances of depo accounts of the Bank's clients are as follows:

In thousand Armenian drams	**2006**	2005
Armenian government loan bonds held by the Bank on behalf of its customers	**32,132**	-
Total fiduciary assets	**32,132**	-

26 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.

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	
	Share-holders	**Key management personnel**	Share-holders	Key management personnel
Loans outstanding at January 1, gross	-	**6,415**	-	-
Loans issued during the year	-	**21,659**	-	7,000
Loan repayments during the year	**-**	**(5,520)**	-	(585)
Loans outstanding at December 31	**-**	**22,554**	**-**	6,415
Interest income on loans	**-**	**1,462**	-	325
Deposits at January 1	**731,615**	**183**	-	-
Deposits received during the year	**767,014**	**255,087**	1,857,050	8,066
Deposits repaid during the year	**(510,293)**	**(229,726)**	(1,125,435)	(7,883)
Deposits at December 31	**988,336**	**25,544**	731,615	183
Interest expense on deposits	**83,700**	**573**	5,743	-
Amounts due from other financial institutions	**17,313**	**-**	**-**	**-**
Amounts due to other financial institutions at January 1	**452,210**	**-**	**-**	**-**
Issued during the year	**16,212**	**-**	2,183,187	-
Repaid during the year	**460,163**	**-**	(1,730,977)	-
Balance at December 31	**8,259**	**-**	452,210	-
Interest expense	**853**	**-**	8,695	-
Type of Income				
Fee and commission income	**5**	**106**	-	-
Type of Expense				
Fee and commission expense	**170**	**-**	-	-

The information mentioned in the tables above is the following transactions with related parties:

Amounts due from other financial institutions include the balances of correspondent accounts in the related bank.

Amounts due to other financial institutions include the balance of correspondent accounts of the related parties in the Bank.

The loans and advances include loans provided to the managers of the Bank and to the parties related to them.

Amounts due to clients are demand and time deposits of the party related to the Bank's shareholder, managers of the Bank and the parties related to them.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	**2006**	2005
Salaries and other short-term benefits	**106,713**	47,969
Social security costs	**7,888**	3,821
Total key management compensation	**114,601**	51,790

27 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	**1,063,395**	**1,063,395**	403,078	403,078
Loans and advances to customers	**2,572,866**	**2,572,866**	2,351,717	2,351,717
Investment securities held to maturity	**18,374**	**18,369**	**-**	-
FINANCIAL LIABILITIES				
Amounts due to financial institutions	**4,142,293**	**4,142,293**	1,932,376	1,932,376
Amounts due to customers	**1,604,721**	**1,604,721**	911,911	911,911

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. Their interest rates are mainly coincided with the interest rates of the provided loans. Therefore, their fair value are similar to the carrying amount.

Investment securities held to maturity

Market values have been used to determine the fair value of investment securities held-to-maturity traded on an active market. For securities that are not traded on an active market, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

28 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 or geographical segments. Limits on the level of credit risk are approved by the Board of the Bank. 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.

In the context of the credit risk the Board of the Bank has defined the criteria for partners' selection on the basis of estimations of well-known credit rating agencies (S&P's and Moody's Credit Rating Agencies). If there is a necessity to collaborate with partner who has no the respective investment credit rating, the Board of the Bank defines limits for the latter as an exception.

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 Board of the Bank. 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	**OECD countries**	**Other non-OECD countries**	**Total**
ASSETS				
Cash and balances with CBA	**684,244**	**-**	**-**	**684,244**
Amounts due from other financial institutions	**868,873**	**95,827**	**98,695**	**1,063,395**
Loans and advances to customers	**2,363,145**	**209,721**	**-**	**2,572,866**
Investments available for sale	**1,298,006**	**318,643**	**75,335**	**1,691,984**
Investments held to maturity	**18,374**	**-**	**-**	**18,374**
Securities pledged under repurchase agreements	**3,288,538**	**-**	**-**	**3,288,538**
	8,521,180	**624,191**	**174,030**	**9,319,401**
LIABILITIES				
Amounts due to financial institutions	**4,142,293**	**-**	**-**	**4,142,293**
Amounts due to customers	**496,074**	**1,101,760**	**6,887**	**1,604,721**
Trading liabilities	**590,054**	-	-	**590,054**
	5,228,421	**1,101,760**	**6,887**	**6,337,068**
Net position	**3,292,759**	**(477,569)**	**167,143**	**2,982,333**
Credit related commitments	**95,359**	**-**	**-**	**95,359**

In thousand Armenian drams				2005
	Armenia	Other non-OECD countries	OECD countries	Total
ASSETS				
Cash and balances with the CBA	330,100	-	-	330,100
Amounts due from other financial institutions	269,324	133,754	-	403,078
Loans and advances to customers	2,306,832	44,885	-	2,351,717
Investments available for sale	1,882,173	399,819	122,206	2,404,198
Securities pledged under repurchase agreements	255,060	-	-	255,060
	5,043,489	578,458	122,206	5,744,153
LIABILITIES				
Amounts due to financial institutions	1,546,930	385,446	-	1,932,376
Amounts due to customers	116,065	795,846	-	911,911
	1,662,995	1,181,292	-	2,844,287
Net position	3,380,494	(602,834)	122,206	2,899,866
Credit related commitments	72,689	-	-	72,689

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

Market risk

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, 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 sets limits on the level of exposure by currencies (primarily US dollar). 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/ precious metals	Non-freely convertible currencies	Total
ASSETS				
Cash and balances with the CBA	466,643	217,546	55	684,244
Amounts due from other financial institutions	861,410	200,059	1,926	1,063,395
Loans and advances to customers	1,289,515	1,283,351	-	2,572,866
Investments available for sale	1,298,008	393,976	-	1,691,984
Investments held to maturity	18,374	-	-	18,374
Securities pledged under repurchase agreements	3,288,538	-	-	3,288,538
	7,222,488	2,094,932	1,981	9,319,401
LIABILITIES				
Amounts due to financial institutions	3,451,066	691,227	-	4,142,293
Amounts due to customers	122,685	1,481,904	132	1,604,721
Trading liabilities	590,054	-	-	590,054
	4,163,805	2,173,131	132	6,337,068
Net position	3,058,683	(78,199)	1,849	2,982,333
Credit related commitments	43,378	51,981	-	95,359

In thousand Armenian drams				2005
	Armenian Dram	Freely convertible currencies/ precious metals	Non-freely convertible currencies	Total
ASSETS				
Cash and balances with the CBA	66,577	263,523	-	330,100
Amounts due from other financial institutions	180,657	222,421	-	403,078
Loans and advances to customers	1,245,789	1,105,928	-	2,351,717
Investments available for sale	1,882,173	522,025	-	2,404,198
Securities pledged under repurchase agreements	255,060	-	-	255,060
	3,630,256	2,113,897	-	5,744,153
LIABILITIES				
Amounts due to financial institutions	665,513	1,266,863	-	1,932,376
Amounts due to customers	88,121	823,790	-	911,911
	753,634	2,090,653	-	2,844,287
Net position	2,876,622	23,244	-	2,899,866
Credit related commitments	10,000	62,689	-	72,689

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 respective collegial body (Assets and Liabilities Management Committee) efficiently manages the liquidity risks by means of GAP model.

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 the Bank's 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.

2006

In thousand Armenian drams

	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**	**Total**
ASSETS							
Cash and balances with CBA	**684,244**	**-**	**-**	**-**	**-**	**-**	**684,244**
Amounts due from other financial institutions	**963,143**	**100,252**	**-**	**-**	**-**	**-**	**1,063,395**
Loans and advances to customers	**182,546**	**171,848**	**1,159,928**	**1,053,507**	**5,037**	**-**	**2,572,866**
Investments available for sale	**30,443**	**148,626**	**419,564**	**779,694**	**311,751**	**1,906**	**1,691,984**
Investments held to maturity	**-**	**-**	**18,374**	**-**	**-**	**-**	**18,374**
Securities pledged under repurchase agreements	**3,288,538**						**3,288,538**
	5,148,914	**420,726**	**1,597,866**	**1,833,201**	**316,788**	**1,906**	**9,319,401**
LIABILITIES							
Amounts due to financial institutions	**3,735,955**	**-**	**406,338**	**-**	**-**	**-**	**4,142,293**
Amounts due to customers	**123,239**	**236,253**	**1,071,023**	**174,206**	**-**	**-**	**1,604,721**
Trading liabilities	**590,054**	**-**	**-**	**-**	**-**	**-**	**590,054**
	4,449,248	**236,253**	**1,477,361**	**174,206**	**-**	**-**	**6,337,068**
Net position	**699,666**	**184,473**	**120,505**	**1,658,995**	**316,788**	**1,906**	**2,982,333**
Accumulated gap	**699,666**	**884,139**	**1,004,644**	**2,663,639**	**2,980,427**	**2,982,333**	

2005

In thousand Armenian drams

	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	Total
ASSETS						
Cash and balances with CBA	330,100	-	-	-	-	330,100
Amounts due from other financial institutions	403,078	-	-	-	-	403,078
Loans and advances to customers	64,249	121,395	393,339	221,950	1,772,734	2,351,717
Investments available for sale	7,122	91,558	295,347	519,340	1,490,831	2,404,198
Securities pledged under repurchase agreements	255,060	-	-	-	-	255,060
	1,059,609	212,953	688,686	2,292,074	1,490,831	5,744,153
LIABILITIES						
Amounts due to financial institutions	717,656	1,214,720	-	-	-	1,932,376
Amounts due to customers	185,348	-	-	726,563	-	911,911
	903,004	1,214,720	-	726,563	-	2,844,287
Net position	156,605	(1,001,767)	688,686	1,565,511	1,490,831	2,899,866
Accumulated gap	156,605	(845,162)	(156,476)	1,409,035	2,899,866	

The time deposits attracted from the party related with the Bank make up significant portion in the structure of the Bank's attracted funds due to the gradual formation of deposits. Management believes that in the event of withdrawal of funds before the maturity date, the Bank would be given sufficient notice beforehand and it does not have an adverse impact on the operations of the Bank.

Long-term loans and overdraft facilities are generally not available in Armenia. 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

Changes in interest rates have 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	**-**	**-**	1.75	-
Amounts due from other financial institutions	**6.06**	**2.58**	3.71	3.31
Loans and advances to customers	**14.83**	**14.19**	14.5	13.6
Investments available for sale	**6.80**	**4.61**	6.1	4.7
Investments held to maturity	**9**	**-**	-	-
LIABILITIES				
Amounts owed to financial institutions	**4.77**	**5.25**	2.85	3.86
Amounts owed to customers	**5**	**7.73**	-	8.0

Balances in foreign currencies mainly represent balances in USD.

29 Capital adequacy

The Bank's total capital adequacy ratio of risk weighted assets, as at 31 December 2006 was 110 %.

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 3,056,604 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.