

Independent auditor's report

To the Shareholders and Board of Directors of "Areximbank" CJSC:

Report on the financial statements

We have audited the accompanying financial statements of "Areximbank" CJSC, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting 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 "Areximbank" 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

19 January 2007

Grant Thornton Amyot



Income statement

In thousand Armenian drams

	Notes	Year ended December 31, 2006 (audited)	Year ended December 31, 2005 (audited)
Interest income	6	1,269,963	904,857
Interest expense	6	(440,868)	(347,127)
Net interest income		829,095	557,730
Impairment of interest bearing assets	10	(176)	(23,113)
Net interest income after impairment of interest bearing assets		828,919	534,617
Gains less losses from trading in foreign currencies		161,984	99,932
Gains less losses from foreign exchange translation		(16,198)	(14,494)
Fee and commission income	7	550,104	442,013
Fee and commission expense		(72,794)	(39,594)
Other income	8	49,679	39,941
Impairment of other assets	10	(923)	(1,333)
Other (provisions) reversals	10	-	10,027
Other expenses	9	(1,130,056)	(807,699)
Profit before income tax		370,715	263,410
Income tax expense	11	(91,465)	(79,992)
Profit for the year		279,250	183,418

The accompanying notes on pages 5 to 36 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		3,427,046	4,535,967
Amounts due from other financial institutions	13		543,298	1,691,236
Loans and advances to customers	14		7,421,005	5,959,523
Investments held to maturity	15		412,710	444,529
Property, plant and equipment	16		1,234,847	1,052,834
Intangible assets	17		340,070	241,064
Other assets	18		157,688	332,790
TOTAL ASSETS			13,536,664	14,257,943
LIABILITIES AND EQUITY				
Liabilities				
Amounts due to financial institutions	19		550,917	620,571
Amounts due to customers	20		9,377,069	10,287,167
Subordinated debt	21		289,522	330,208
Current income tax liabilities			28,366	27,546
Deferred income tax liabilities	11		34,407	37,445
Other liabilities and provisions	22		65,784	44,795
Total liabilities			10,346,065	11,347,732
Equity				
Share capital	23		2,497,248	2,497,247
Statutory general reserve			5,828	5,828
Other reserves			169,473	168,336
Retained earnings			518,050	238,800
Total equity			3,190,599	2,910,211
TOTAL LIABILITIES AND EQUITY			13,536,664	14,257,943

The financial statements from pages 1 to 36 were approved by the Board of the Bank on 19 January 2007 and signed by the Bank's General Director and Chief Accountant. The accompanying notes on pages 5 to 36 are an integral part of these financial statements.



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A. JULHAKYAN
Chief accountant/CFO

Statement of changes in equity

	Share capital	Statutory general reserve	Revaluation reserve of PPE	Retained earnings/ (Accumulated loss)	Total
Balance as at 31.12.04 (audited)	2,497,247	5,828	587,730	(75,802)	3,015,003
Profit for the year	-	-	-	183,418	183,418
Decrease in revaluation reserve of PPE	-	-	(394,181)	-	(394,181)
Effect of deferred tax	-	-	78,836	-	78,836
Disposal of PPE	-	-	(131,184)	131,184	-
Effect of deferred tax	-	-	27,135	-	27,135
Balance as at 31.12.05 (audited)	2,497,247	5,828	168,336	238,800	2,910,211
Effect of deferred taxes	-	-	1,137	-	1,137
Profit for the year	-	-	-	279,250	279,250
Adjustments (Note 23)	1	-	-	-	1
Balance as at 31.12.06 (audited)	2,497,248	5,828	169,473	518,050	3,190,599

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	1,251,433	989,245
Interest paid	(406,601)	(344,206)
Fees and commissions received	560,571	450,259
Fees and commissions paid	(59,930)	(40,667)
Realised gains less losses from dealing in foreign currencies	161,984	99,932
Recoveries of previously written off loans	35,101	59,375
Salaries and benefits paid	(483,087)	(341,919)
Other operating expenses paid	(548,746)	(4,920)
Cash flows from operating activities before changes in operating assets and liabilities	510,725	867,099
<i>Net (increase)/decrease in operating assets</i>		
Amounts due from other financial institutions	30,964	54,995
Loans and advances to customers	(1,436,257)	(2,614,748)
Other assets	(22,627)	-
<i>Increase/(decrease) in operating liabilities</i>		
Amounts due to financial institutions	434,100	54,310
Amounts due to customers	(698,747)	3,408,244
Other liabilities	(63,669)	(723,038)
Net cash used in operating activities before income tax	(1,245,511)	(1,046,862)
Income tax paid	(92,011)	(74,122)
Net cash from/(used in) operating activities	(1,337,522)	972,740
Cash flows from investing activities		
Purchase of investment securities	(12,183)	(251,876)
Purchase of property and equipment	(242,863)	(128,656)
Proceeds from sale of property and equipment	82	489,909
Intangible assets purchased	(128,533)	(17,802)
Net cash from/(used in) investing activities	(383,297)	91,575
Cash flow from financing activities		
Loans redeemed to financial institutions	-	(175,100)
Proceeds from subordinated debt issued	-	315,133
Net cash flow from financing activities	-	140,033
Effect of exchange rate changes on cash and cash equivalents	(16,199)	(14,494)
Net increase/ (decrease) in cash and cash equivalents	(1,737,018)	1,189,854
Cash and cash equivalents at the beginning of the year	5,552,365	4,362,511
Cash and cash equivalents at the end of the year	3,815,347	5,552,365