

“Norvik” UCO cjsc

Financial Statements

For the period from 4 July 2006 to
31 December 2006

Contents

Independent Auditors’ Report	3
Income Statement	4
Balance Sheet.....	5
Statement of Cash Flows	6
Statement of Changes in Shareholders’ Equity	7
Notes to the Financial Statements.....	8



KPMG Armenia cjsc
 8 Hanrapetutian Street
 Yerevan 0010
 Republic of Armenia

Telephone + 374 (10) 566 762
 Fax + 374 (10) 566 762
 Internet www.kpmg.am

Independent Auditors' Report

To the Board of Directors
 "Norvik" UCO cjsc

Report on the Financial Statements

We have audited the accompanying financial statements of "Norvik" UCO cjsc (the "Company"), which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in shareholders' equity and cash flow statement for the period from 4 July 2006 (date of incorporation) to 31 December 2006, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2006, and its financial performance and its cash flows for the period from 4 July 2006 to 31 December 2006 in accordance with International Financial Reporting Standards.

KPMG Armenia cjsc

KPMG Armenia cjsc
 15 February 2007



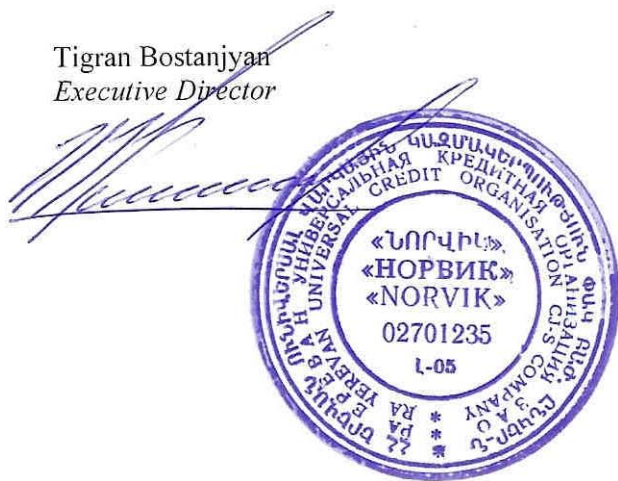
KPMG Armenia, an Armenian closed joint stock company, is the Armenian member of KPMG International, a Swiss cooperative.

“Norvik” UCO cjsc
Income Statement for the period from 4 July 2006 to 31 December 2006

	Notes	<u>2006</u> <u>AMD'000</u>
Interest income	4	40,628
Interest expense	4	(11,136)
Net interest income		29,492
Fee and commission income	5	5,431
Fee and commission expense	5	(1,030)
Net fee and commission income		4,401
Net foreign exchange loss	6	(10,022)
Other expenses		(955)
Operating income		22,916
Impairment losses	7	(3,453)
General administrative expenses	8	(76,093)
Operating expenses		(79,546)
Loss before tax		(56,630)
Income tax benefit	9	8,167
Net loss		(48,463)

The financial statements as set out on pages 4 to 28 were approved on 15 February 2007.

Tigran Bostanjyan
Executive Director



Arman Asatryan
Chief Accountant

	Notes	<u>2006</u> <u>AMD'000</u>
ASSETS		
Placements with banks and other financial institutions	10	49,227
Loans to customers	11	3,208,248
Property and equipment	12	41,922
Deferred tax asset	13	8,167
Other assets	14	<u>4,901</u>
Total Assets		<u>3,312,465</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits and balances from banks and other financial institutions	15	2,705,979
Other liabilities	16	<u>40,909</u>
Total Liabilities		<u>2,746,888</u>
Shareholders' Equity		
Share capital	17	614,040
Loss for the period		<u>(48,463)</u>
Total Shareholders' Equity		<u>565,577</u>
Total Liabilities and Shareholders' Equity		<u>3,312,465</u>

“Norvik” UCO cjsc
Statement of Cash Flows for the period from 4 July 2006 to 31 December 2006

	Notes	2006 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and fee and commission receipts		50,796
Interest and fee and commission payments		(12,166)
Net receipts from foreign exchange		3,804
Other expenses		(955)
General and administrative expenses		(65,132)
		<u>(23,653)</u>
(Increase)/decrease in operating assets		
Loans to customers		(3,250,590)
Other assets		(1,263)
Increase/(decrease) in operating liabilities		
Deposits and balances from banks and other financial institutions		2,738,582
Other liabilities		35,633
		<u>(501,291)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of property and equipment		(48,092)
		<u>(48,092)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital		614,040
		<u>614,040</u>
Net increase in cash and cash equivalents		
		64,657
Effect of changes in exchange rates on cash and cash equivalents		(15,430)
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period	22	<u><u>49,227</u></u>

“Norvik” UCO cjsc
Statement of Changes in Shareholders’ Equity for the period from 4 July 2006 to 31 December 2006

	Share capital	Accumulated losses	Total equity
	AMD’000	AMD’000	AMD’000
Balance at 4 July 2006	-	-	-
Net loss for the period	-	(48,463)	(48,463)
Shares issued	614,040	-	614,040
Balance at 31 December 2006	614,040	(48,463)	565,577

1 Background

Principal activities

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

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

Shareholders

The Company’s only shareholder is Norvik Bank jsc a Bank incorporated in Riga, Latvia. The Company’s funding is from, and credit exposure is to this Shareholder. As a result the Company is economically dependent upon the Shareholder. Related party transactions are detailed in note 21.

Armenian business environment

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

2 Basis of preparation

Statement of compliance

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

Basis of measurement

The financial statements are prepared on the historical cost basis.

Functional and presentation currency

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

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

Going concern

The accompanying IFRS financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business.

Use of estimates and judgments

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following notes:

- Loan impairment estimates - Note 11

3 Significant accounting policies

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

Foreign currency transactions

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

The official rate of exchange on 31 December 2006 was AMD 363.50 = USD 1.

Cash and cash equivalents

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

Financial instruments

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Company intends to sell immediately or in the near term, those that the Company upon initial recognition designates as at fair value through profit or loss, or those which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Recognition

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

Measurement

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

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

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

Derecognition

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

Offsetting

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

Property and equipment

Owned assets

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

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

Leased assets

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

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

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the next month from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Equipment	1 to 5 years
Fixtures and fittings	1 to 5 years
Vehicles	5 years
Other	1 to 5 years

Intangible assets

Intangible assets, which are acquired by the Bank, are stated at cost less accumulated amortization and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Computer software	10 years
-------------------	----------

Impairment

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans to customers and placement with banks (“loans and receivables”). The Company reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated.

The Company first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in the income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in the income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Dividends

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

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

Taxation

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

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

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

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

Employee benefits

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

Interest income and expenses and fee and commission income

Interest income and expense are recognised in the income statement as they accrue, taking into account the effective interest rate of the asset/liability or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Loan organization fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated live of the financial instrument using the effective interest rate method.

Other fee and commission income is recognised when the corresponding service is provided.

New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2006, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective. The Company has not yet analysed the likely impact of these new standards on its financial statements.

- IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's financial instruments.
- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's capital.

4 Net interest income

	2006 AMD '000
Interest income	
Loans to customers	39,761
Placements with banks and other financial institutions	867
	40,628
Interest expense	
Deposits and balances from banks and other financial institutions	(11,136)
	(11,136)

5 Net fee and commission income

	2006 AMD '000
Fee and commission income	
Settlement fees	5,431
	5,431
Fee and commission expense	
Settlement fees	(1,030)
	(1,030)

6 Net foreign exchange loss

	2006 AMD '000
Loss from revaluation of financial assets and liabilities	(13,826)
Net gain on spot transactions and derivatives	3,804
	(10,022)

7 Impairment losses

	2006 AMD '000
Loans to customers	3,453
	3,453

8 General administrative expenses

	2006
	AMD '000
Employee compensation	42,711
Occupancy	8,800
Depreciation and amortization	6,170
Professional services	5,183
Payroll related taxes	3,183
Communications and information services	2,071
Representative expenses	1,763
Repairs and maintenance	1,276
Advertising and marketing	975
Security	903
Taxes other than on income	716
Office supplies	696
Travel expenses	468
Other	1,178
	76,093

9 Income tax benefit

	2006
	AMD '000
Current tax expense	
Current year	-
	-
Deferred tax benefit	
Origination and reversal of temporary differences	8,167
Total income tax benefit in the income statement	8,167

The Company's applicable tax rate for current and deferred tax is 20%.

Reconciliation of effective tax rate:

	2006	
	AMD '000	%
Loss before tax	56,630	
Income tax at the applicable tax rate	11,326	(20)
Non-deductible costs/(non-taxable income)	(3,159)	6
Income tax benefit in the income statement	8,167	(14)

10 Placements with banks and other financial institutions

	2006 AMD '000
Nostro accounts	49,227
	49,227

Concentration of placements with banks and other financial institutions

As at 31 December 2006 the Company had one bank, whose balance exceeded 10% of total placements with banks and other financial institutions. The gross value of this balance as of 31 December 2006 was AMD 38,223 thousand.

11 Loans to customers

Industry and geographical analysis of the loan portfolio

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

	2006 AMD '000
Retail customers	
Mortgage loans	1,270,774
Consumer loans	571,899
Auto loans	172,214
Consumer loans secured by real estate	127,827
Commercial customers	
Trade	746,948
Food	162,897
Construction	81,462
Transportation	63,350
Accrued interest	14,330
	3,211,701
Provision for impairment	(3,453)
	3,208,248

Significant credit exposures

As at 31 December 2006 the Company had two borrowers, whose loan balances exceeded more than 10% of loans to customers. The gross value of these loans as of 31 December 2006 was AMD 727,000 thousand.

Analysis of movements in the provision for impairment

	2006
	AMD '000
Balance at the beginning of the period	-
Net charge for the period	3,453
Balance at the end of the year	3,453

The Company has reviewed its current loan portfolio and has not identified any loans which display indicators of impairment. Based on historical losses of other similar companies the Company has therefore created 0.6% provision for impairment only on its consumer loans.

Loan maturities

The maturity of the Company's loan portfolio is presented in note 26, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio.

12 Property and equipment

AMD '000	Equipment	Fixtures and fittings	Vehicles	Computer software	Other	Total
Cost						
At 4 July 2006	-	-	-	-	-	-
Additions	17,961	7,457	15,486	4,740	2,448	48,092
At 31 December 2006	17,961	7,457	15,486	4,740	2,448	48,092
Depreciation						
At 1 July 2006	-	-	-	-	-	-
Depreciation charge	4,253	637	1,032	122	126	6,170
At 31 December 2005	4,253	637	1,032	122	126	6,170
Carrying value						
At 31 December 2006	13,708	6,820	14,454	4,618	2,322	41,922
At 4 July 2006	-	-	-	-	-	-

13 Deferred tax asset

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as of 31 December 2006. These deferred tax assets have been recognised in these financial statements.

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

AMD '000	Assets 2006	Liabilities 2006	Net 2006
Loans to customers	-	(1,566)	(1,566)
Other assets	672	(107)	565
Other liabilities	858	(55)	803
Tax loss carry-forwards	8,365	-	8,365
Total deferred tax assets	9,895	(1,728)	8,167

The rate of tax applicable for deferred taxes was 20%.

The above deductible temporary differences do not expire under current tax legislation. The tax loss carry-forwards expire in 2012.

Movement in temporary differences during the year

AMD '000	Balance 4 July 2006	Recognised in income	Balance 31 December 2006
Loans to customers	-	(1,566)	(1,566)
Other assets	-	565	565
Other liabilities	-	803	803
Tax loss carry-forwards	-	8,365	8,365
	-	8,167	8,167

14 Other assets

	2006 AMD '000
Commissions receivable	3,638
Prepayments	540
Materials and supplies	448
Other	275
	4,901

15 Deposits and balances from banks and other financial institutions

	2006 AMD '000
Bank overdraft	2,705,979
	<u>2,705,979</u>

16 Other liabilities

	2006 AMD '000
Payables on settlement	29,023
Non-income taxes payable	5,300
Payables to employees	2,851
Other	3,735
	<u>40,909</u>

17 Share capital

The authorised, issued and outstanding share capital comprises 614,040 ordinary shares. All shares have a par value of AMD 1,000.

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

18 Risk management

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

Market risk

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Company takes a long or short position in a financial instrument.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. Fair value interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period. For further information on the Company’s exposure to fair value interest rate risk at year end refer to notes 24 and 25.

Currency risk

The Company has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Company’s exposure to currency risk at year end refer to note 27.

The Company manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions which are monitored on a regular basis and reviewed and approved by the Board.

Credit risk

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

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Company’s liquidity policy is reviewed and approved by the Board. For further information on the Company’s exposure to liquidity risk at year end refer to notes 26.

19 Commitments

At any time the Company has outstanding commitments to extend credit to borrowers. This commitment takes the form of approved loans. The contractual amount of the commitment is AMD 27,263 thousand.

20 Contingencies

Insurance

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

Litigation

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

Taxation contingencies

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

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

21 Related party transactions

Control relationships

The Company’s Parent is Norvik Bank jsc. The party with ultimate control over the Company is Jon Helgi Gudmundsson.

Transactions with key Management

Total key management remuneration included in employee compensation (refer note 8) is AMD 32,343 thousand.

The outstanding balance and average interest rate as of 31 December 2006 with key management is as follows:

	<u>2006</u> <u>AMD '000</u>	<u>Average</u> <u>Interest Rate</u>
Balance Sheet		
Loans	762	18%

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

	<u>2006</u> <u>AMD '000</u>
Income statement	
Interest income	11

Transactions with the Parent

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

	<u>Parent company</u>	
	<u>AMD' 000</u>	<u>Average</u> <u>Interest Rate</u>
Balance Sheet		
Liabilities		
Deposits and balances from banks and other financial institutions	2,705,979	6%
Income statement		
Interest expense	11,136	
Fee and commission expense	725	
Gain on forward contract	4,336	

22 Cash and cash equivalents

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

	<u>2006</u> <u>AMD '000</u>
Nostro accounts	49,227
	<u>49,227</u>

23 Fair value of financial instruments

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

The Company estimates the fair value of financial assets and liabilities not to be materially different from their carrying values. The estimated fair values of its financial assets and liabilities, is calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instruments at the balance sheet date

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

24 Average effective interest rates

The table below displays the Company’s interest bearing assets and liabilities as at 31 December 2006 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value AMD '000	2006 Average Effective Interest Rate
Interest Bearing Assets		
Placements with banks and other financial institutions		
<i>Nostro accounts</i>		
- AMD	45,905	2%
- USD	2,664	1%
- other currencies	658	2%
Loans to customers		
- AMD	579,530	24%
- USD	2,563,441	15%
- other currencies	65,277	15%
Interest Bearing Liabilities		
Deposits and balances from banks and other financial institutions		
<i>Bank overdraft</i>		
- USD	2,639,385	6%
- other currencies	66,594	4%

25 Interest rate repricing

The following table shows assets and liabilities of the Company by their contractual interest rate repricing dates as at 31 December 2006.

	Less than 1 month AMD '000	1 to 3 months AMD '000	3 months to 1 year AMD '000	More than 1 year AMD '000	Non- interest bearing AMD '000	Total AMD '000
As at 31 December 2006						
Assets						
Placements with banks and other financial institutions	49,227	-	-	-	-	49,227
Loans to customers	52,080	116,844	789,319	2,250,005	-	3,208,248
Property and equipment	-	-	-	-	41,922	41,922
Deferred tax asset	-	-	-	-	8,167	8,167
Other assets	-	-	-	-	4,901	4,901
Total assets	101,307	116,844	789,319	2,250,005	54,990	3,312,465
Liabilities						
Deposits and balances from banks and other financial institutions	-	-	2,705,979	-	-	2,705,979
Other liabilities	-	-	-	-	40,909	40,909
Total liabilities	-	-	-	-	40,909	2,746,888
Net position as at 31 December 2006	101,307	116,844	(1,916,660)	2,250,005	14,081	565,577

26 Maturity analysis

The following table shows assets and liabilities of the Company by their remaining contractual maturity as at 31 December 2006.

	Overdue	Less than 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	No maturity	Total
	AMD '000	AMD '000	AMD '000	AMD '000	AMD '000	AMD '000	AMD '000	AMD '000
Assets								
Placements with banks and other financial institutions	-	-	-	-	-	-	49,227	49,227
Loans to customers	-	58,964	128,282	841,357	1,407,442	772,203	-	3,208,248
Property and equipment	-	-	-	-	-	-	41,922	41,922
Deferred tax asset	-	-	-	-	-	-	8,167	8,167
Other assets	-	4,901	-	-	-	-	-	4,901
Total assets	-	63,865	128,282	841,357	1,407,442	772,203	99,316	3,312,465
Liabilities								
Deposits and balances from banks and other financial institutions	-	-	-	2,705,979	-	-	-	2,705,979
Other liabilities	-	40,909	-	-	-	-	-	40,909
Total liabilities	-	40,909	-	2,705,979	-	-	-	2,746,888
Net position as at 31 December 2006	-	22,956	128,282	(1,864,622)	1,407,442	772,203	99,316	565,577

27 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2006:

	AMD	USD	Other currencies	Total
	AMD '000	AMD '000	AMD '000	AMD '000
Assets				
Placements with banks and other financial institutions	45,905	2,664	658	49,227
Loans to customers	579,530	2,563,441	65,277	3,208,248
Property and equipment	41,922	-	-	41,922
Deferred tax asset	8,167	-	-	8,167
Other assets	4,901	-	-	4,901
Total assets	680,425	2,566,105	65,935	3,312,465
Liabilities				
Deposits and balances from banks and other financial institutions	-	2,639,385	66,594	2,705,979
Other liabilities	40,512	397	-	40,909
Total liabilities	40,512	2,639,782	66,594	2,746,888
Net on balance sheet position as of 31 December 2006	639,913	(73,677)	(659)	565,577