

AREXIMBANK CJSC

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Form 5)

Note 1. "Legal Environment"

AREXIMBANK closed joint-stock company is the legal successor of Rossiyski Credit-Armenia Bank CJSC registered on June 3, 1998, and has been operating since July 9, 1999 under license #80 issued by the RA Central Bank. *AREXIMBANK* CJSC is headquartered at 12 M.Mkrtchyan street, Yerevan; the Bank has four branches: *Tigran Mets* branch (located at 9 Tigran Mets street, Yerevan), *Kentronakan* branch (located at 1/3 P.Byuzand street, Yerevan), *Tumanyan* branch (located at 20 Tumanyan street, Yerevan) and *Gyumri* branch (located at 169 Shirakatsi street, Gyumri).

The Bank's declared charter capital consists of 48,000 ordinary registered shares; par value of each share is USD 100. The declared charter capital is fully paid up. The Bank has general reserve, income and re-valuation reserves.

The Bank's main activities encompass extension of loans and acceptance of deposits, implementation of remittances to and from Armenia and foreign exchange operations, as well as provision of other banking services to legal entities and individuals.

Note 2. "Accounting Standards"

The Bank's assets will be realized and liabilities settled during the Bank's normal course of activities on a going concern basis. Assets and liabilities denominated in foreign currency are exchanged at the exchange rate set by the RA Central Bank as at the given date. The Bank's accounting policy in the reporting period has been consistently applied to the preparation of significant spreadsheets of financial statements. Fixed assets, loans and other advances have been reflected in the balance sheet at their historical cost. Interest income and interest expenses have been recognized on an accrual basis, while non-interest expenses and incomes recognized at the time of actual implementation of the transaction. Loans have been extended to bank-affiliated persons on the same principle as to Bank customers. The Bank has periodically made estimates of the fair value of its assets and liabilities, as well as credit risk and interest rate risk.

ANNUAL INCOME STATEMENT (form # 6)

Line items of Income statement	Notes to Income statement	As of 31/12/2004
Interest and similar incomes (note 3)	Interest incomes from correspondent account with RA Central Bank	11351
	Interest incomes from other funds placed with the RA Central Bank	1601
	Interest incomes from correspondent accounts with resident banks	0
	Interest incomes from other funds placed with resident banks and other financial organizations	0
	Interest incomes from correspondent accounts of non-resident banks	6871

	Interest incomes from other funds placed with non-resident banks and other financial organizations	8776
	Interest incomes from loans and other advances extended to resident legal entities and institutions	276055
	Interest incomes from loans and other advances extended to non-resident legal entities and institutions	58
	Interest incomes from loans and other advances extended to resident individuals	250234
	Interest incomes from loans and advances extended to non-resident individuals	10358
	Interest incomes from loans and other advances extended to bank employees	2946
	Interest incomes from loans and other advances extended to bank-affiliated persons	0
	Interest incomes from investments in government treasury bonds	8636
	Interest incomes from investments in other securities	14747
	Other interest incomes	0
Interest and similar expenses (note 4)	Interest expenses arising from funds attracted from the RA Central Bank under repo agreements	0
	Interest expenses arising from other funds attracted from the RA Central Bank	803
	Interest expenses arising from correspondent accounts of resident banks	0
	Interest expenses arising from other funds attracted from resident banks and other financial organizations	0
	Interest expenses arising from correspondent accounts of non-resident banks	2722
		0

Interest expenses arising from other funds attracted from non-resident banks and other financial organizations	21772
Interest expenses arising from bank accounts and deposits of resident legal entities and institutions	4539
Interest expenses arising from bank accounts and demand deposits of resident individuals	8244
Interest expenses arising from bank accounts and demand deposits of non-resident legal entities and institutions	596
Interest expenses arising from bank accounts and demand deposits of non-resident individuals	4393
Interest expenses arising from demand deposits of other non-residents	0
Interest expenses arising from term deposits of resident legal entities and institutions	22102
Interest expenses arising from term deposits of resident individuals	124738
Interest expenses arising from term deposits of non-resident legal entities and institutions	44625
Interest expenses arising from term deposits of non-resident individuals	22937
Interest expenses arising from term deposits of other non-residents	0
Interest expenses arising from repo agreements and currency swap signed with resident legal entities and institutions	0
Interest expenses arising from repo agreements and currency swap signed with resident individuals	0

	Interest expenses arising from repo agreements and currency swap signed with non-resident legal entities and institutions	0
	Interest expenses arising from repo agreements and currency swap signed with non-resident individuals	0
	Interest expenses arising from liabilities to the RA Government	0
	Interest expenses arising from the interest accrued, but uncollected on non-performing assets	6160
	Other interest expenses	13890
Dividend income		0
Commissions and other fee income		481603
Commissions and other fee expenses		45433
Net profit/(loss) from investments held for trading (note 5)	Net profit/(loss) from sale of investments held for trading	0
	Net profit/ (loss) from re-valuation of investments held for trading	0
Net profit/(loss) from investments available for sale (note 6)	Net profit/ (loss) from sale of investments available for sale	0
	Net profit/ (loss) from re-valuation of investments available for sale	0
Net profit/(loss) from investments held to maturity		0
Net profit/(loss) from foreign currency transactions (note 7)	Net profit/(loss) from sale of foreign currency	30938
	Net profit/(loss) from re-valuation of foreign currency	-51547
Other operating income (note 8)	Incomes received from guarantees, warrants, letters of credit, and trust management transactions	8715
	Net incomes received from derivatives	0
	Net incomes received from disposal of fixed assets	-130

	Net incomes received from re-valuation of fixed assets and intangible assets	0
	Incomes received from penalties and fines	16875
	Incomes received from factoring	132
	Net incomes received from transactions in bank standardized bullions of precious metals and commemorative coins	0
	Extraordinary income	26414
	Other incomes	4851
Net provisions to loan loss reserves (note 9)		-69236
Overall administrative expenses (note 10)	Salary and other equivalent payments	257188
		0
		0
		0
	Expenses in relation to provisions to the state social insurance fund	27852
	Staff development and training expenses	265
	Travel expenses	11883
	Lease fee paid for leased bank building and other fixed assets	58002
	Insurance expenses	128
	Bank equipment maintenance expenses	6763
	Bank buildings' maintenance and security expenses	29430
	Audit and consulting services expenses	5841
	Communication related expenses	72719
	Transportation expenses	9450
	Expenses in relation to taxes, duties and other mandatory payments	36083
	Office and organizational expenses	11891
	Loan extension and recovery expenses	643
Other operating expenses (note 11)	Fine and penalty payment	1000
	Advertisement and entertainment expenses	56443
	Factoring expenses	0
	Fixed assets and intangible assets depreciation allowances	117329
	Expenses related to guarantees, promissory notes, letters of credit and trust management transactions	1305
	Extraordinary expenses	0
	Other expenses	52576
Profit tax expense (note 12)		31627

ANNUAL BALANCE SHEET (form 7)

Line items of Balance sheet	Notes to Balance Sheet line items	As of December 31, 2004 (AMD thousand)
Cash and cash balances with the RA Central Bank (note 13)	Cash and equivalent payment instruments	1196028
	Correspondent accounts with the RA Central Bank	961198
	Deposits with the RA Central Bank	0
Other claims to the RA Central Bank (note 14)	Repo agreements and currency swap with the RA Central Bank	0
	Other claims to the RA Central Bank	0
Bank standardized bullions of precious metals and commemorative coins		0
Precious metal accounts and deposits		0
Financial investments held for trading (note 15)	RA government securities	0
	Other countries' government securities	0
	RA non-government securities	0
	Other countries' non-government securities	0
	Receivables on factoring transactions	0
	Derivatives	0

	Loss on accounts receivable and other assets	
Funds placed with other banks (note 16)	Correspondent accounts and demand deposits with resident banks	640
	Correspondent accounts and demand deposits with non-resident banks	2204645
	Term deposits invested with resident banks	0
	Term deposits placed with non-resident banks	189826
	Loans extended to resident banks	0
	Loans extended to non-resident banks	0
	Repo agreements and currency swap with resident banks	0
	Repo agreements and currency swap with non-resident banks	0
	Other claims to resident banks	0
	Other claims to non-resident banks	48584
	Reserves for deposits, correspondent accounts and loans	-24437
Other placements in money market (note 17)	Demand deposits with other non-resident financial organizations	0
	Term deposits with other non-resident financial organizations	0

	Loans extended to other resident financial organizations	0
	Loans extended to other non-resident financial organizations	0
	Repo agreements and currency swap with other resident financial organizations	0
	Repo agreements and currency swap with other non-resident financial organizations	0
	Deposit and loan loss reserves	
Loans and other advances extended to customers (note 18)	Loans extended to resident legal entities and institutions	1626415
	Loans extended to non-resident legal entities and institutions	289641
	Loans extended to resident individuals	1271581
	Loans extended to non-resident individuals	51843
	Loans extended to bank employees	20078
	Loans extended to bank-affiliated persons	90583
	Repo agreements and currency swap with resident legal entities and institutions	0
	Repo agreements and currency swap with non-resident legal entities and institutions	0
	Repo agreements with resident individuals	0

	Repo agreements with non-resident individuals	0
	Loan loss reserve	-45077
Investments available for sale (note 19)	RA government securities	0
	Government securities of other countries	0
	RA non-government securities	0
	Non-government securities of other countries	0
	Receivables on factoring transactions	0
	Loss on accounts receivable and other assets	0
Accounts receivable on bank transactions (note 20)	Dividends receivable	0
	Accounts receivable on trust management transactions	0
	Letters of credit and bank guarantees	0
	Hedging derivatives	0
	Other accounts receivable	48169
	Reserves for accounts receivable and other assets	-482

Accounts receivable on lease (note 21)	Accounts receivable on lease	0
	Uncollected financial income	0
	Reserve for accounts receivable and other assets	
Investments held to maturity (note 22)	RA government securities	192653
	Other countries' government securities	0
	RA non-government securities	0
	Other countries' non-government securities	0
	Accounts receivable on factoring transactions	0
	Impairment reserve for investments held to maturity	0
	Losses on accounts receivable and other assets	0
Investments in charter capital of other persons (note 22 ¹)	Investments in charter capital of other persons treated under equity method	0
	Investments in charter capital of other persons treated under cost method	0
	Impairment reserve for investments in other persons' charter capital	0
Capital investments in bank's fixed assets and intangible assets	Capital investments in fixed assets	0

(note 23)	Capital investments in intangible assets	0
	Capital investments in leased fixed assets	120964
Fixed assets and intangible assets (note 24)		2088061
Deferred tax assets		3816
Interest receivable (note 25)	Interest accrued	289
		3178
		1129
		11616
		56157
		1237
		509
		152
	Unrecognized interest income	-3908
Other assets (note 26)	Accounts receivable	0

	Prepayments to employees and suppliers	5531
	Prepayments to the state budget and mandatory social insurance fund	440
	Reserve for accounts receivable and other assets	-497
	Future period expenses	2529
	Non-durable goods	14690
	Securities sold under repo agreements	0
	Foreign currency sold through currency swap	201624
	Other assets	76995
		41248
Liabilities to the RA Central Bank (note 27)	Loans received from the RA Central Bank	0
	Repo agreements and currency swap with RA Central Bank	0
Liabilities to other banks (note 28)	Correspondent accounts and demand deposits of resident banks	55435
	Correspondent accounts and demand deposits of non-resident banks	6105
	Term deposits attracted from resident banks	0

	Term deposits attracted from non-resident banks	0
	Loans attracted from resident banks	0
	Loans attracted from non-resident banks	175100
	Repo agreements and currency swap with resident banks	200030
	Repo agreements and currency swap with non-resident banks	0
	Other liabilities to resident banks	0
	Other liabilities to non-resident banks	0
Other borrowings received from money market	Bank accounts and demand deposits of other resident financial organizations	261
(note 29)	Bank accounts and demand deposits of other non-resident financial organizations	0
	Term deposits attracted from other resident financial organizations	0
	Term deposits attracted from other non-resident financial organizations	0
	Loans attracted from other resident financial organizations	0
	Loans attracted from other non-resident financial organizations	0
	Repo agreements and currency swap with other resident financial organizations	0

	Repo agreements and currency swap with other non-resident financial organizations	0
Funds attracted from customers (note 30)	Bank accounts and demand deposits of resident legal entities and institutions	1775375
	Bank accounts and demand deposits of non-resident legal entities and institutions	436754
	Bank accounts and demand deposits of resident individuals	1002118
	Bank accounts and demand deposits of non-resident individuals	108270
	Demand deposits of other non-residents	0
	Term deposits of resident legal entities and institutions	457292
	Term deposits of non-resident legal entities and institutions	606542
	Term deposits of resident individuals	2135774
	Term deposits of non-resident individuals	289046
	Term deposits of other non-residents	0
	Repo agreements and currency swap with resident legal entities and institutions	0
	Repo agreements and currency swap with non-resident legal entities and institutions	0
	Repo agreements and currency swap with resident individuals	0

	Repo agreements and currency swap with non-resident individuals	0
Liabilities to the RA Government		0
Payables under lease contracts (note 31)	Payables under lease contracts	0
	Non-incurred financial expenses	0
Certificates of deposit issued by bank		0
Other securities issued by the bank (note 32)	Interest bearing securities	0
	Non-interest bearing securities	0
	Other issued securities	0
Reserves		10027
Accounts payable (note 33)	Dividends payable	0
	Payables on trust management agreements	0
	Deposit insurance liabilities	3992
	Other payables	0
Deferred tax liabilities		

Interest payable		0
		1768
		28352
Other liabilities (note 34)	Settlement liabilities under payment instruments	0
	Accounts payable and transit accounts	124201
	Future period incomes	7867
	Other liabilities	161404
Charter capital		2497247
General reserve		5828
Re-valuation reserves		734662
Accumulated profit		-75802

*) Note 9. "Net provisions to asset loss reserves"

Note 9 represents the provisions to loan loss reserve and recovery of loan losses as of December 31, 2004, as well as the net provisions under the following structure:

9.1. Reserve for correspondent accounts and deposits

Starting balance	25811
Provisions made	60176
Recovery of provisions	(61550)
Net provisions	(1374)
Ending balance	24,437

9.2. Loan reserve	
Starting balance	58850
Provisions	332280
Recovery of provisions	(408174)
Net provisions	(75894)
Recovery of written-off loans	277223
Written-off loans	(215102)
Ending balance -	45077
9.3. Reserve for investments held to maturity	
Starting balance,	0
Provisions,	0
Recovery of provisions,	0
Net provisions,	0
Ending balance,	0
9.4. Reserve for accounts receivable and other assets	
Starting balance	1087
Provisions	5830
Recovery of provisions	(5710)
Net provisions	120
Recovery of written-off amounts	145
Written-off amounts	(373)
Ending balance	979
9.5. Reserve for total assets	
Starting balance -	85748
Provisions	398286
Recovery of provisions	(475434)
Net provisions	(77148)
Recovery of written-off amounts	277368
Written-off amounts	(215475)
Ending balance	70,493
3.9.6. Reserve for off-balance sheet contingent liabilities	
Starting balance	2115
Provisions	21636
Recovery of provisions	(13724)
Net provisions	7912
Ending balance	10027
3.9.7. Reserve for total assets and off-balance sheet contingent liabilities	
Starting balance	87863
Provisions	419922
Recovery of provisions	(489158)
Net provisions	(69236)
Recovery of written-off amounts	277368
Written-off amounts	(215475)
Ending balance	80520

**.) Note 24 “Fixed assets and intangible assets: as of December 31, 2004

The components of Note 24 are presented below:

Assets in exploitation	Land, building and property	Computer equipment	Vehicles	Other fixed assets and intangible assets	Total
Carrying amount					
31.12.2003	616671	196799	25964	315450	1154884
Increase	885854	55305		254487	1195646
Disposal	-6982	-71		-12729	-19782
31.12.2004	1495543	252033	25964	557208	2330748
Depreciation	-----	-----	-----	-----	-----
31.12.2003p.	4783	66721	4427	86706	162637
Accumulated amortization	23212	33744	1732	45545	104233
Accumulated impairment	-6982	-8		-7296	-14286
Ending balance	21013	100457	6159	124955	252584
Net carrying amount	-----	-----	-----	-----	-----
31.12.2003	611888	130078	21537	228744	992247
31.12.2004	1474530	151576	19805	432253	2078164
Idle assets	-----	-----	-----	-----	-----
Carrying amount	-----	-----	-----	-----	-----
31.12.2003		35986		71573	107559
Increase		26530		18056	44586
Disposal		-54498		-87750	-142248
31.12.2004		8018	0	1879	9897

Note 37. "Analysis of maturities of assets and liabilities as per line items" as of December 31, 2004

Assets	Non-performing	On demand	Up to 30 days	31 to 90 days	91 days to 1 year	1 to 5 years	Above 5 years	Open ended	Without a specific maturity	Total
Cash and cash equivalents		1196028								1196028

RA government bonds				100717	91936					192653
Due from the RA Central Bank		961198								961198
Due from RA Government		4256								4256
Due from other banks		2205285	116602	97516	24292					2443695
Advanced loans	116745		177080	419595	1974981	661738				3350139
Accrued interest receivable	3908		28555	5809	32087					70359
Other claims			292109	4463	2529					299101
Fixed assets and intangible assets									2088061	2088061
Other assets									212649	212649
Total	120653	4366767	614346	628100	2125825	661738	0	0	2300710	10818139
Liabilities		On demand	Up to 30 days	31 to 90 days	91 days to 1 year	1 to 5 years	Above 5 years	Open ended	Without a specific maturity	Total
Due to the RA Central Bank				3992						3992
Due to banks		61540	175100							236640
Due to RA Government		27007								27007
Funds attracted from customers		3322776	447942	826607	2214107					6811432
Accrued interest payable		1	15447	5687	8985					30120
Other liabilities		226124	207077	17214	8213				17894	476522
Total		3637448	845566	853500	2231305	0	0	0	17894	7585713

The note reflects all assets and liabilities included in the Balance Sheet, without taking into account the loss reserves.

Note 38 “Foreign currency pool” as of December 31, 2004:

	AMD	Freely convertible currency	Foreign currency with limited convertibility	Total
Assets	4,230,294	6,016,427	500,927	10,747,648
Liabilities	1,371,114	5,716,261	498,338	7,585,713
Net FX position		300,166	2,589	

Note 39 “Interest rate risk”

	Up to 1 month		1 to 3 months		3 months to 1 year		Above 1 year	
	31.12.2003	31.12.2004	31.12.2003	31.12.2004	31.12.2003	31.12.2004	31.12.2003	31.12.2004
Funds attracted								
In AMD	0.5-2	0.2-2	7.8-9.0	7.8	8.2-11.0	8.2-9.0		
In foreign currency	0.5-2	0.2-2	4.5-7.5	4.5-6	6.0-9.8	6.0-9.0		
Funds placed								
In AMD	11-24	11-24	22-26	15-24	20-26	15-26	17-19	15-24
In foreign currency	11-24	11-24	18-26	15-24	10-24	12-24	10-15	10-22

Note 39¹. “Credit risk”

As of December 31, 2004

Assets	Standard/no risk	Watch/Risk	Substandard/Average risk	Doubtful/High risk
Loans, including:	3,423,220	113,953	168	2,624
1 Loans extended to non-residents	531,309			
2 Loans extended to residents, including:	2,891,911	113,953	168	2,624
2.1 Industry	383,857			
2.2 Agriculture		72,876		
2.3 Construction	372,876			
2.4 Transport and communication	31,085			
2.5 Trade	405,643	2,050		
2.6 Public catering and other services				
2.7 Financial sector, including:				
2.7.1 resident banks				
2.8 consumer loans, including:	1,271,873	39,027	168	2,624
2.8.1 loans secured with real estate	557,575	1,232		
2.8.2 loans secured with vehicle	349,126	2,487		1,345
2.8.3 lombard loans	262,408	6,733		

2.8.4 loans secured with other collateral	102,764	28,575	168	1,279
2.9 Other economy sectors	426,577			

Note 40. “Contingent events and potential liabilities”

The note discloses the transactions accounted for in the Bank’s off-balance sheet, that may give rise to potential liabilities: guarantees, letters of credit issued by the bank, as well as unused portions of credit line and credit card limits.

Name	Amount (AMD thousand) as of December 31, 2004
Guarantees	466,547
Unused portion of credit lines	433,070
Unused portion of credit cards	101,269
Unused portion of overdrafts	1,863
Total	1,002,749

Note 41. “Concentration of assets, liabilities and off-balance sheet items”

The note discloses concentration of assets, liabilities and off-balance sheet items per economy sector, geography, as well as other risk concentration.

Loan portfolio	Amount (AMD thousand) as of December 31, 2004	Percentage
Industry	383,857	10.9%
Agriculture	72,876	2.0%
Construction	372,876	10.5%
Transport and communication	31,085	0.9%
Trade	697,334	19.7%
Consumer sector	1,364,020	38.5%
Others	428,091	12.1%
Deposits invested with bank	189,826	5.4%
Total	3,539,965	100%

Loan portfolio concentration per geography as of December 31, 2004

AMD thousand

RA residents	3,008,656	85.0%
RA non-residents	531,309	15.0%

Total	3,539,965	100%
-------	-----------	------

Concentration of deposit portfolio per geography as of December 31, 2004.

AMD thousand

RA residents	2,593,066	70.8%
RA non-residents	1,070,688	29.2%
Total	3,663,754	100%

Note 42. "Pledged assets"

The Bank has not pledged any assets.

The picture of the collaterals accepted by the Bank in terms of total amount and types is as follows:

Name of accepted collateral	Amount (AMD thousand) as of December 31, 2004
Government securities	4,540
Precious jewelry	477,157
Real estate and other fixed assets	3,141,447
Finished goods	1,611,432
Cash	89,273
Other collateral	1,943
Credit guarantee received	1,111,643
Other guarantees received	387,385
Total	6,824,820

Note 43. "Affiliated parties"

As of December 31, 2004, the total amount of loans advance to Bank-affiliated persons amounted to AMD 90,583,000.

A.Khandkaryan
Director General

A.Julhakyan
Chief Accountant