

AREXIMBANK CJSC

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 (Form 5)**

Note 1. “Legal Environment”

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 totals USD 4,800,000 in equivalent Armenian drams, the charter capital is fully paid up. The Bank has general reserve, income and re-valuation reserves.

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Note 2. “Accounting Standards”

The Bank’s financial statements have been prepared in accordance with ASRA on a going concern basis. The Bank’s assets will be realized and liabilities settled during the Bank’s normal course of activities. 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 are accounted for in the balance sheet at their historical cost. Interest income and interest expenses are recognized in Income Statements on an accrual basis, while non-interest expenses, commissions and other payments are 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. Average number of Bank’s employees is 140, including support staff – 25.

**INTERIM INCOME STATEMENT
(form # 6)**

Line items of Income Statement	Notes to Income Statement	31/12/05
Interest and similar incomes (note 3)	Interest incomes from correspondent account with RA Central Bank	0
	Interest incomes from other funds placed with the RA Central Bank	345
	Interest incomes from correspondent accounts with resident banks	0
	Interest incomes from other funds placed with resident banks and other financial organizations	1030

	Interest incomes from correspondent accounts of non-resident banks	6619
	Interest incomes from other funds placed with non-resident banks and other financial organizations	3910
	Interest incomes from loans and other advances extended to resident legal entities and institutions	314627
	Interest incomes from loans and other advances extended to non-resident legal entities and institutions	24804
	Interest incomes from loans and other advances extended to resident individuals	504537
	Interest incomes from loans and advances extended to non-resident individuals	5716
	Interest incomes from loans and other advances extended to bank employees	5015
	Interest incomes from loans and other advances extended to bank-affiliated persons	23146
	Interest incomes from investments in government treasury bonds	21247
	Interest incomes from investments in other securities	0
	Other interest incomes	404
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	0

	Interest expenses arising from correspondent accounts of resident banks	0
	Interest expenses arising from other funds attracted from resident banks and other financial organizations	2944
	Interest expenses arising from correspondent accounts of non-resident banks	0
	Interest expenses arising from other funds attracted from non-resident banks and other financial organizations	766
	Interest expenses arising from bank accounts and deposits of resident legal entities and institutions	3604
	Interest expenses arising from bank accounts and demand deposits of resident individuals	8397
	Interest expenses arising from bank accounts and demand deposits of non-resident legal entities and institutions	5897
	Interest expenses arising from bank accounts and demand deposits of non-resident individuals	3002
	Interest expenses arising from demand deposits of other non-residents	0
	Interest expenses arising from term deposits of resident legal entities and institutions	38622
	Interest expenses arising from term deposits of resident individuals	186907
	Interest expenses arising from term deposits of non-resident legal entities and institutions	40383
	Interest expenses arising from term deposits of non-resident individuals	33708

	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	6544
	Other interest expenses	22898
Dividend income		0
Commissions and other fee income		442012
Commissions and other fee expenses		39594
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		
Net profit/(loss) from foreign currency transactions (note 7)	Net profit/(loss) from sale of foreign currency	99932
	Net profit/(loss) from re-valuation of foreign currency	-14494
Other operating income (note 8)	Incomes received from guarantees, warrants, letters of credit, and trust management transactions	8247
	Net incomes received from derivatives	0
	Net incomes received from disposal of fixed assets	-284
	Net incomes received from re-valuation of fixed assets and intangible assets	0
	Penalty and fine receipts	24476
	Incomes received from factoring	70
	Net incomes received from transactions in bank standardized bullions of precious metals and commemorative coins	0
	Extraordinary income	1604

	Other incomes	5543
Net provisions to asset loss reserves (note 9)		21347
Total administrative expenses (note 10)	Salary and other equivalent payments	289981
	Provisions to the state social insurance fund	30076
	Staff development and training expenses	464
	Travel expenses	13483
	Lease fee paid for leased bank building and other fixed assets	56391
	Insurance expenses	92
	Bank equipment maintenance expenses	9126
	Bank buildings' maintenance and security expenses	37606
	Audit and consulting services expenses	7082
	Communication related expenses	78419
	Transportation expenses	10142

	Expenses in relation to taxes, duties and other mandatory payments	31632
	Office and organizational expenses	12025
	Loan extension and repayment expenses	58
Other operating expenses (note 11)	Fine and penalty payment	564
	Advertisement and entertainment expenses	73035
	Factoring expenses	0
	Fixed assets and intangible assets depreciation allowances	123266
	Expenses related to guarantees, promissory notes, letters of credit and trust management transactions	963
	Extraordinary expenses	
	Other expenses	33005
Profit tax expense (note 12)		78607

INTERIM BALANCE SHEET (form # 7)

Line items of Balance sheet	Notes to Balance Sheet line items	31/12/05
Cash and cash balances with the RA Central Bank (note 13)	Cash and equivalent payment instruments	1562171
	Correspondent accounts with the RA Central Bank	2973796
	Deposits with the RA Central Bank	0
Other claims to the RA Central Bank (note 14) Bank standardized bullions of precious metals and commemorative coins	Repo agreements and currency swap with the RA Central Bank	0
	Other claims to the RA Central Bank	0
		0
Precious metal accounts and deposits		0
Financial investments held for trading (note 15)	RA government securities	0
		0
	Other countries' government securities	0
	RA non-government securities	0
	Other countries' non-government securities	0
		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	444
		0
		0
		0
	Correspondent accounts and demand deposits with non-resident banks	1015954
	Term deposits invested with resident banks	0
	Term deposits placed with non-resident banks	160906
	Loans extended to resident banks	0
	Loans extended to non-resident banks	0
	Repo agreements and currency swap with resident banks	499800
	Repo agreements and currency swap with non-resident banks	0
	Other claims to resident banks	0
	Other claims to non-resident banks	22510
	Reserves for deposits, correspondent accounts and loans	-11998
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	2204182	
		0	
		0	
		0	
		0	
	Loans extended to non-resident legal entities and institutions	125953	
	Loans extended to resident individuals	3373170	
	Loans extended to non-resident individuals	60004	
	Loans extended to bank employees	28173	
	Loans extended to bank-affiliated persons	177356	
	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	-78888	
	Investments available for sale (note 19)	RA government securities	0
		Government securities of other countries	0

	RA non-government securities	0
		0
	Non-government securities of other countries	0
	Receivables on factoring transactions	0
	Receivable and other asset losses	0
Accounts receivable on banking transactions (note 20)	Dividends receivable	0
	Accounts receivable on trust management transactions	0
	Letters of credit and bank guarantees	0
		0
		0
	Hedging derivatives	0
	Other accounts receivable	47460
	Reserves for accounts receivable and other assets	-475
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	444529
	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
	Receivable and other asset losses	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 (note 23)	Capital investments in fixed assets	34016
	Capital investments in intangible assets	0
	Capital investments in leased fixed assets	104027
Fixed assets and intangible assets (note 24)		1163283
Deferred tax assets		0
Interest receivable (note 25)	Interest accrued	0
		3248
		30
		0
		0
		0
		342
		36705
		34323
		531
		0
		1186

		320
		0
		0
		0
		0
	Unrecognized interest income	-3492
Other assets (note 26)	Accounts receivable	0
		0
		0
	Prepayments to employees and suppliers	46431
	Prepayments to the state budget and mandatory social insurance fund	53178
	Reserve for accounts receivable and other assets	-2364
	Future period expenses	12646
	Non-durable goods	19483
	Securities sold under repo agreements	0
	Foreign currency sold through currency swap	0
	Other assets	76995
		124162
Liabilities to the RA Central Bank (note 27)	Loans attracted 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	109665
	Correspondent accounts and demand deposits of non-resident banks	6185

	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	0
	Repo agreements and currency swap with resident banks	0
	Repo agreements and currency swap with non-resident banks	0
	Other liabilities to resident banks	504213
	Other liabilities to non-resident banks	0
Other borrowings received from money market	Bank accounts and demand deposits of other resident financial organizations	508
(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	2216795
	Bank accounts and demand deposits of non-resident legal entities and institutions	2284560
	Bank accounts and demand deposits of resident individuals	1017212
	Bank accounts and demand deposits of non-resident individuals	167575
	Demand deposits of other non-residents	0
	Term deposits of resident legal entities and institutions	608254
	Term deposits of non-resident legal entities and institutions	557954
	Term deposits of resident individuals	2833603
	Term deposits of non-resident individuals	543705
	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
Lease payables (note 31)	Lease payables	0
	Non-incurred financial expenses	0
Certificates of deposit issued by bank		0
Other securities issued by the bank (note 32)	Interest bearing securities	315133
	Non-interest bearing securities	0
	Other issued securities	0
Reserves		6927
Accounts payable (note 33)	Dividends payable	0
	Payables on trust management agreements	0
	Deposit insurance liabilities	2179
	Other payables	0
Deferred tax liabilities		36060
Interest payable		0
		0
		0
		0

		0
		0
		22269
Other liabilities (note 34)	Settlement liabilities under payment instruments	0
		0
	Accounts payable and transit accounts	149529
	Future period incomes	5699
	Other liabilities	11293
Charter capital		2497247
General reserve		5828
Re-valuation reserve		168336
Accumulated profit		239368

*) 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, 2005, as well as the net provisions under the following structure:

9.1. Reserve for correspondent accounts and deposits	
Starting balance	0
Provisions	49650
Recovery of provisions	61827
Net provisions	-12177
Ending balance	-12177
9.2. Loan reserve	
Starting balance	0
Provisions	247313
Recovery of provisions	211758
Net provisions	35555
Ending balance	35555
9.3. Reserve for investments held to maturity	
Starting balance	
Provisions	
Recovery of provisions	
Net provisions	
Ending balance	
9.4. Reserve for accounts receivable and other assets	
Starting balance	0
Provisions	7385
Recovery of provisions	6316
Net provisions	1069

Ending balance	1069
9.5. Reserve for total assets	
Starting balance	0
Provisions	304348
Recovery of provisions	279901
Net provisions	24447
Ending balance	24447
9.6. Reserve for off-balance sheet contingent liabilities	
Starting balance	0
Provisions	17150
Recovery of provisions	20250
Net provisions	-3100
Ending balance	-3100
9.7. Reserve for total assets and off-balance sheet contingent liabilities	
Starting balance	0
Provisions	321498
Recovery of provisions	300151
Net provisions	21347
Ending balance	21347

**.) Note 24 “Fixed assets and intangible assets: as of December 31, 2005

The components of Note 24 are presented below:

Assets in exploitation	Land, building 2412	Computer equipment 2414	Vehicles 2415	Other fixed assets and intangible assets 2413, 2416, 231	Total
Carrying amount					
31.12.2004	1495543	252033	25964	557208	2330748
Increase		74544	2757	34351	111652
Disposal	915505	20149		39573	975227
31.12.2005	580038	306428	28721	551986	1467173
Depreciation	2422	2424	2425	2423, 2426,232	-----
Ending balance as of 31.12.2004	21013	100457	6159	124955	252584
Accumulated amortization	16351	39415	1766	54877	112409
Accumulated impairment	21398	17816		14461	53675
Ending balance as of 31.12.2005	15966	122056	7925	165371	311318

Net carrying amount	-----	-----	-----	-----	-----
31.12.2004	1474530	151576	19805	432253	2078164
31.12.2005	564072	184372	20796	386615	1155855
Idle assets	-----	-----	-----	-----	-----
Carrying amount	-----	2514	-----	2517, 2516	-----
31.12.2004		8018	0	1879	9897
Increase		2587		1871	4458
Disposal		4791		2136	6927
31.12.2005		5814	0	1614	7428

Note 37. "Analysis of maturities of assets and liabilities as per line items" as of December 31, 2005

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		1562171								1562171
RA government bonds				148553	295976					444529
Due from RA Central Bank		2973796								2973796
Due from RA Government		497								497
Due from other banks		1016398		82385	101031					1199814
Advanced loans	128406		144360	657586	2867463	2171023				5968838
Accrued interest receivable	3492		52834	2639	17720					73193
Other claims			171622							171622
Fixed assets and intangible assets									1163283	1163283
Other assets			499800						293598	793398
Total	128406	5552862	868616	891163	3282190	2171023	0	0	1456881	14351141

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			2179						2179
Due to banks	115850								115850
Due to RA Government	66519								66519
Funds attracted from customers	5686650	737729	944241	2850053	11493				10230166
Accrued interest payable		7077	9	108		15075			22269
Other liabilities	50315	514777	14650	8790		315133		12626	916291
Total	5919334	1259583	961079	2858951	11493	330208	0	12626	11353274

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, 2005:

	AMD	Freely convertible currency	Foreign currency with limited convertibility	Total
Assets	4,969,249	9,113,727	227,121	14,310,097
Liabilities	2,094,354	9,103,222	201,742	11,399,318
Net FX position		10,505	25,379	

Note 39 “Interest rate risk”

	Up to 1 month		1 to 3 months		3 months to 1 year		Above 1 year	
	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005
Funds attracted								
In AMD	0.2-2	0.1-2	7.8	5.5-6.3	8.2-9.0	6.3-8.5		8
In foreign currency	0.2-2	0.1-2	4.5-6	3.2-6	6.0-9.0	3.5-8.5		5.2-8
Funds placed								
In AMD	11-24	10-24	15-24	14-24	15-26	13-24	15-24	10-24
In foreign	11-24	10-24	15-24	14-24	12-24	12-24	10-22	10-24

currency								
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Note 39¹. “Credit risk” as of December 31, 2005

Assets	Standard/no risk	Watch/Risk	Substandard/Average risk	Doubtful/High risk
Loans, including:	6001338	64679	59494	4233
1 Loans advanced to non-residents	346863			
2 Loans advanced to residents, including:	5654475	64679	59494	4233
2.1 Industry	264468			
2.2 Agriculture	2200			
2.3 Construction	920315			
2.4 Transport and communication	12020			
2.5 Trade	485566		47510	
2.6 Public catering and other services	21456			
2.7 Financial sector, including:				
2.7.1 resident banks				
2.8 Consumer loans, including:	3427879	64679	11984	4233
2.8.1 loans secured with real estate	636112	19563	1312	4233
2.8.2 loans secured with vehicles	2081096	42689	10672	
2.8.3 lombard loans	651123	1305		
2.8.4 loans secured with other collateral	59548	1122		
2.9 Other economy sectors	520571			
Accounts receivable				
Off-balance sheet items				

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, 2005
Guarantees	343,798
Unused portion of credit lines	139,972
Unused portion of credit cards	64,769
Unused portion of overdrafts	144,161
Total	692,700

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 31.12.2005	Percentage
Industry	264,468	4.31%
Agriculture	2,200	0.04%
Construction	920,315	15.01
Transport and communication	12,020	0.20%
Trade	659,029	10.75%
Public catering and other services	21,456	0.35%
Consumer sector	3,568,779	58.22%
Other economy sectors	520,571	8.49%
Deposits invested with bank	160,906	2.63%
Total	6,129,744	100%

Loan portfolio concentration per geography as of December 31, 2005

AMD thousand

RA residents	5,782,881	94.3%
RA non-residents	346,863	5.7%
Total	6,129,744	100%

Concentration of deposit portfolio per geography as of December 31, 2005.

AMD thousand

RA residents	3,441,857	75.8%
RA non-residents	1,101,659	24.2%
Total	4,543,516	100%

Note 42. "Pledged assets"

The Bank has not pledged any assets.

The picture of the collateral 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, 2005
Other securities	1,460
Precious jewelry	746,134

Real estate and other fixed assets	7,660,702
Finished goods	5,463,455
Cash	191,543
Other collateral	183,886
Credit guarantee received	3,648,670
Other guarantees received	223,937
Total	18,119,787

Note 43. “Affiliated parties”

As of December 31, 2005 the total amount of loans advanced to Bank-affiliated persons amounted to AMD 305,722,000.

A.Khandkaryan
Director General

A.Julhakyan
Chief Accountant