“ARDSHININVESTBANK”

Closed Joint Stock Company

Independent auditor’s report

Financial Statements
as of and for the year ended December 31, 2005

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Management of the Bank

At the date of signing these financial statements the Management of the Bank comprised:

Council of the Bank

Karen Safaryan	Chairman of the Council
Khachatur Zakaryan	Member of the council
Aram Andreasyan	Member of the council
Rudik Mkrtumyan	Member of the council

Executive Body

Aram Andreasyan	Chairman of the Board
Olga Gasparyan	Deputy Chairman of the Board
Sergey Virabyan	Deputy Chairman of the Board
Gurgen Harutunyan	Deputy Chairman of the Board
Alexander Pakhomov	Deputy Chairman of the Board
Manvel Sahakyan	Chief Accountant
Karen Janinyan	Head of Department
Karen Bozoyan	Head of Department

Statement of management responsibilities

The management is responsible for the preparation of these financial statements. In so doing they are required to:

- Select appropriate accounting policies and apply them consistently;
- Make judgments and estimates, which are reasonable and prudent;
- Prepare the financial statements on a going concern basis, unless management either intends to liquidity the Bank or has no realistic alternative but to do so.

The management is responsible for keeping proper accounting records, which disclose with reasonable accuracy the financial position of the Bank. They have a general responsibility for taking such steps as reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

Yerevan

01 February 2006

Aram Andreasyan	Manvel Sahakyan
Chairman of the Board	*Chief Accountant*

Independent auditor's report

To the shareholders of "Ardshininvestbank" CJSC

We have audited the accompanying balance sheet of "Ardshininvestbank" CJSC (the "Bank") as at 31 December 2005, and the related statements of income, cash flow and changes in shareholders' equity for the year then ended. These financial statements set out on pages 6 to 33 are the responsibility of the Bank management. Our responsibility is to express an opinion on these financial statements based on our audit. In our auditor's report dated 08 February 2005 we expressed unqualified opinion on the financial statements of the Bank as of and for the year ended December 31, 2004.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of December 31, 2005, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Yerevan

01 February 2006

Grant Thornton Amyot

Statement of income

for the year ended 31 December 2005
(in thousand of Armenian Drams)

	Notes	2005 (audited)	2004 (audited)
Interest income	4	4,566,733	3,334,670
Interest expenses	4	(1,324,629)	(884,382)
Net interest income		3,242,104	2,450,288
Fees and commission income	5	1,714,658	1,260,236
Fees and commission expenses		(21,483)	(14,385)
Net fee and commission income		1,693,175	1,245,851
Gains less losses from foreign currency transactions and revaluation		1,087,278	636,933
Gains less losses from investment securities		71,887	1,312
Other operating income	6	113,596	804,664
Impairment losses	7	(42,911)	(154,070)
Other operating expenses	8	(3,282,392)	(2,695,517)
Profit before income tax		2,882,737	2,289,461
Income tax expense	20	(648,366)	(495,377)
Profit for the year		**2,234,371**	**1,794,084**

The accompanying notes on pages 10 to 33 form an integral part of these financial statements.

Balance sheet

As of 31 December 2005
(in thousand of Armenian Drams)

	Notes	2005 (audited)	2004 (audited)
ASSETS			
Cash in hand and balances with the CBA	9	11,994,517	7,416,126
Amounts due from banks and other financial institutions	10	3,470,951	5,746,198
Loans and advances to customers	11	24,589,244	18,545,410
Investment securities:			
- available for sale	12.1	8,474,117	12,255
- held to maturity	12.2	-	2,576,495
Property plant and equipment	13	4,859,295	3,019,609
Intangible assets	14	103,713	107,058
Deferred income tax asset	20	-	14,347
Other assets	15	317,674	226,065
Total assets		**53,809,511**	**37,663,563**
LIABILITIES AND EQUITY			
Amounts due to banks and other financial institutions	16	286,673	1,650,435
Amounts due to customers	17	43,724,521	30,065,192
Current income tax liabilities		249,982	338,029
Deferred income tax liabilities	20	332,027	-
Other liabilities	18	206,375	214,696
Total liabilities		44,799,578	32,268,352
Share capital	19	3,020,024	2,946,250
General reserve		248,891	70,051
Revaluation reserve		1,306,577	-
Retained earnings		4,434,441	2,378,910
Total equity		9,009,933	5,395,211
Total liabilities and equity		**53,809,511**	**37,663,563**

The accompanying notes on pages 10 to 33 form an integral part of these financial statements.

The financial statements were approved on 01 February 2006 by the Board of the bank and signed by the Bank’s Chairman of the Board and Chief Accountant.

Aram Andreasyan — ***Chairman of the Board***

Manvel Sahakyan — ***Chief Accountant***

Statement of changes in equity

for the year ended 31 December 2005
(in thousand of Armenian Drams)

	Share capital	General reserve	Revaluation reserve of securities available for sale	Revaluation reserve of PPE	Retained earnings	Total
Balance as at 31.12.03	**2,946,250**	**-**	**-**	**-**	**654,877**	**3,601,127**
Profit for the year	-	-	-	-	1,794,084	1,794,084
Distribution to reserve	-	70,051	-	-	(70,051)	-
Balance as at 31.12.04 (audited)	**2,946,250**	**70,051**	**-**	**-**	**2,378,910**	**5,395,211**
Increase in share capital	73,774	-	-	-	-	73,774
Profit for the year	-	-	-	-	2,234,371	2,234,371
Distribution to reserve	-	178,840	-	-	(178,840)	-
Revaluation of PPE	-	-	-	1,527,962	-	1,527,962
Net profit from adjustment of fair value	-	-	105,260	-	-	105,260
Effect of deferred tax	-	-	(21,052)	(305,593)	-	(326,645)
Balance as at 31.12.05 (audited)	**3,020,024**	**248,891**	**84,208**	**1,222,369**	**4,434,441**	**9,009,933**

Statement of cash flow

for the year ended 31 December 2005
(in thousand of Armenian Drams)

	2005 (audited)	2004 (audited)
Cash flows from operating activities		
Interests received	4,503,346	2,984,463
Interests paid	(1,234,405)	(769,839)
Recoveries of assets previously written off	129,734	85,484
Net cash flow from foreign currency transactions	1,224,916	736,001
Fees and commissions received, net	1,754,322	1,245,851
Recovery of other assets	-	630,951
Other income	5,885	310,384
Other expenses	(1,716,875)	(484,827)
Salaries and similar cash payments to employees	(1,396,372)	(1,039,765)
Income tax paid	(378,654)	(219,050)
Net cash flow before changes in operating assets and liabilities	2,891,897	3,479,653
(Increase)/decrease in operating assets		
Deposited means in the CBA	(173,205)	(1,098,986)
Repurchase agreements with banks	(34,659)	(345,000)
Loans and deposits to banks	299,783	34,659
Loans to customers	(6,722,540)	(7,445,790)
Other assets	(51,899)	(523,377)
Increase/(decrease) in operating liabilities		
Repurchase agreements with the CBA	(999,441)	999,441
Amounts due to banks and financial institutions	123,079	(162,980)
Amounts due to customers	13,676,766	12,947,685
Other liabilities	(96,813)	-
Net cash flow from operating activities	**8,912,968**	**7,885,305**
Cash flows from investing activities		
Investment securities purchase	(5,800,471)	(871,244)
PPE and intangible assets purchase	(672,924)	(1,617,888)
Other transactions	(29,646)	-
Net cash flow from investing activities	**(6,503,041)**	**(2,489,132)**
Cash flow from financing activities		
Borrowings from banks and other financial institutions	(488,750)	270,210
Issue of share capital	73,774	-
Net cash flow from financing activities	**(414,976)**	**270,210**
Effect of exchange rate changes on cash and cash equivalents	(137,638)	(99,068)
Net increase in cash and cash equivalents	**1,857,313**	**5,567,315**
Cash and cash equivalents at the beginning of the year	11,512,136	5,944,821
Cash and cash equivalents at the end of the year (note 9)	**13,369,449**	**11,512,136**

Notes to the financial statements

1. Principal activities

"Ardshininvestbank" ("the Bank") was formed on March 2003 as a Closed Joint Stock Company under the laws of Republic of Armenia ("RA"). The Bank possesses general banking license N 83 from the Central Bank of Armenia ("CBA") granted on February 25, 2003.
Within the period from April 2, 2003 to May 22, 2003 the Bank has obtained transactions from "Ardshinbank" OJSC.
Within the period from November 6 to December 11, 2003 the Bank has obtained transactions from "Armagrobank" OJSC.
The Bank accepts deposits from the public and makes loans, transfers payments in Armenia and abroad, exchange currencies and provides banking services for its commercial and retail customer.

The Bank's main office is in Yerevan and it has 51 branches indifferent areas of the Republic of Armenia. The Bank's registered legal address is Yerevan, 13 Grigor Lusavorichi Str. 13/1.

The average number of persons employed by the Bank during the year was 1002 persons (2004: 877 persons).

2. Operating environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. Consequently, operations carried out in Armenia involve certain risks that are not typically associated with those in developed countries.

The Bank could be affected, for the foreseeable future, by these risks and their consequences. The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Bank's financial statements in the period when they become known and estimable.

3. Summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in conformity with International Financial Reporting Standards ("IFRS") approved by the International Accounting Standards Board ("IASB").

The Bank is required to maintain its books of account in Armenian Drams ("AMD") and prepare statements for regulatory purposes in accordance with legislative requirements and Accounting Standards of the Republic of Armenia. These financial statements are based on the Bank's books and records as adjusted and reclassified in order to comply with IFRS. The financial statements are presented in thousands of AMD, which is not convertible outside Armenia.

The financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost or historical cost, with the exception of buildings, which are stated at revalued amount.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts. The most significant estimates with regards to those financial statements relate to the allowances of impairment of assets, depreciation and amortization and other provisions, which are disclosed in the respective notes of the Bank's accounting policy. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

Income and expense recognition

Interest income and expense items are recognized on an accrual basis using the effective interest rate method. No interest income is recognized on non-performing loans and advances, when full payment of principal or interest is in doubt. Non-interest expenses are recognized at the time the transaction occurs.

Commissions and fees as well as all other major income and expense items are credited and/or charged to the statement of income when the related transactions are completed.

Foreign currency translation and transactions

Foreign currency transactions are translated into AMD using the exchange rates defined by the CBA prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates defined by the CBA prevailing on the balance sheet date amounting to USD1= 450.19 AMD for 2005 (for 2004: USD1=485.84.00 AMD). Foreign exchange gains and losses resulting from settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement as a profit or loss from revaluation of foreign currency positions.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. The current income tax charge is calculated in accordance with the regulations of the Republic of Armenia. Deferred income tax, if any, is provided on temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that assets or liability for tax purposes.
Deferred income tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred income tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized. Deferred income tax assets and liabilities are offset when the Bank:

- has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- the deferred tax assets and deferred tax liabilities relate to profit taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

The Republic of Armenia also has various operating taxes, which are assessed on the Bank’s activities. These taxes are included as a component of other operating expenses in the statement of income.

Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, balances with the CBA (excluding those funds deposited for the settlement of ArCa payment cards) and placements with other banks (excluding those funds, withdraw ability of which is restricted).

Amounts due from banks and other financial institutions

In the normal course of business, the Bank maintains current accounts and deposits for various periods of time with other banks. Amounts due from credit institutions are carried at cost less any allowance for impairment.

Financial instruments

The Bank recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, including or net of any transaction costs incurred, respectively. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out in the note.

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables and held-to-maturity investments. The classification of investments between the categories is determined at acquisition based on the guidelines established by the management.

- *Financial assets at fair value through profit or loss*

This category has two subcategories: financial assets held for trading, and those designated at fair value through profit or loss. A financial asset is classified in this category if acquired for the purpose of selling in the short-term or if so designated by management from the initial acquisition of that asset.

- *Available for sale*

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are included in the statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is impaired or disposed. Dividends on available-for-sale equity instruments are recognized in the statement of income when the Bank’s right to receive payment is established.

The fair value of financial instruments is based on their quoted market prices. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Otherwise the investments are stated at cost less any allowance for impairment.

- *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments, which arise when the Bank provides money directly to a debtor with no intention of trading the receivable.

Loans and advances to customers with fixed maturity term are subsequently re-measured at amortized cost using effective interest rate method. Loans and advances to customers are carried net of any allowance for impairment.

Loans are placed on non-accrual status when full payment of principal or interest is in doubt. When a loan is placed on non-accrual status, contractual interest income is not recognized in the financial statements. A non-accrual loan may be restored to accrual status when principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

- *Held to maturity*

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Bank’s management has the positive intention and ability to hold to maturity. Were the Bank to sell other than insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

After initial recognition all financial liabilities, other than liabilities at fair value through profit or loss, including held for trading, are measured at amortized cost using effective interest method. After initial recognition financial liabilities at fair value through profit or loss are measured at fair value.

Repurchase agreements

Repurchase and reverse repurchase agreements are utilized by the Bank as an element of its treasury management and trading business. Mentioned transactions are accounted for as extension of means pledged by securities.

Securities sold under repurchase agreements are accounted for as trading, available-for-sale or held-to-maturity securities and funds received under these agreements are included into amounts due to other banks or amounts due to customers.

Funds granted against securities, which were purchased under repurchase agreements, are recorded as amounts due from other banks or as loans and advances to customers.

Securities purchased are not recognized in the financial statements, unless these are sold to third parties. The obligation to return them is recorded at fair value as a trading liability.

Any related income or expense arising from purchase and sale of the underlying securities is recognized as interest income or expense, accrued during the period that the related transactions are open.

Leases

Leases of assets under which the risk and rewards of ownership are effectively retained with the lessor are classified as operating leases. Rentals under operating leases are charged to the statement of income on a straight-line basis over the lease term and included in operating expenses.

Allowance for impairment of financial assets

A financial asset is impaired if its carrying amount is grater than its estimated recoverable amount. The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets may be impaired. If any such evidence exists, impairment loss of financial assets carried either at amortized cost or at fair value is recognized as follows.

- *Assets carried at amortized cost*

The allowance for impairment of financial assets is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial instrument.

Specific allowances are made as a result of a detailed appraisal of risk assets. In addition, general allowances are carried to cover risks, which although not specifically identified, are present in any portfolio of banking assets. Management's evaluation of the allowance is based on the Bank's past loss experience known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

The estimates of loan losses involve an exercise of judgement. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for impairment of loan, it is the judgement of management that the allowance for impairment of loan is adequate to absorb losses inherent in the loan portfolio.

The total change in the allowance for loan losses is recorded in the statement of income. When a loan is not collectable it is written off against the related allowance for impairment. If the amount of impairment subsequently decreases due to an event occurring after the write-down, the reversal of the related allowance is credited to the related impairment of financial assets in the statement of income.

- *Assets carried at fair value*

If a loss on a financial asset carried at fair value has been recognized directly in equity and there is objective evidence that asset is impaired, the cumulative net loss that had been recognized directly in equity is removed from equity and recognized in the statement of income for the period even though the financial asset has not been derecognized.

Intangible assets

Intangible assets are recorded at historical cost less accumulated depreciation. If the recoverable value of asset is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

Intangible assets comprise computer software and licenses, which are measured initially at purchase cost and are amortized using the straight-line method over their estimated useful lives not exceeding 10 years

Expenditure, which enhances or extends the performance of computer software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of the software. Such expenditures are amortized using the straight-line method over the residual useful lives of the respective asset.

Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is not amortized, on the contrary it is examined at least once a year in respect of impairment losses.

Property, plant and equipment

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

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

	Useful life (years)	**Rate (%)**
Buildings	20	5
Computers and communication	1	100
Vehicles	5	20
Other fixed assets	5	20

Leasehold improvements are capitalized and depreciated over the remaining lease contract period on a straight-line basis. Assets under the course of construction are not depreciated.

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

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

When revalued assets are sold, the amounts attributed to disposed item of assets and included in the revaluation reserve are transferred to retained earnings.

Pensions

The bank does not have any special arrangements separate from the state pensions system of RA, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged to the statement of income in the period, which they are related to.

Provisions, contingent assets and liabilities

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Credit related financial commitments are recorded in the financial when the commitment is established. The methodology for provisioning against possible losses arising from off-balance sheet commitments is consistent with that adopted for loans and advances to customers as described in paragraph “Allowance for impairment of financial assets”.

Comparatives

Where necessary, comparative figures have been adjusted to confirm to changes in presentation in the current year.

4. Interest income and expense

Interest income	**2005**	**2004**
Current accounts, loans and deposits in banks and other financial institutions	215,404	71,856
Loans and advances to customers	4,134,614	3,052,115
Investments	185,662	194,872
Repurchase agreements	30,604	15,446
Other interest income	449	381
	4,566,733	**3,334,670**

Interest expense		
Current accounts, loans and deposits from banks and other financial institutions	4,029	14,899
Customer's time deposits and current accounts	1,317,402	864,331
Repurchase agreements	3,198	5,152
	1,324,629	**884,382**

5. Fees and commission income

	2005	**2004**
Payment transfer fee	281,868	247,338
Commission fee on cash	969,381	793,312
Service fee for account maintenance of Municipal and State budgets	37,648	27,371
Transaction with payment cards	24,520	9,710
Other fees and commissions	401,241	182,505
	1,714,658	**1,260,236**

6. Other operating income

	2005	**2004**
Recovery of other assets	94	630,951
Penalties received	18,932	21,373
Gain/(loss) from disposal of PPE	(109)	69,003
Other income	94,679	83,337
	113,596	**804,664**

7. Allowance for impairment

	Notes	2005	2004
Amount due from banks			
Balance brought forward		52,831	12,125
Increase/(decrease) in provision		(19,744)	40,706
Balance carried forward	9; 10	33,087	52,831
Loans and advances to customer			
Balance brought forward		234,207	151,878
Increase in provision		61,863	124,497
Recovery of amounts previously written off		121,192	74,675
Written off during the year		(126,179)	(116,843)
Balance carried forward	11	291,083	234,207
Other assets			
Balance brought forward		2,447	6,459
Increase/(decrease) in provision		23,565	(12,830)
Recovery of amounts previously written off		7,669	10,616
Written off during the year		(30,302)	(1,798)
Balance carried forward	15	3,379	2,447
Credit related commitments			
Balance brought forward		22,773	21,057
Increase/(decrease) in provision		(22,773)	1,697
Adjustment		-	19
Balance carried forward	21.2	-	22,773
Impairment losses		**42,911**	**154,070**

8. Other operating expense

	2005	2004
Personnel expenses	1,389,206	1,065,792
Social insurance payments	165,636	134,857
Depreciation and amortization	392,001	256,780
Communication	102,720	100,507
Business trip	40,078	21,575
Advertising and representation	114,187	115,052
Repair and maintenance of tangible assets	50,044	33,732
Loss from impairment of PPE	503	-
Office supply	29,402	15,942
Operating lease expenses	144,514	194,142
Consulting and professional services	206,636	188,622
Security	103,373	85,547
Taxes, other than income tax	135,348	163,670
Penalties paid	537	5,751
Other expenses	408,207	313,548
	3,282,392	**2,695,517**

9. Cash and cash equivalents and balances with CBA

	2005	2004
Cash in hand	4,477,770	3,085,890
Other money market placements	68,417	34,514
Correspondent account with the CBA*	6,124,192	3,143,168
Included in cash and cash equivalents	10,670,379	6,263,572
Allowance for impairment of other money market placements (note 7)	(684)	(345)
Deposits with the CBA	1,000,000	1,000,000
Deposited funds with the CBA**	324,767	151,562
Accrued interest	55	1,337
Total cash and balances with the CBA	**11,994,517**	**7,416,126**
Cash and correspondent account with CBA	10,670,379	6,263,572
Placements with other banks (note 10)	2,699,070	5,248,564
Total cash and cash equivalents	**13,369,449**	**11,512,136**

* Under Armenian banking regulations, the bank is required to maintain, in the form of deposits, certain cash reserves with the CBA which are computed as 8% of certain Bank liabilities. There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement are not met, the Bank could be subject to certain penalties. Interests were not extended in respect of mandatory reserves in 2005 (2004 at 3% per annum).

** Deposited funds in CBA include a guaranteed deposit for settlements via ArCa payment system.

10. Amounts due from banks and other financial institutions

	2005	2004
Current accounts		
Armenian banks	100,870	104,688
*OECD banks	2,299,211	4,920,672
Non-OECD countries (excluding Armenia)	298,989	223,204
	2,699,070	5,248,564
Inter-bank loans and deposits		
Armenian banks:		
- loans and deposits	553,167	-
- repurchase agreements	251,117	550,120
	804,284	550,120
Allowance for impairment of amount due from banks (note 7)	(32,403)	(52,486)
	3,470,951	**5,746,198**

* Organization of Economic Cooperation and Development (OECD)

11. Loans and advances to customers

	2005	2004
Regular loans	24,584,797	18,536,855
Overdraft facilities	265,657	242,762
Credit cards	29,873	-
	24,880,327	18,779,617
Allowance for impairment of loans and advances to customers (note 7)	(291,083)	(234,207)
	24,589,244	**18,545,410**

Loans and advances to customers include financing granted from the funds provided by the World Bank Agricultural Reform Support Project, Migration International Organization.

As at year-end the interest accrual profile of loans and advances to customers was as follows:

	2005	2004
Accrual basis	24,581,716	18,487,054
Non-accrual basis	298,611	292,563
	24,880,327	18,779,617
Allowance for impairment of loans and advances to customers (note 7)	(291,083)	(234,207)
	24,589,244	**18,545,410**

Loans and advances by customer profile may be specified as follows:

	2005	2004
State owned enterprises	84,499	375,081
Privately held companies	14,345,896	9,431,061
Individuals	9,772,407	8,270,195
Sole proprietors	478,890	544,523
Accrued interest	198,635	158,757
	24,880,327	18,779,617
Allowance for impairment of loans and advances to customers (note 7)	(291,083)	(234,207)
	24,589,244	**18,545,410**

The total amount of loans extended to 24 major borrowers and their related parties makes up 40% of the Bank's loan portfolio.

Analysis by lending sectors of gross portfolio of loans and advances to customers profile (without allowances for impairment) may be specified as follows:

	2005	%	**2004**	%
Manufacturing	5,495,350	22	4,279,046	23
Agriculture	306,182	1	281,278	2
Construction	1,595,924	7	332,975	2
Transport and communication	782,374	3	443,431	2
Trade	4,691,767	19	3,603,255	19
Consumer sector	9,390,667	38	7,660,947	41
Service sector	1,414,911	6	1,012,349	6
Other sector	1,004,517	4	1,007,579	5
Accrued interest	198,635		158,757	
	24,880,327	**100**	**18,779,617**	**100**

The following table represents a geographical profile of the portfolio of loans and advances to customers analyzed by the place of customers' reported residence:

	2005	**2004**
Armenian residents	24,177,029	18,773,777
Non-OECD region residents	703,298	5,840
	24,880,327	18,779,617
Allowance for impairment of loans and advances to customers (note 7)	(291,083)	(234,207)
	24,589,244	**18,545,410**

12. Investment securities

12.1 Securities available-for-sale:	**2005**	**2004**
RA Government securities		
- RA Government and CB bonds	8,425,740	-
- Accrued interest	30,379	-
	8,456,119	-
Equity instruments		
- Armenia	16,609	12,172
- OECD countries	1,389	83
	17,998	12,255
	8,474,117	**12,255**

The investments in equity securities are made as follows:

Name	Business profile	County of registration	Investment (KAMD)	Participation %
"Armenian Card" CJSC	Issue and service of plastic cards	RA	6,609	2.0
"Armcollection" CJSC	Collection services	RA	10,000	0.5
S.W.I.F.T	Telecommunication services	Belgium	1,389	-
			17, 998	

12.2 Securities held-to-maturity:

RA Government securities	**2005**	**2004**
Nominal value	-	2,561,235
Premium	-	9,670
Discount	-	(18,730)
Accrued interest	-	24,320
	-	**2,576,495**

As at 31.12.04 the securities at the amount of 962,871 KAMD were pledged under repurchase agreements against short-term loan received from the Central Bank of Armenia (See note 16).

The movement in investments may be summarized as follows:

	Available-for-sale	**Held-to-maturity**	**Total**
At January 1, 2005	**12,255**	**2,576,495**	**2,588,750**
Additions	4,312,297	7,391,426	11,703,723
Disposals (sale and redemption)	(2,820,675)	(3,126,556)	(5,947,231)
Gain from fair value changes	128,875	-	128,875
Reclassification	6,841,365	(6,841,365)	-
At December 31, 2005	**8,474,117**	**-**	**8,474,117**

13. Property, plant and equipment

	Buildings	Computers and com. means	Vehicles	Other PPE	Construc-tion in progress	Leasehold improve-ments	Total
Cost							
As of January 1, 2004	1,236,790	203,682	51,361	162,076	6,170	56,860	1,716,939
Additions	1,791,887	107,320	34,481	57,785	71,788	15,427	2,078,688
Disposals	(445,900)	(5,819)	(957)	(113)	-	-	(452,789)
Reclassification	35,426	-	-	9,076	(44,448)	(54)	-
As of December 31, 2004	2,618,203	305,183	84,885	228,824	33,510	72,233	3,342,838
Additions	121,667	274,116	66,777	60,237	155,698	41,804	720,299
Disposals	(17,596)	(9,927)	(11,402)	(670)		(3,534)	(43,129)
Revaluation	1,637,967	-	-	-	-	-	1,637,967
Reclassification	63,314	-	-	(407)	(56,229)	(6,678)	-
As of December 31, 2005	4,423,555	569,372	140,260	287,984	132,979	103,825	5,657,975
Accumulated depreciation							
As of January 1, 2004	22,632	20,729	4,545	20,189	-	3,365	71,460
Additions	39,458	155,108	13,212	40,455	-	6,981	255,214
Disposals	(750)	(1,644)	(957)	(68)	-	(26)	(3,445)
As of December 31, 2004	61,340	174,193	16,800	60,576	-	10,320	323,229
Additions	129,975	168,561	20,833	58,486		10,801	388,656
Revaluation	110,508	-	-	-	-	-	110,508
Disposals	-	(9,927)	(9,640)	(612)		(3,534)	(23,713)
As of December 31, 2005	301,823	332,827	27,993	118,450	-	17,587	798,680
Net book values:							
As of December 31, 2005	**4,121,732**	**236,545**	**112,267**	**169,534**	**132,979**	**86,238**	**4,859,295**
As of December 31, 2004	**2,556,863**	**130,990**	**68,085**	**168,248**	**33,510**	**61,913**	**3,019,609**

The revaluation of the Bank's private buildings has performed by independent valuers on the market values base.Decrease from the revaluation minus appropriate the influence of the deffered tax liabilities,was refered to it's own capital's revalued reserve.

14. Intangible assets

	License	Software	Goodwill	Total
Cost				
As of January 1, 2004	-	6,341	76,251	82,592
Additions	27,008	108	-	27,116
Adjustment of the cost*	-	-	(723)	(723)
As of December 31, 2004	27,008	6,449	75,528	108,985
Additions	-	-	-	-
Disposals	-	-	-	-
As of December 31, 2005	27,008	6,449	75,528	108,985
Accumulated Amortization				
As of January 1, 2004	-	361	723	1,084
Adjustment of the cost*	943	623	-	1,566
Additions	-	-	(723)	(723)
As of December 31, 2004	943	984	-	1,927
Additions	2,700	645	-	3,345
As of December 31, 2005	3,643	1,629	-	5,272
Net book values:				
As of December 31, 2005	**23,365**	**4,820**	**75,528**	**103,713**
As of December 31, 2004	**26,065**	**5,465**	**75,528**	**107,058**

* The goodwill cost has been adjusted as at 31 December 2003 at the amount of accumulated amortization (See Note 3)

.By the valuation of the Bank's Management goodwill is not depreciate as at 31 December 2005.

15. Other assets

	2005	**2004**
Prepayments and other debtors	146,635	68,767
Accounts receivable	40,958	58,604
Settlements with employees	580	-
Other assets	74,201	61,767
	262,374	189,138
Allowance for impairment of other assets (note 7)	(3,379)	(2,447)
	258,995	186,691
Materials	54,841	35,535
Other assets	3,838	3,839
	317,674	**226,065**

16. Amounts due to banks and other financial institutions

	2005	2004
Current accounts		
Armenian banks	16,076	41,770
Non-OECD countries (excluding Armenia)	270,597	121,824
	286,673	163,594
Inter-bank loans and deposits		
CBA:		
- repurchase agreements	-	1,000,468
Other Armenian banks:		
- loans and deposits	-	486,373
	-	1,486,841
	286,673	**1,650,435**

17. Amounts due to customers

	2005	2004
Government RA		
- Current/settlement accounts	2,928	38,816
- Term deposits	1,246,093	1,332,610
	1,249,021	1,371,426
Corporate customers		
- Current/settlement accounts	15,803,962	12,798,734
- Term deposits	15,550,372	7,991,781
	31,354,334	20,790,515
Retail customers		
- Current/demand accounts	1,631,490	1,080,291
- Term deposits	9,489,676	6,822,960
	11,121,166	7,903,251
	43,724,521	**30,065,192**

As at December 31, 2005 included in the term deposit payable to Government is AMD 1,211,011 thousand, which was attracted under the World Bank project on “Enterprise Development” (2004: AMD 1,306,910 thousand). Interest expenses accrued in respect of those funds make up AMD 35,082 thousand (2004: AMD 25,700 thousand).

18. Other liabilities

	2005	2004
Accounts payable	89,626	77,585
Amounts payable to employees	41,252	53,339
Allowance for impairment of credit related commitments (note 21.2)	-	22,773
Other liabilities	75,497	60,999
	206,375	**214,696**

19. Share capital

As at 31 December 2005 the Bank's registered and paid-in share capital was KAMD 3,020,024. In accordance with the Bank's statues, the share capital consists of 51,252 ordinary shares, all of which have a par value of AMD 58,925 each.

The respective shareholdings as at 31 December 2005 and 2004 may be specified as follows:

	2005		2004	
	Paid-in share capital	%	Paid-in share capital	%
"Rasko Armenia" CJSC	603,981	20	2,357,000	80
"Center of business investments" OJSC	1,812,062	60	589,250	20
"International Buissness Center" CJSC	603,981	20	-	-
	3,020,024	**100**	**2,946,250**	**100**

As at 31 December 2005, the Bank did not possess any of its own shares.

20. Income tax expense

	2005	2004
Current tax	628,637	503,712
Deferred tax	19,729	(8,335)
	648,366	**495,377**

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2004: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

Numerical reconciliation between the tax expenses and accounting profit is provided below:

	2005	Effective tax rate (%)	2004	Effective tax rate (%)
Profit before taxation	2,882,737	-	2,289,461	-
Income tax at the rate of 20%	576,547	20	457,892	20
<u>Adjustments of income and expenses for tax purposes in respect of non temporary differences:</u>				
Income which is exempt from taxation	(3,960)	(0.1)	(316)	-
Foreign exchange negative	27,528	1	19,814	0.9
Non deductible expenses	48,251	1.7	17,987	0.8
Income tax expense	**648,366**	**22.5**	**495,377**	**21.7**

Deferred tax calculation in respect of temporary differences:

	Balance as at 31.12.04	Recognized in statement of income	Recognized in equity	Balance as at 31.12.05
<u>*Deferred tax assets*</u>				
Adjustments of expenses	15,872	(2,198)	-	13,674
Total deferred tax asset	15,872	(2,198)	-	13,674
<u>*Deferred tax liabilities*</u>				
Adjustment of goodwill amortization	(1,525)	(1,525)	-	(3,050)
Revaluation of the fixed assets	-	-	(305,593)	(305,593)
Adjustments of the reserves	-	(11,256)	-	(11,256)
Other income		(4,750)	-	(4,750)
Revaluations of the securities	-	-	(21,052)	(21,052)
Total deferred tax liability	(1,525)	(17,531)	(326,645)	(345,701)
Net deferred tax asset/(liability)	**14,347**	**(19,729)**	**(326,645)**	**(332,027)**

21. Provisions, financial commitments and contingencies

21.1 Tax and legal matters

The taxation system in Armenia is characterized by frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among various taxation authorities and jurisdictions.

Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.
As at 31.12.05 there are no any legal actions and complaints taken against the Bank.
Therefore, the Bank has not made any respective provision related to tax and legal matters.

21.2 Undrawn loan commitments, guarantees and letters of credit

	2005	**2004**
Undrawn loan commitments	3,207,077	1,290,555
Guarantees	2,418,572	1,057,926
	5,625,649	2,348,481
Allowance for impairment of credit related commitment (note 7)	-	(22,773)
	5,625,649	**2,325,708**

21.3 Commitments under operating leases

In the normal course of business the Bank enters into other lease agreements for building and premises.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	in thousand AMD	
	Amounts payable in USD	Amounts payable in AMD
Not later than 1 year	68,047	22,188
Later than 1 year and not later than 5 years	170,196	28,400
Later than 5 years	99,174	207
	337,417	**50,795**

22. Related party transactions

Parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates.

As at 31 December 2005 and 2004, the bank had the following balances outstanding with related parties:

Loans and advances to customers	**2005**	**2004**
Balance at 1 January	463, 427	202,707
Loans issued during the year	2,680,437	1,342,777
Loans repayment during the year	(3,048,084)	(1,082,057)
Balance at 31 December	**95,780**	**463,427**
Interest income	11,113	36,750

Amounts due to customers	**2005**	**2004**
Balance at 1 January	429,606	135,947
Amounts paid during the year	42,290,232	16,288,473
Amounts received during the year	(42,157,831)	(15,994,814)
Balance at 31 December	**562, 007**	**429,606**
Interest expense	49,625	10,865

Other transactions	**2005**	**2004**
Purchase of building	-	1,774,360
Sale of buildings	-	475,778
Purchase of fixed assets	8,234	-
Capital construction	47,172	-

Other expenses		
Consulting and other services		
Lease payments	198,754	215,690
	13,027	6,243

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

Loans were granted to the Bank's shareholders, to enterprises controlled by them, as well as to the managers of the Bank's divisions.

Amounts due to customers include the demand and time deposits attracted of the Bank's shareholders, enterprises controlled by them as well as from managers of the Bank's subdivisions.

The Bank has acquired office property and other fixed assets from individual considered the Banks' shareholder.

The contract on provision of consulting services for organization of construction works, for valuation of the pledged property as well as for consulting and other services connected with pledging was concluded with the Bank's shareholder's related party.

For the implementation of the Banks' branches activity the Bank has leased building and premises from the Bank's shareholder's related parties.

In 2005 the total remuneration of the Directors was AMD 648,700 thousand (2004: AMD 450,399 thousand).

23. Risk management policies

Management of risk is fundamental to the banking business and is an essential element of the bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the bank's risk management policies in relation to those risks is presented below.

Credit risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to lending sectors and geographical segments (See note 11). Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Credit-related commitments ensure that funds are available to a customer as required. With respect to undrawn loan commitments the bank is potentially exposed to the credit risk equal to the total amount of such commitments.

Guarantees, which represent irrevocable assurance that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit are frequently fully or partially covered by the funds deposited by customers and therefore bear no credit risk.

The geographical concentration of financial assets and liabilities is as follows:

2005

	RA	OECD	Non-OECD	Total
Assets				
Cash and due from the CBA	11,994,517	-	-	11,994,517
Due from banks and other fin. institutions	873,435	2,298,527	298,989	3,470,951
Loans and advances to customers	23,887,848	-	701,396	24,589,244
Investment securities	8,472,728	1,389	-	8,474,117
	45,228,528	2,299,916	1,000,385	48,528,829
Liabilities				
Amounts owed to banks and other fin. institutions	16,076	-	270,597	286,673
Amounts owed to customers	43,724,521	-	-	43,724,521
	43,740,597	-	270,597	44,011,194
Net position	**1,487,931**	**2,299,916**	**729,788**	**4,517,635**

2004

	RA	OECD	Non-OECD	Total
Assets				
Cash and due from the CBA	7,416,126	-	-	7,416,126
Due from banks and other fin. institutions	653,761	4,871,443	220,994	5,746,198
Loans and advances to customers	18,539,628	-	5,782	18,545,410
Investment securities	2,588,667	83	-	2,588,750
	29,198,182	4,871,526	226,776	34,296,484
Liabilities				
Amounts owed to banks and other fin. institutions	1,528,611	-	121,824	1,650,435
Amounts owed to customers	30,065,192	-	-	30,065,192
	31,593,803	-	121,824	31,715,627
Net position	**(2,395,621)**	**4,871,526**	**104,952**	**2,580,857**

Market risk

The Bank is mainly exposed to changes in interest rates and foreign exchange rates. The Bank’s exposure to interest rate risk is managed on a daily and is monitored on a regular. Risk management tools used include gap analysis, duration analysis and sensitivity analysis. Based on such analysis, the Bank’s cost of funds and market situation, benchmarks rates are set for lending to customers and accepting of deposits from customers, as well as guideline are provided for the management of the bank’s investment portfolio and use of derivative financial instruments.

The bank’s exposure to foreign exchange rate fluctuations is also managed by setting up limits for open positions in individual currencies and for total open positions.

As deemed necessary, the Bank’s exposure to market risk is further reduced by utilizing derivative financial instruments.

Currency risk

The Bank is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies (primarily US dollar), by branches and in total. These limits also comply with the minimum requirements of the CBA.

The Bank's financial assets and liabilities exposure to currency risk is as follow:

2005

	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and due from the CBA	7,066,864	4,867,880	59,773	11,994,517
Due from banks and other fin. institutions	251,262	3,078,915	140,774	3,470,951
Loans and advances to customers	7,065,683	17,523,561	-	24,589,244
Investment securities	8,474,117	-	-	8,474,117
	22,857,926	25,470,356	200,547	48,528,829
Liabilities				
Amounts owed to banks and other fin. institutions	80	286,590	3	286,673
Amounts owed to customers	18,552,369	25,077,498	94,654	43,724,521
	18,552,449	25,364,088	94,657	44,011,194
Net position	**4,305,477**	**106,268**	**105,890**	**4,517,635**

2004

	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Cash and due from the CBA	5,997,106	1,283,367	135,653	7,416,126
Due from banks and other fin. institutions	550,215	5,033,325	162,658	5,746,198
Loans and advances to customers	5,239,434	13,305,976	-	18,545,410
Investment securities	2,588,750	-	-	2,588,750
	14,375,505	19,622,668	298,311	34,296,484
Liabilities				
Amounts owed to banks and other fin. institutions	1,000,485	649,947	3	1,650,435
Amounts owed to customers	10,895,697	18,972,129	197,366	30,065,192
	11,896,182	19,622,076	197,369	31,715,627
Net position	**2,479,323**	**592**	**100,942**	**2,580,857**

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Bank monitors, on a daily basis, the expected cash flows on clients' banking operations. This is a part of the normal asset and liability management process.

The tables below provide an analysis of banking financial assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

2005

	Less than 1 month	1 - 3 months	3 - 6 months	6 months to 1 year	1-5 years	More than 5 years	No maturity	Overdue	Total
Assets									
Cash and due from the CBA	11,669,750	-	-	-	-	-	324,767	-	11,994,517
Due from banks	2,923,424	547,216	311	-	-	-	-	-	3,470,951
Loans to customers	3,270,403	3,536,875	3,572,407	6,587,140	7,540,266	-	-	82,153	24,589,244
Investment securities	130,258	453,177	2,842,757	3,555,621	1,405,439	68,867	17,998	-	8,474,117
	17,993,835	4,537,268	6,415,475	10,142,761	8,945,705	68,867	342,765	82,153	48,528,829
Liabilities									
Amounts owed to banks	286,665	8	-	-	-	-	-	-	286,673
Amounts owed to customers	19,494,664	15,034,714	5,577,423	2,333,095	1,244,476	40,149	-	-	43,724,521
	19,781,329	15,034,722	5,577,423	2,333,095	1,244,476	40,149	-	-	44,011,194
Net position	**(1,787,494)**	**(10,497,454)**	**838,052**	**7,809,666**	**7,701,229**	**28,718**	**342,765**	**82,153**	**4,517,635**
Accumulated gap	**(1,787,494)**	**(12,284,948)**	**(11,446,896)**	**(3,637,230)**	**4,063,999**	**4,092,717**	**4,435,482**	**4,517,635**	

2004

	Less than 1 month	1 - 3 months	3 - 6 months	6 months to 1 year	1-5 years	More than 5 years	No maturity	Overdue	Total
Assets									
Cash and due from the CBA	7,264,564	-	-	-	-	-	151,562	-	7,416,126
Due from banks	5,746,198	-	-	-	-	-		-	5,746,198
Loans to customers	1,749,915	4,214,755	3,062,343	6,813,105	2,655,377	-		49,915	18,545,410
Investment securities	1,107,541	128,991	49,106	461,508	808,104	21,245	12,255	-	2,588,750
	15,868,218	4,343,746	3,111,449	7,274,613	3,463,481	21,245	163,817	49,915	34,296,484
Liabilities									
Amounts owed to banks	1,650,435	-	-	-	-	-	-	-	1,650,435
Amounts owed to customers	16,516,190	7,115,184	3,788,868	1,265,898	1,058,231	320,821	-	-	30,065,192
	18,166,625	7,115,184	3,788,868	1,265,898	1,058,231	320,821	-	-	31,715,627
Net position	**(2,298,407)**	**(2,771,438)**	**(677,419)**	**6,008,715**	**2,405,250**	**(299,576)**	**163,817**	**49,915**	**2,580,857**
Accumulated gap	**(2,298,407)**	**(5,069,845)**	**(5,747,264)**	**261,451**	**2,666,701**	**2,367,125**	**2,530,942**	**2,580,857**	

As loans are sometimes re-scheduled and re-negotiated actual maturity could exceed contractual maturity.

Interest rate risk

Change in interest rates has a direct effect on the interest rate exposure of the Bank and on cash flows associated with assets and liabilities and on their fair values. Therefore, disclosure of maturity analysis of assets and liabilities enables users of financial statements to assess to which extent the Bank is exposed to interest risk and, consequently, its expected gain or loss.

The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. Due to the nature of the Armenian banking system, the interval at which interest is reprised to market is approximately the same as the contractual maturity of most financial instruments.

As of December 31, the effective average interest rates by currencies for interest generating/bearing financial assets and liabilities were as follows.

	2005		**2004**	
	Armenian Dram	**Foreign currency**	**Armenian Dram**	**Foreign currency**
Assets				
Due from the CBA	1	-	-	-
Due from banks and other fin. institutions	-	-	4	-
Loans and advances to customers	17.1	18.5	18.1	20.3
Investment securities	4.9	-	7.5	-
Liabilities				
Amounts owed to banks and other fin. institutions	-	-	3.8	4
Amounts owed to customers	5.6	5.5	7.1	6.1

24. Fair value of financial assets and liabilities

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 “Financial Instruments: disclosure and presentation”. Fair value is defined as the amount at which the instrument asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Bank’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

As at 31 December 2005 the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such fair value.

The carrying amount of short-term maturity financial instruments such as cash, amounts due to and from the CBA, amounts due to and from other banks and amounts due to customers, approximates their fair value. For long-term maturity instruments interest rates applicable reflect market rates and consequently the fair value approximates the carrying amounts.

Investment securities held-to-maturity in majority include securities with fixed interest rates, which reflect market interest rates and consequently the fair value approximates the carrying amounts.

The fair value of loan portfolio is based on the credit and interest rate characteristics of the individual loan or advance within each sector of the portfolio. The estimation of the allowance for loan impairment includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the provision for loan losses is considered reasonable estimate of the discount required to reflect the impact of credit risk.

25. Capital adequacy

The Bank's total capital adequacy ratio of risk weighted assets, as at 31 December 2005 was 21.2 %.

The Central Bank of Armenia requires banks to maintain a total capital adequacy ratio of 12% of risk-weighted assets.

The standard value of the Bank's total capital as at 31 December 2005 makes up AMD 6,330,508 thousand.

Effective July 1, 2005 the Central Bank of RA defines the minimum value of the total capital amounting to AMD 2,400,000 thousand.

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