CENTRAL BANK OF ARMENIA

BANKING SYSTEM OF ARMENIA

DEVELOPMENT
SUPERVISION
REGULATION

2005

CONTENTS

Introduction 3

Banking System Supervision And Regulation 6

Changes In Banking System Regulation Framework 13

Banking Supervision In 2004 21

Staff Training And Cooperation With Other Country Examiners 23

Banking System In 2004 25

General Provisions 25

Banking System Capital 26

Banking System Liabilities 28

Banking System Assets 32

Banking System Financial Outcomes 37

Payment And Settlement System 40

Banking System Financial Risks 42

Credit Organizations Operating In The Territory Of The Republic Of Armenia 44

The Prospects Of Banking Supervision Development 45

Appendices 51

INTRODUCTION

Developments in the banking system of Armenia in 2004 come to prove that the potential of Armenia's banking system is high for further expansion and enlargement, given the upward adjustments of macroeconomic environment. The banking system has acted in a sound competitive environment and, through upgrading the confidence and broadening the range of services, attracted a wider circle of bank clients.

The growth of the financial intermediation level became one of the significant progresses recorded in 2004, and measures carried out over the recent years in this respect were fundamental. Due to such undertakings, financial inflows into the banking system were encouraged, on one hand, and owing to effective lending mechanisms and sustained economic activity, lending volumes increased, from the other hand. Regarding these achievements, total deposits attracted by the banking system grew by 24% and loans to the economy increased by 37%, as opposed to respective 3% and 16% in 2003. Compared to a nominal GDP 16.7% growth, the banking system assets have grown by 29 %, which brought to the increase of banking system assets to GDP ratio by 1.8 percentage points to 19.2%, against 17.4% reported in the previous year. Nevertheless, the level of financial intermediation in Armenia remains outstandingly low, for the banking system assets to GDP ratio in some European countries and the former Soviet Union Republics is 60% - 100%.

One of the basic actions fostering the financial intermediation was the banking system "recovery" program implemented by the Central Bank still started in 1999-2000, under which problem banks were tended to be brought out of the market. Along with economic improvements, and by ensuring high competitiveness in the financial market, problem banks became insolvent and their further activity in market might have had its adverse impact on and jeopardized further development of banking system. To this regard, a series of legal actions were taken by the

Deleted: increased

Deleted: at its 29% progressive pace, and reached

Deleted: recovery'

Central Bank, including the adoption of the Republic of Armenia Law on Bankruptcy of Banks and Credit Organizations, and the strengthening of the supervisory role of the Central Bank. These actions enabled the Central Bank to expand its surveillance over the problem banks. Present achievements in the banking system come to prove the rationale of this strategic program, thanks to which it was enabled to prevent the potential crisis on time, as well as promote further development of the banking system, and strengthen a competitive environment in market.

International loan programs acting in Armenia were crucial for upgrading the financial intermediation level. For few years, Armenian banks were involved in small and medium size business development programs, as a result, these banks were provided with eligible funds. Moreover, particular lending mechanisms were launched, and loan agents were trained and prepared for the banks.

The existence of financial infrastructures and their sound and effective functioning are essential for financial intermediaries. A credit registry and a deposit guarantee scheme were successfully established in 2003, which helped substantially to minimize the risks and enhance consumer confidence toward financial system. At the same time, credit organizations began their activities by providing financial services to wider range of population. In 2004, as it was in 2003, plastic cards continued to highly increase which encouraged an inflow of additional cheap funds to banks, as well as card-related new services (overdraft, consumer loans) were launched in the banking system.

As an outstanding achievement, it is noteworthy to mention the robust growth of gross loan investments (including receivables) in 2004. To this end, investments grew by 38.5% or 36.8 billion drams (AMD) throughout the year. Along with increasing volume of loans, number of loans and receivables grew by 36.9% and made up to 200 000, close to the end of the year. With such a lending surge, the loan investments quality, was not however worsened. It is also important that the lending seasonalities of the previous year addressed to different sectors of economy remained the same.

Deleted: activities

Deleted: a

Deleted: a less risk

Deleted: were properly attained

In 2004, Armenia experienced an outstanding upswing in profit level reflected largely by the increased amounts and sustained quality of loans. Competitiveness between banks became notably stronger. Commercial banks tried to fortify their positions in some sectors of financial market and in some areas of financial instruments and services.

2004 was also critical, because the growth of lending of the banking system, as it had been in the prior period, was attained on account of consumer and trade loans. Consumer loans namely 16.1 billion drams or 69.4% growth was most likely the consequence of new consumer lending mechanisms introduced, and household net disposable income growth. Compared to 2003, the private transfers grew by 63% in 2004, which in their turn caused rise in private sector net disposable income, and 10.6% growth of expenditures. Trade loans grew by 10 billion drams or 47.3%.

In 2004, the nominal GDP growth was 16.7% due largely to contributions of agricultural and construction sectors of economy. Lending to agriculture grew by 11.7% within the year, and the nominal output growth of this branch reached to 22.9%. In construction area, the nominal output growth made up to 18.7%, and along with this the construction lending by the banking system grew by 10.0% or 481 million drams. In this respect, the construction growth in 2004 was supported by private sector funds rather than by banking system lending.

Banking loans to industry increased in 2004 by 19.6% (5.8 billion drams) with nominal output growing to 25.1%. As compared to proceeding years, mining industry showed an upswing in its nominal output to 202.1% (mainly associated with high customer prices on raw materials), the lending of which by banks had been increased by 2.7 billion drams and totaled 3.1 billion drams.

The relatively high interest spread in 2004, as a financial intermediation indicator, represents the dissatisfactory level of financial intermediation in Armenian financial market. Nonetheless, the interest spread has been lowered in 2004 by virtually 1 percentage point, it still remains double higher than 5 percentage point spread reported by the Baltic and Central European countries.

Deleted: commercial

Deleted: Commercial

Deleted: e

Deleted: inconsistent

Deleted: all the same

Deleted: %

Deleted: of

Deleted: This phenomenon is to be interpreted in two ways: ¶

The reason of higher spread in Armenian banks is that in case of small Armenian banking system and individual banks, deposit and loan base is also small, which in conjunction with high operational expenses outlines the low effectiveness of bank activities and concludes that the "scale effect" in Armenian banking system is still absent. Larger banks, with other things being equal, might introduce a rather comprehensive and effective system in respect to risk management as to minimize possible losses and foster further increase in profitability.

High spread is conditioned also by high credit risk, on one hand, and the absence of long-term savings in economy, on the other hand. As a result, investment attraction/allocation inconsistencies may cause additional compensation covering losses expected from other risks (liquidity, interest rates).

Deleted: First,

Deleted: Armenian banking system is now in a stage when it is possible to gain profit (scale effect), while being expanded in size. And in case if Armenian banking system and individual banks are smaller, on a smaller deposit and loan basis, the effectiveness of bank activity is also lower because their operational expenses are higher and "costy".

Deleted: in other similar situation

Deleted: Second, h

Deleted: rate of

BANKING SUPERVISION AND REGULATION

Functions of Banking Supervision Implementation Division & the Divisions which Provide Support to the Supervisory Process

Deleted: ***Divisions***

Within its scope of authorities, the Central Bank ensures conditions necessary for a sustained, liquid, solvent and normal-functioning banking system; and defends the interests of lenders and depositors. The Banking Supervision Department (BSD), the Banking Methodology and Analyses Department (BMAD), the Statistics Department (SD), the Bank Reconstruction Processes Control Department (BRPC), and the Legal Department (LD) of the Central Bank are responsible for supporting and implementation of supervisory activities of banks in realization of the above objectives.

Deleted: , and support the

Deleted: ,

Deleted: the

Deleted: ion

The Banking Methodology and Analyses Department and Legal Department support banking supervision activities in terms of methodological, analytical and legal aspects. The Statistics Department collects and reviews information on the entities licensed by the Central Bank. Bank Reconstruction Processes Control Department carries out the control over the liquidating banks.

The Banking Supervision Department is responsible for the core supervisory processes:

- licensing of banks and other financial institutions (credit organizations, foreign exchange units, currency dealers, forex exchanges);
- off-site supervision of the activities of banks and other financial institutions;

Deleted: offices

Deleted: stock

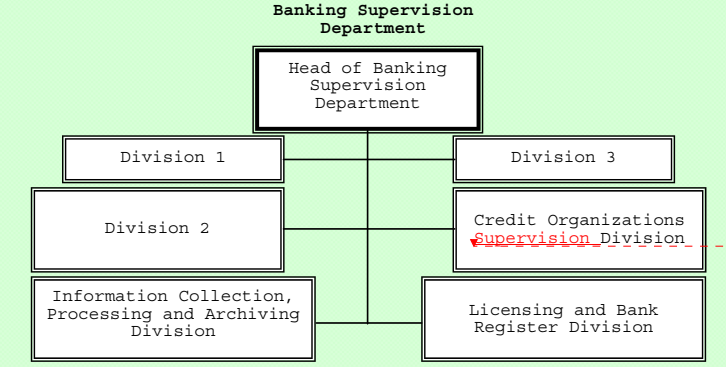
- on-site supervision of the activities of banks and other financial institutions;
- termination of the activities of banks and other financial institutions.

Heads of the Banking Supervision, Banking Methodology and Analysis and Legal Departments are members of the Banking Supervision and Licensing Committee which constitutes the executive body of banking supervision.

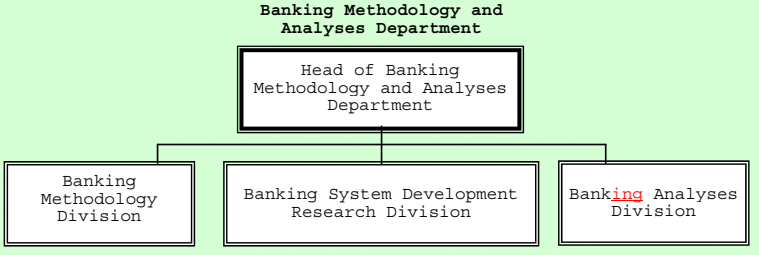
Deleted: Managers

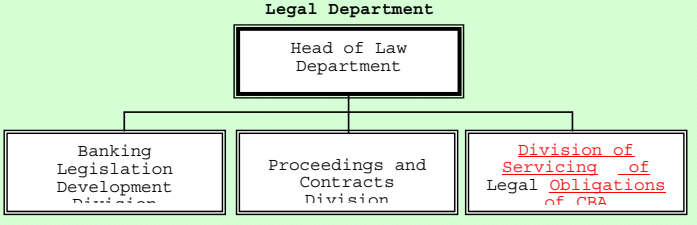
Deleted: managing

Departments included in Supervision and Licensing Committee



Deleted: Control





Supervision and Licensing Committee

The Supervision and Licensing Committee (the SLC) of the Central Bank, chaired by the Chairman of the Central Bank, is a body that takes the lead in banking supervision. The Supervision and Licensing Committee works through meetings that are convened when necessary, but not less than once in a week. Issues subject to the Supervision and Licensing Committee discussions are as follows:

- Preliminary consent to creation of banks; registration and licensing of banks, bank branches and representations;
- Qualification and professional competency, and registration issues for managers and officers of banks, credit organizations, money transfer organizations, currency dealers, foreign exchange units and other entities licensed by the Central Bank;
- Violations by banks, explanations and objections thereof, the issue of application or non-application of penalties to such banks;
- Licensing and registration of other organizations subject to the Central Bank licensing;
- Application or non-application of penalties to other organizations licensed by the Central Bank in connection with committed violations, discussion of explanations and objections from these organizations;
- Registration of amendments envisaged by the Law on Banking and Banking Activity, and Regulation 1 approved by the Central Bank Board; and
- Other issues ensuing from other authorities provided for by other regulations of the Central Bank.

Licensing of banks and other financial institutions

The Central Bank grants licenses to banks and other financial institutions subject to the Central Bank licensing pursuant to Regulation 1 on "Registration and Licensing of Banks and Foreign Bank Branches, and Licensing of Bank Branches and Representations", Regulation 13 on " Technical requirements for the premises,

Deleted: g banks

Deleted: currency

Deleted: offices

Deleted: v

Deleted: committed by other organizations licensed by the Central Bank;

Deleted: ; and the issue of application or non-application of penalties to them;

Deleted: saturation

Deleted: to be submitted t

Deleted: lace of activity

registration of branches and representations, managers qualification, significant participation in statutory fund required for registration and licensing of credit organizations", Regulation 10 on " Licensing and regulation of foreign exchange cash transactions", Regulation 12 on "Licensing and regulation of foreign exchange dealers transactions", Regulation 16 on "Licensing of money transfer organizations, registration of branches, managerial staff qualification thereof", Regulation 17 on "Licensing of clearing organizations dealing with payment documents, registration of branches, managerial staff qualification thereof", Regulation 18 on "Licensing of plastic card payment processing organizations, registration of branches, managerial staff qualification thereof", Regulation 19 on "Licensing of plastic card and other documents issuing and realization organizations, registration of branches, managerial staff qualification thereof", Regulation 11 on "Licensing, regulation and supervision of foreign exchange auctions on the territory of the Republic of Armenia". Responsibility for these activities is on the Licensing and Banking Register Division of the Banking Supervision Department.

The Board of the Central Bank approves those bank founders' applications, whose:

- Founders have a good reputation and are not criminally prosecutable;
- Investments in the capital are of lawful origin;
- Business plan is realistic and consistent with a form established by the Central Bank;
- Organizational structure of the bank is adequate for establishing normal relationship between the departments, and effective risk management;
- The executive body and the managers are proficient and skillful, and meet the Central Bank's criteria; and
- Documents are accurate and free of misstatement.

The Licensing and Supervision Committee of the Central Bank is responsible for examining the professional integrity of a candidate assigned or selected for a managerial position in a bank, a bank

Deleted: ing

Deleted: and account

Deleted: implementing

Deleted: trading

Deleted: e

Deleted: shall

Deleted: letters of attorney

Deleted: from

Deleted: s

Deleted: Economic

Deleted: program

Deleted: chart

Deleted: t

branch, a foreign bank branch, (other institutions licensed by the Central Bank), including that of currency dealers. Qualification criteria are updated and modernized each year.

Supervision of banks and other financial institutions

Off-site and on-site inspection of banks and other institutions licensed by the Central Bank shall be held by four divisions of the Banking Supervision Department. Three divisions are responsible for supervision of bank institutions and other institutions licensed by the Central Bank, and one is responsible for supervision of credit organizations.

Deleted: the newly established

Off-site supervision of banks and credit organizations is carried out according to rules prescribed in the "Manual on off-site supervision" which defines the principles and methods of such supervision, regulates processes and procedures, dates and order, as well as the staff involved in off-site supervision, rights and obligations thereof. Off-site supervision is a profound analysis of bank performance based on information (in terms of reports and otherwise) the Central Bank receives from banks in view of evaluating financial condition and the level of risks, and monitor compliance with banking laws and relevant regulations. Off-site supervision has a primary aim to disclose and evaluate the risks of a bank through analyzing its financial condition in a weekly, monthly, quarterly and yearly basis in order to prevent potential losses or at least minimize them.

The off-site supervision requires the bodies under supervision to submit statements to the Statistics Department (SD) of the Central Bank in accordance with the procedure determined by law and Regulation 3 on "*Banks Statements; Reporting and Release*" and Regulation 15 on "*Credit Organizations Statements; Reporting and Release*". After being reviewed, these statements are presented to the Banking Supervision Department and Banking Methodology and Analyses Department.

Data received from banks and credit organizations, after being properly analyzed, are used to prepare individual comprehensive

reports reflecting disclosure of changes in bank/credit organization performance indicators. In these reports, the main business trends and relevant changes of a financial organization are represented, objectives and issues in concern, as well as risk areas are identified.

Off-site supervision's goal is to identify not only movements in a bank's financial indicators, and particularly the deviations from the limits set by the Central bank regulations, but also to review the reasons of such deviations, evaluate changes in indicators and develop a plan of actions to manage the risks identified. Off-site supervision is also aimed to evaluate and analyze the bank's (credit organization's) expected financial condition and risks.

During examination, the examiners analyze foreign exchange risks, interest and liquidity risks by using VAR, Duration, GAP methodologies, and stress tests.

Brief (composite) rating of indicators of banks operating in Armenia (CAMELS) is being calculated taking into account the bank capital adequacy (C), asset quality (A), management (M), earnings (E), liquidity (L), and sensitivity to market risk (S). Assessment of these components is performed through calculating the different financial ratios characteristic to them.

To assess bank capital adequacy, the amount of regulatory capital, prudential regulations set for capital adequacy, major borrowers, one borrower and bank related persons are taken into account. While assessing asset quality, under observation are the level of credit risk, share of the non-performing loans and assets, asset concentration and asset loss provisioning rate. Earnings component of CAMELS is assessed by studying ROA, ROE ratios and a number of other ratios reflecting income rates from main banking activity. Liquidity is evaluated by taking account the rate of current and total liquidity indicators of the bank, and capability to perform obligations in short-term (up to180 days). The last component of CAMELS, the sensitivity to market risk is assessed by detecting foreign exchange risk positions of the bank, risks of interest rate and real estate price fluctuations.

Evaluation of bank management (M) is carried out while examining banks at sites through a special evaluation questionnaire. It contains questions on

Deleted: to be measured

Deleted: will

Deleted: also

Deleted: review

Deleted: expected

Deleted: b

Deleted: l

Deleted: , or the ratings of the so called CAMELS components

Deleted: prudential

Deleted: as well as

Deleted: norms

Deleted: ,

Deleted: should be

Deleted: rate

Deleted: ed

Deleted: ,

Deleted: b

Deleted: l

corporate governance of the bank, organizational structure, internal control, risk management internal procedures, staff qualification review.

The composite rating of bank indicators, CAMELS, is simple arithmetic average of the five components.

Information received from banks is used to calculate the unified monthly rating of bank indicators, the CAMELS (Capital, Assets, Management, Earnings, Liquidity, and Sensitivity). By studying and analyzing the CAMELS ratings, calculated on banks' reports, as well as the indicators therein and the reasons for changes of these indicators, the examiner adjusts the CAMELS ratings obtained, in accordance with CBA regulation on "Calculation, Approval and Publishing Procedures of the Unified Rating (CAMELS) of the Banks operating in the Republic of Armenia". In the case of sharp deviations in the CAMELS ratings, the examiner carries out a profound analysis, in order to get insight explanation of the reason.

Where the CAMELS rating is assessed below 3 points, the Central Bank may exercise its right to reject the bank's petition to establish a branch, to set stricter prudential requirements or penalties applicable to the bank, as well as to limit some sort of transactions. When it is 2 and less, the bank will be considered as insolvent.

An on-site examinations are held at banks and other institutions licensed by the Central Bank in accordance with examinations schedule approved by the Chairman of the Central Bank in order to carry out a thorough study of risks and their reasons disclosed during the off-site supervision. The Central Bank conducts on-site examinations at banks and foreign bank branches in accordance with the Manual on On-Site Examinations. If there is a need (disclosure of special transactions, information systems inspection), other than supervisors staff of the Central Bank (Lawyers, Information System specialists and others) may participate in on-site examinations.

The examination program shall be approved by the Supervision and Licensing Committee of the Central Bank. The team will prepare a report at the end of the examination in compliance with the *Manual on On-Site Examinations*.

Deleted: brief

Deleted: call

Deleted: ,

Deleted: ' change trends and main reasons

Deleted: shall

Deleted: the Republic of Armenia Law on

Deleted: Brief Indicators

Deleted: of

Deleted: S

Deleted: inclinations

Deleted: , if disclosed

Deleted: shall undergo

Deleted: scrupulous

Deleted: by

Deleted: the examiner

Deleted: shall

Deleted: letter of attorney

Deleted: shall be

Deleted: On-site examination is organized when required by an appropriate schedule approved by the Chairman of the Central Bank.

Deleted: shall

Deleted: The Head of the Banking Supervision Department assigns a person who will lead the team of examiners. The team leader submits proposals on the staff of the inspecting team, prepares examination program and schedule.¶

Deleted: *Manual on* ... [1]

While examining various areas of a bank, the examiner will focus primarily on how the internal control system operates, whether procedures and internal policies are in place, and if internal audit is effective enough to succeed. Special attention is paid to reviewing the bank's management quality and identifying risks on that part, in particular to the segregation of the rights and responsibilities of the board and executive management of the bank.

Activity of a bank is terminated pursuant to the procedures set forth in Republic of Armenia Laws on Central Bank, Banks and Banking Activity, Bankruptcy of Banks and Credit Organizations, and Regulation 7 on *The Formation of Temporary Administration for Insolvent Banks and Credit Organizations*. These legislative papers define the grounds for bankruptcy, insolvency, and liquidation of banks and credit institutions, as well as the procedures of temporary administration and other procedures connected with termination of banking activities. Once recognized insolvent, a bank will have to pass its management over to bank administration, which is to be appointed by the Bank Administrators Department (BAD) of the Central Bank. Despite this, the supervision of insolvent banks remains the responsibility of the Banking Supervision Department. The grounds for bank insolvency are: i) exhaustion of 50% and more of core capital of the bank; ii) inability to satisfy creditor claims; iii) periodic violation of limits of reserve requirements and iv) when the bank's unified rating is below the threshold defined by the the board of the Central Bank.

Deleted: as well as defining the scope of

Deleted: and/or

Deleted: A

Deleted: of a

Deleted: bank could be

Deleted: d

Deleted: reserves

Deleted: ;

Deleted: indicators are 2 points below the CAMELS indicators

CHANGES IN BANKING SYSTEM REGULATION FRAMEWORK

During 2004, the Central Bank of Armenia continued to improve the banking regulation framework of Armenia. In this respect, new laws and amendments and additions to a number of acting laws regulating important areas of financial system of the Republic of Armenia were introduced and adopted by the National Assembly of the Republic of Armenia

First of all, it refers to amendments made to the Republic of Armenia Law on Central Bank of the Republic of Armenia. These amendments are basically attributable to the amendments done to legal acts law, according to which the limitations of rights or setting forth obligations for legal entities may be implemented by law only. Pursuant to this demand, the changes to the Central Bank Law provides the examination procedures to be performed by the Central Bank, grounds for calling the Central Bank licensed persons to legal responsibility, which was formerly regulated by subordinate legislation.

The Natural Persons Deposit Guarantee Fund of the Republic of Armenia (hereinafter referred to as the Fund), starting from July 1 2005, will begin to remunerate the guaranteed deposits of natural persons in case of any Armenian bank recognized as insolvent. Relations arising in this area are regulated by the Republic of Armenia Law on Guarantee of Natural Persons Deposits and other banking laws. Establishment of such deposit guarantee institution is aimed to ensure the reliability and the strengthening of public confidence in banking system, and defending depositors' interests. The Fund is established by the Central Bank as a non-profit legal entity. The Fund's resources consists of: the guarantee payments by the banks, income earned out of investment management thereon, as well as other resources including loans, borrowings, guarantees, grants, gifts and donations provided to the Fund. Moreover, resources of the Fund are accumulated in a special account opened with the Central Bank and shall be used exclusively for the purpose of remuneration of guaranteed deposits. The

Deleted: the

Deleted: l

Deleted: ing

Deleted: , inter alia,

Deleted: ve acts

Deleted: *of Remuneration of Bank Deposits of Physical Entities*

Deleted: *may*

Deleted: *remunerate*

Deleted: *the physical entities*

Deleted: *unless*

Deleted: *shall be*

Deleted: *Remuneration of Bank Deposits of Physical Entities*

Deleted: *will help resolve key issues related*

Deleted: *upgrading*

Deleted: *incorporate*

Deleted: *d*

Deleted: *,*

Deleted: *shall b*

Deleted: *remuneration*

Fund resources shall be managed in compliance with the security and liquidity criteria.

Under the Republic of Armenia Law on Guarantee of Natural Persons Deposits, commercial banks make compulsory contributions to the Fund in terms of regular, lump sum (non-recurrent) and extra charges. The amount of regular charge is 0,05% of the quarterly average deposis of natural personst, lump sum charges are payable by newly established banks, and extra charges are paid in case if the Fund resources are insufficient. Banks pay contribution charges in Armenian drams.

Within the deposit guarantee scheme, subject to such guarantee are the bank deposits (in drams and foreign currency) of natural persons, including money resources in settlement, current, term, savings account or other accounts opened with the banks, interest accrued thereon as well as registered securities (excluding shares).

Limits under deposit guarantee are as follows:

1. *two million drams – in case of a dram deposit;*
2. *one million drams – in case of a foreign currency deposit;*
3. *up to two million drams – in case of both dram (more than one million) and foreign currency deposits;*
4. *deposit in drams is remunerated completely, and in foreign currency up to one million dram – in case of both dram (less than one million) and foreign currency deposits.*

Dram deposits within the same bank are considered as one deposit, and deposits in foreign currency are also considered to be one deposit. Joint deposit is an individual deposit, apportioned by the agreement.

Remuneration process of guaranteed deposits by the Fund starts when a remuneration case of guaranteed deposit occurs, e.g. when the bank is recognized insolvent and when under the Central Bank Board decision the bank fails to return the deposits in the dates provided for by law and agreements.

The Central Bank shall notify the Fund of the event of remuneration within the next business day following the occurrence of the event. The Fund makes a decision on remuneration of deposits within three days upon receipt of the notification, and publishes a statement in the press of at least 2000 copies and announce it through at least one public mass media. Depositors may file an application for guaranteed deposits with a bank responsible for payment of such deposits within one year.

Deleted: *Remuneration of Bank Deposits of Physical Entities*

Deleted: *shall*

Deleted: *the annual*

Deleted: *.2*

Deleted: *bank*

Deleted: *shall*

Deleted: *shall be*

Deleted: *physical entities*

Deleted: *nominal*

Deleted: *remunerated*

Deleted: *one and*

Deleted: *account for*

Deleted: *Remuneration*

Deleted: *remuneration*

Deleted: *remuneration*

Deleted: *shall*

Deleted: *shall*

Deleted:

Guaranteed deposits in dram and foreign currency are remunerated in the currency of the Republic of Armenia; the latter is paid at an exchange rate officially announced by the Central Bank on the remuneration day.

When calculating the amounts subject to guaranteed deposits remuneration, dram deposits are calculated first, and then those in foreign currency.

In the event of remuneration of guaranteed deposit, the depositor retains his/her right of claim to the insolvent bank for the difference between the bank deposit and the remunerated guaranteed deposit. The difference is returned to the depositor in compliance with the procedures provided for by the Republic of Armenia Law on Bankruptcy of Banks and Credit Organizations.

Deleted: *shall b*

Deleted: *shall b*

Deleted: *shall*

During 2004, amendments were introduced to the Republic of Armenia Law on Banks and Banking Activity. The Central Bank studies in the area of credit risk losses showed that large loans are exposed to failure twice more often than small or medium size loans, and consequently, lead to considerable losses at banks. To remedy this situation, a new prudential requirement was set for banks, the norm of maximum risk on all major borrowers. In addition, starting April 1, 2005 calculations on the major borrowers will begin to include correspondent accounts with other banks, which were not included previously. This norm aims to minimize credit risks at banks, as well as minimize asset concentration level in bank balances.

Deleted: failed to be done

By amending the Republic of Armenia Law on Banks and Banking Activity procedures for consolidated supervision in subsidiaries of banks and other entities licensed by the Central Bank were stipulated as well. Regarding this, the Central Bank will have a right to carry out inspections in bank subsidiaries as provided for by the Central Bank law. This amendment aims at disclosing risks coming from bank subsidiaries and, thus, safeguarding banks against such risks.

Deleted: affiliates of

Deleted: affiliates

Deleted: affiliates

This law was amended also to regulate dates of publication of financial statements by the banks. Pursuant to current legislation, financial statements to tax authorities are currently being delivered before April 15 following the end of the fiscal year. However, banks, as allowed by the former law, have had 6 months for publication of their financial statements. In view of eliminating this difference and adjusting it to international respective practices, appropriate amendments have been placed in the law enabling the banks to publish

Deleted: ,

their external audit and annual financial statements before May 1 following the fiscal year.

To improve the role of credit registry as a credit risk minimizing structure, and the effectiveness of the credit information circulation, the list of irresponsible major debtors (representing above 5% of the minimum required capital of the bank) recorded in the registry was deemed appropriate to be published. This provision would help banks to refrain from lending such borrowers, and to upgrade the responsibility of borrowers. This is envisaged by the changes made in the Republic of Armenia Law on Banking Secrecy.

Credit Registry is integrity of systemized data where information on borrowers is collected, processed and the credibility reports of borrowers is delivered to lending organizations (banks and credit organizations). Credit Registry, responsible for effecting credit information circulation, became a central component in soundness of banking system. It works as follows: banks furnish the Registry with appropriate information in a standard form, by regularly updating it, and receive, if needed, information on potential and current borrowers, instead. The Registry is furnished with information by banks particularly relating on loan size, terms, repayments, collateral, guarantees and other parameters. In addition, some important details identifying the borrower, such as: name, tax code, passport number, etc are also recorded. On the basis of these data, credit histories are compiled which banks use for evaluating the borrower's credibility, as well as to disclose borrower's obligations with other banks. Positive records on the borrower is crucial for facilitating lending procedure, and lay grounds for receipt of further larger loans. In many cases, credit histories serve as a guarantee for providing credit cards, credit lines for consumer loans. In developed countries, absence of credit history means low credit for banks. Study of credit histories by banks enables them to at large avoid the adverse effects of asymmetric information circulation by addressing the credit resources to diligent borrowers and excluding non-diligent ones.

About 80 000 credit histories are accounted in Armenian Credit Registry of the Central Bank of Armenia, and it continues to increase in a full swing. In average, 70-80 histories are daily checked up by banks and credit organizations through the Registry. Physical or legal persons have a right

Deleted: upgrade

Deleted: o support sound

Deleted: of credit information within it

Deleted: *ratings (credibility)*

Deleted: *o*

Deleted: *s*

Deleted: *maturity*

Deleted: *d*

Deleted: *it*

Deleted: *es*

Deleted: *for banks*

to claim their own complete information available in the Registry upon showing appropriate documents.

In light of ensuring higher transparency in the procedures of bank temporary administration appointed by the Central Bank, adequate amendments have been introduced to the Republic of Armenia Law on Bankruptcy of Banks and Credit Organizations. Pursuant to that law, the Central Bank shall hereinafter publish its decision on temporary administration in the press. The procedures of temporary administration having been governed by the Central Bank sub-legislative acts are now explicitly specified and regulated by this law provisions.

Armenia, as a European Commission member country, makes steps toward harmonizing Armenian laws on anti-money laundering and fighting against terrorism financing with international standards, cooperates effectively with the relevant European Commission authorities. Under the Republic of Armenia Law Against Laundering of Illicit Proceeds and Terrorism Financing, the Central Bank is appointed as an authorized body, governing this area. This law regulates the system of authorities (bodies) involved in implementation of activities against laundering of illicit proceeds and terrorism financing, as well as it regulates the collaboration and relationship between such bodies, and the scope of respective responsibilities. Pursuant to this law, the financial institutions shall report to the body authorized for this area, and are responsible to keep information on financial transactions for 5 years, and immediately inform the Financial Intelligence Units about suspected transactions disclosed. With adoption of this law, the Republic of Armenia Law on the Central Bank of Armenia was modified to state that the organization and regulation of procedures against laundering of illicit proceeds and terrorism financing is defined as an objective for the Central Bank.

In 2004, a new Republic of Armenia Law on Currency Regulation and Currency Control was adopted. Following to this law, money payments for sale of property, rendering of services, carrying out of jobs, use of property, including interests paid against financial transactions, shall be managed (marked, accepted and implemented) exclusively in

Deleted: *fighting*

Deleted: *on*

Deleted: *Combating the Legalization of Criminal Proceeds Terrorism*

Deleted: *combating the legalization of criminal proceeds and financing of terrorism*

Deleted: *shall be*

Deleted: *is to be*

Deleted: *of the fight against money laundering and terrorism finance*

Deleted: Foreign Exchange Regulation and Supervision

Armenian drams. Another important clause of this law relates to the replenishment of statutory capital of legal entities. In the event when the newly established legal entities and those acting, including banks, initially replenish their statutory capital in foreign currency, now according to this law, they shall make their money investments into the statutory capital only in Armenian drams. The law determines also the foreign exchange supervisory bodies, their scope of authorities. The former law neither provides these issues in a distinct way nor give appropriate mechanisms thereof.

In 2004, the Republic of Armenia Law on Payment and Settlement Systems and Payment and Settlement Organizations has been adopted. This law is called to regulate the activities of payment and settlement systems and payment and settlement organizations operating in Armenia, licensing and supervising procedures, and defines rules of final settlements. Payment and settlement system is integrity of payment tools, clearing transactions, as well as rules and procedures for money transfer and final settlement, it includes hardware and software systems ensuring the sound payment to the beneficiaries.

Oparational rules for payment and settlement system are approved by the authorized managing body of the payment and settlement system operator who is responsible for sound payment and settlement activity, and who is authorized by other participants of the system to implement clearing and/or final settlement. Participants of Armenian payment and settlement system may be the Central Bank of Armenia, commercial banks and foreign bank branches (hereinafter referred to as banks) operating on the territory of Armenia, payment and settlement organizations, other entities authorized by Armenian laws or international agreements to perform payment and settlement services, as well as non-resident organizations in Armenia who are authorized to do payment and settlement and/or such services in their countries.

This law defines the circles of those payment and settlement systems which are supervised and governed by the Central Bank, it also provides supervision mechanisms, and in case of violations of legal acts requirements provies categories and sizes of liabilities and penalties to be imposed on P&S system operator and participants. The Central Bank by law is the body to supervise the activity of payment and settlement system and participants

Deleted: authorized

Deleted: authorized capital

Deleted:)

Deleted: authorized

Deleted: R

Deleted: and regulation

Deleted: shall be

Deleted: of

Deleted: This law regulates payment and settlement activities and their further development in Armenia, ensures sustained stability in financial and banking sector of Armenia, as well as regulates activities of payment and settlement organizations operating in the country.

Deleted: who

Deleted: ,

Deleted: ,

Deleted: shall

Deleted: over

involved therein. The Central Bank may demand information on payment and settlement services provided by

Armenian payment and settlement system operator and other participants, as well as from the relevant foreign participants, even if it constitutes a banking, commercial or other secrecy.

Payment and settlement services incorporate: the opening and maintenance of banking accounts, acceptance and performing payments from and to physical and legal persons in Armenian drams and foreign currency with and without banking accounts, issuance, servicing and sale of payment cards, checks, e-money and other payment tools defined by the Central Bank Board, as well as carrying out processing, clearing, and cash transactions for third parties.

This law also regulates the activity of non-bank (payment and settlement organizations) organizations involved in rendering payment and settlement services and, therefore, scope of services of the organizations subject to relevant licensing, as well as procedures, terms and conditions and requirements for licensing are properly defined.

A series of amendments have been made to sub-legislative acts subject to approval by the Central Bank.

During examinations at the commercial banks, substantial gaps have been discovered in internal control structures that might generate high risks. To resolve this problem, the Central Bank has drafted a paper on minimum conditions set for internal control systems, which adequately reflects bank's activities and risks. This paper particularly defines bank board and executive management obligations related to effective internal control, as well as minimum conditions for information systems, internal audit, bank organizational structure and work style, risk management systems.

Armenian Accounting Standards, namely Standard 37 on "Reserves, Conditional Liabilities and Conditional Assets" and Standard 39 on "Financial Instruments, Recognition and Measurement" were approved and enforced by the Central Bank Board in 2004. The adoption of these standards was being postponed because of the inconsistencies available

Deleted: , even if it constitutes a banking, commercial or other secrecy,

Deleted: from the

Deleted: on payment and settlement services provided by them

Deleted: entities

Deleted: through

Deleted: al

Deleted: the given

Deleted: y

Deleted: its

between the regulation on classification of bank assets and the standards themselves. This problem has been solved in the following way: in publicly available financial statements the reserves will be reflected in compliance to the above standards, however, from supervisory aspects, the banks will form provisions of possible asset losses pursuant to the Procedure for Classification of Loans and Receivables of Armenian Banks and Formation of Possible Loss Reserves jointly approved in 1999 by the Central Bank of Armenia and the Ministry of Economy and Finance of the Republic of Armenia.

As it was mentioned above, in view of minimizing and limiting concentration risk in the banking system, there has been set a regulation on maximum risk rate on all major borrowers which resulted appropriate modifications in Regulation 2 on "Banking activity regulation, main prudential regulations of the banking activity" of the Central Bank of Armenia. Particularly, the prudential requirement ($R3^2$) on maximum rate of total liabilities of major borrowers is defined at 500% of the Tire 1 capital, where correspondent accounts have been included in calculation of major borrowers as well.

By the same modifications of Regulation 2, new calculating methods of Regulations $R3^1$, $R3^2$, $R4^1$, and $R4^2$ have been defined. Thus, starting from July 1, 2005, all the claims against borrowers (excluding "nostro" correspondent accounts, inter-bank deposits, claims on foreign governments and central banks) will be accounted in calculations of prudential requirements with 100% risk weights.

In order to limit risks on bank related one borrower and persons interrelated with him/her and to discourage lending to bank related persons, the predential requirement of all bank related persons has been established at 20%, instead of former 50% (is effective from April 1, 2005).

Studies have shown that, due to foreign exchange longer positions maintained throughout 2003 and 2004, the banking system has been adversely affected and incurred significant losses from foreign exchange revaluations. To restrict foreign exchange risks of the commercial banks and free them off the possible losses, prudential requirements on foreign exchange position have been changed. Consequently, the calculation method of the prudential requirement on

Deleted: classification procedure

Deleted: shall

Deleted: shall

Deleted: Republic of Armenia Law on

Deleted: Regulation

Deleted: fixed

Deleted: estimated

Deleted: claims of

Deleted: the C

Deleted: B

Deleted: shall

Deleted: standard

Deleted: by

Deleted: of risk

Deleted: to it

Deleted: persons

Deleted: standard

Deleted: liabilities

Deleted: will be

Deleted: n

Deleted: gulation

foreign exchange position has been changed: regulations restricting the foreign exchange positions of the first and second group of currencies are completely segregated from each other. Thus, requirements on the second group foreign exchange net position has remained unchanged, however, a gross position has been set for the first group currencies which cannot exceed 20% of total regulatory capital from April 1, 2005, and that of 15% from October 1, 2005. In addition, a requirement on foreign exchange position for individual currencies has been defined with a maximum 15% of total regulatory capital rate, effective from April 1, 2005 and 10% following October 1, 2005.

Sub-legislative acts on credit organizations have been modified to enhance credit organizations by creating favorable conditions for their activity, and promote further development. Improvements in regulatory sub-legislation aim to eliminate deficiencies discovered in the statements of credit organizations. According to the improved procedures, the main prudential regulations (excluding those on total capital and statutory capital minimum requirements) are extended only on those credit organizations that attract borrowings through public offerings. Mitigations made in credit organizations regulatory framework are explained by the fact that credit organizations, in principal, only allocate resources attracted from their participants, and accordingly, consequences of their activity represent less risk for society. Credit organization could enter into a stricter regulatory field with adequate risk range if it decides on expanding the scope of services.

Deleted: management

Deleted: Moreover

Deleted: gulation

Deleted: management with respect to

Deleted: L

Deleted: accounting

Deleted: activity

Deleted: authorized

Deleted: shall

Deleted: who

Deleted: area

Deleted: a

BANKING SUPERVISION IN 2004

During 2004, three credit organizations applied for licensing to the Central Bank and granted licenses. One application for bank licensing was filed, and a prior consent by the Central Bank was obtained throughout 2004*.

According to off-site inspections, breaches in banking legislation by 20 banks and 9 credit organizations were reported. During the year, 1366 violations by banks and 366 by credit organizations were recorded, of which 142 were repealed, and toward the prevailing part of such violations warning as a punitive measure was applied.

Deleted: early

Violations and punitive measures applied to commercial banks and credit organizations in 2004

	Banks	Credit organizations
Type of violation		
Accounting	57	15
Asset classification	176	21
Legislative	356	20
Sub-legislative	60	200
Non-performance of instructions	83	6
Delayed reports	1	
Trustworthy data	183	75
Credit registry	450	29
Punitive measures		
Fines to banks/credit organizations	35	65
Fines to manager	181	50
Penalty	1	
Warning	1024	230
Disqualification of the manager (revocation of the qualification	1	

* *Armswissbank, CJSC granted a license in the first quarter of 2005.*

certificate)		
Non-application of punitive measure	1	
Repeal	123	19

In the course of 2004, 25 inspections of which 5 complex and 17 target inspections were carried out at the banks and in 3 credit organizations. The overall total assets of the banks undergone on-site inspection made up to 542 billion drams.

Problems resulted by inspections are primarily relating to the inconsistency of internal control systems and the absence of corporate governance principles. Shortcomings fixed in the credit organizations mostly related to infringements in accounting rules, lack of proficiency of managers and specialists, and underdeveloped internal control systems.

On-site examinations efficiency and supervision staff workload

	2002	2003	2004
Banking Supervision Department staff	34	39	41
Total assets of banking system (annual average)	195.6 billion drams	253.6 billion drams	365.8 billion drams
Average workload per supervisor[1]	5.8 billion drams	6.5 billion drams	8.9 billion drams
Number of inspections performed during the year, including			
Complex inspections	19	17	25
Target inspections	4	7	5
Credit organization	15	10	17
	-	-	3
Amount of total assets of banks under review at the moment of inspection	36.0 billion drams	85.8 billion drams	542 billion drams[2]
Number of participants involved	31	42	94

[1] *This indicator should be seen in dynamics, since while performing relative analysis with bigger or smaller banking systems of other countries, this indicator could be much higher or smaller*

[2] *Volumes of inspected assets exceeds that of banking system due to double inspections of some banks over the period.*

Deleted: ion staff

Deleted: additional factors should be considered

Deleted: of

in inspections			
Average workload per supervisor during inspections	1.2 billion drams	2.0 billion drams	5.7 billion drams

Deleted: examiner

In 2004, inspections of foreign currency exchange units were organized by the Central Bank. About 177 foreign currency exchange units were inspected, of which the activities of 21 were suspended, and the licenses of 37 were revoked. In 24 cases the punitive measures were repealed and in 92 cases foreign currency exchange units paid fines.

Deleted: offices

Deleted: exchange offices

Deleted:

STAFF TRAINING AND COOPERATION WITH OTHER COUNTRY EXAMINERS

In view of upgrading professional skills and obtaining international supervisory practices, supervisors have attended a number of conferences and trainings on key supervision issues and modern practicies. The topics covered by the training are "Modern issues on Banking Supervision", "New Basle II Capital Accord", "Evaluation and supervision of banking risks", "Problem bank resolution", "Supervision of financial conglomerates" and others.

On the initiative of the US Federal Reserve Bank an international seminar on Bank Analysis and Examination was organized in Yerevan, which became major training event for the banking supervisors in 2004; it contributed much to enhancing the knowledge and practical skills of not only Armenian supervisors but also those twelve participants from other countries. Issues covered by the seminar predominantly addressed areas of risk-based supervision, and those related to risk evaluation systems. In addition, a number of applied studies on on-site and off-site examinations were provided and exercised.

Staff training counterparts of the Central Bank that actively cooperated in this area were the IMF, the Centre for Central Banking Studies of the Bank of England, the Bank of France, the German Bundesbank, the Central Banks of the Netherlands and Russia, BIS, the National Bank of Poland, the Financial Stability Institute and others. Some training programs have been implemented under the USAID Technical Assistance framework. Issues addressed during the seminars primarily were devoted to the key supervisory issues challenging today's banking supervision such as: risk management and assessment at the banks, new supervisory approaches applicable in the banking supervision, main principles of the New Basel Capital Accord, money laundering issues.

From practical education aspects, it is worth to mention the on job training organized at one of the commercial banks of Brazil. A range of practical, hand-on advices on upgrading effectiveness of supervisory activities have been gained during the study visit, as

Deleted: 2004

Deleted: event

Deleted: II

Deleted: System

Deleted: regional

Deleted: in

Deleted: School

Deleted: a great

Deleted: i

Deleted: n

Deleted:

Deleted: taff

Deleted: that were represented therein from the regional community

Deleted: case

Deleted: ,

Deleted: by

Deleted: the

well as issues on on-site examination methods, money laundering and fight against terrorism financing have been exchanged.

Training initiatives by the BIS, Bank of France, FSI enabled the supervision staff to get insight of risk management best practices and further improve CAMELS system and initiate the implementation of the credit risk assessment model in Armenia.

With respect to challenges laid forth by New Basel Capital Accord, seminars on "New Basel Capital Accord" and "Banking supervision under the New Basel Accord" have been organized by the Netherlands bank and German Bundesbank respectively. Seminars attempt to cover issues like Basel 2 principles, new approaches of risk restrictions and introduction difficulties of New Basel Accord. These trainings have their practical valuable impact, especially in the area of implementation of risk-based supervision in Armenia. Both standardized and internal rating based approaches of asset risk assessment under Basel 2, are equally challenging to learn. To this regard, the Central Bank of Armenia will work hard toward evaluating applicability of Basel-2 and developing prospective programs jointly with banks on introduction of the new Accord.

To ensure effective supervision, the Banking Supervision Department and the Banking Methodology and Analyses Department of the Central Bank keep contacts and co-operate with supervisors of other countries. They meet regularly at conferences, forums and other meetings and discuss and seek possible solutions of banking supervision issues and further improvement of supervisory instruments. Exchange of information is continuously carried out between different countries and international organizations concerning legal and regulatory framework.

Deleted: and CAMELS system in Armenia.¶

Deleted:

Deleted: on introduction and

Deleted: implementation

Deleted: the

Deleted: model

Deleted: Accord standardized approach as well as asset risk assessment, based on internal rating systems; both issues

Deleted: m

BANKING SYSTEM IN 2004

GENERAL PROVISIONS

Banks operating in the Republic of Armenia

As of December 31, 2003, 20 banks were operating in Armenia (with 232 bank branches), of which 19 were operating under general supervision framework, and one – under temporary administration assigned by the Central Bank.

No any new banks were entered into banking system within the year. Armcommunication Bank Closed Joint Stock Company, which at the beginning of 2005 was operatining under special rehabilitation program of temporary administration, was moved into general supervision field at the end of the year. In the fourth quarter of the year, the ArmSwissBank Closed Joint Stock Company was granted a prior consent to obtain license.

As of December 31, 2004, again the same 20 banks were operating in Armenia (with 233 bank branches). All of them were operating under general supervision framework at that time.

The head offices of the banks and one third of the bank branches are located in the city of Yerevan.

Widening of financial intermediation indicate that banking system continues to gradually expand its existence in the economy of the country. Thus, total assets of banking system rose in end-year to make up 19.2% of GDP, loans – 7.0% and deposits – 12% opposed to respective 17.3%, 5.8% and 11.2% rates in the previous year.

Competition in Armenian banking system

Deleted: " Hajkapbank

Deleted: "

Deleted: after being

Deleted: ed

Deleted: in the beginning of the year

Deleted: from that of temporary administration, till

Deleted: ,

Deleted: however,

Deleted: at that time

Deleted: Surges in

Deleted: area

Deleted: Subsequently

Modest increases in banking competition level have been recorded in 2004, which is evidenced by some decreases of the Herfindahl-Hirschman Concentration Index in respect to comprehensive banking indicators.

Deleted: easing

Herfindahl-Hirschman Concentration Index

	31.12.03	31.12.04
Total assets	0.10	0.09
Total liabilities	0.12	0.10
Total capital	0.06	0.06
Loans to economy	0.09	0.09
Term deposits to physical and legal persons	0.09	0.11
Demand liabilities (including bank accounts) of physical and legal persons	0.23	0.18

Deleted: entities

In general, the concentration index showed lower track in recent years with respect to capital and high track in respect with deposits.

Decrease of concentration level in banking system is primarily conditioned by growth in competition among large banks, while polarization between small and large banks maintains and even slightly increases. Thus, in the beginning of the year, 80% of total assets and 83% of total liabilities of the banking system belonged to 10 largest banks, while at yearend it changed to 81% and 84% respectively. However, the polarization between banks went downward in 2004; if in the beginning of the year the largest bank's share in total assets was 24% and in total liabilities was 27%, close to the end of the year it made up to 18% and 20% respectively.

Deleted: Subsequently

BANKING SYSTEM CAPITAL[4]

[4] *Banking system in 2003 has incorporated 19 banks under general supervision framework, and in 2004 it has included 20 banks (including Armcommunication Bank). Reports of banks to the Central Bank have been used in the its report in compliance with Regulation 3 on "Bank reports, their delivery and publication".*

Deleted: *Haykapbank*

Deleted: *publication*

Deleted: *s*

Trends of Banking System Capital

In 2004 total capital of the banking system increased by 29.0% (14.5 billion drams) and made up to 64.6 billion drams. Growth of the total capital is attributable to the surge in profit within the year.

Statutory capital grew by 3.4 billion drams, and general reserve by 0.9% billion drams. Growth of the statutory capital was mainly supported by external sources of funding, as a consequence, share of non-residents in the banks statutory capital grew by 5.9 percentage point and totaled to 52.6%. Statutory capital increased also due to the minimum regulatory total capital requirement of 5.0 million USD equivalent Armenian drams, becoming effective on July 1, 2005.

Out of high profit amounting 17.2 billion drams (that was mainly due to the increased quantity and quality of loans) reported by the banking system in the review period, 6.9 billion drams made up the share of Armcommunication Bank CJSC, related to meeting of its accrued claims. Nonetheless, since this bank's losses coming from proceeding years totaled about 6.5 billion drams, its total undistributed profit (current and previous periods) amounted to 453 million drams. Meanwhile, the banking system has distributed a total amount of 2.3 billion dividends and about 1.2 billion drams went to replenish the statutory capital, out of the previous period profit. As a result, during the year the grand total of undistributed profit for current and previous periods has increased by 7.2 billion drams against the same figure of the previous year.

Total capital and total assets of the system has attained an identical growth rate of 29% over the year, and accordingly, total capital to total assets ratio (leverage ratio) has remained the same throughout the year, making up 17.8% as of December 31, 2004.

Capital Adequacy

Under the review period, the growth of loan investments was well beyond of that of total capital. This became a driver for a progressing growth in the risk-weighted assets, as compared to total and core capital growths. Subsequent to this, total capital adequacy index of the system declined by 1.8 percentage points over the year,

Deleted: *CAPITAL DEVELOPMENT*

Deleted: net

Deleted: Authorized

Deleted: authorized

Deleted: authorized

Deleted: Authorized

Deleted: amount of

Deleted: required as a minimum capital

Deleted: ,

Deleted: "Haykapbank"

Deleted: obligations

Deleted:

Deleted: authorized

Deleted: to

and core capital adequacy index dropped by 2.4 percentage points and amounted to 32.3% and 30.2% respectively. In Armenia, bank adequacy indices are considerably higher and exceed the required standards of 12% and 8%. In view of measuring the exposure to capital, where all non-performing assets of the banking system are classified as loss, the subsequent expenses would constitute 7.3% of total capital instead of 7.6% recorded in the previous year.

Deleted: categorized

Deleted: bad

Deleted: loss

Bank Ownership

By ownership, banks break down as follows: out of 20 banks operational in Armenia 1 bank is a cooperative bank, 2 banks are limited liability companies, 2 banks are open joint stock companies and 15 banks are closed joint stock companies.

The participants of Armenian banking system (shareholders, equity holders) involve 1642 physical and legal persons, of which 61 are non-residents. Without consideration of 2 open joint stock company banks, participants of 18 banks include 103 physical and legal persons, of which 28 are non-residents. In three banks, 100% of shares belong to one person (legal entities, of which 2 are non-residents), and in seven banks, one shareholder holds more than 50% of shares.

Deleted: 's

Deleted: participants

Deleted: entities

Deleted: as open joint stock company

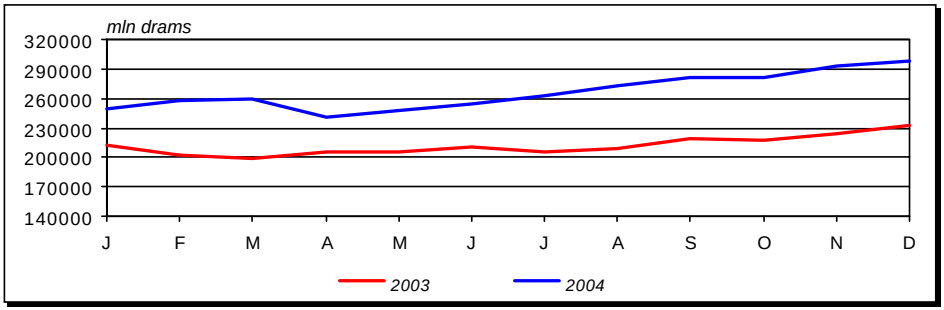
Deleted: entities

BANKING SYSTEM LIABILITIES

Development trends of attracted funds of the banking system

Total liabilities of Armenian banking system grew during 2004 by 28.8% to 298.9 billion by year-end. The liabilities in dram grew by 27.6%, and in foreign currency - by 29.3%, which lowered slightly the share of dram liabilities and amounted to 26.7%. This is evidence to a still high level of dollarization.

Figure 1. Growth trends in banking system liabilities



A large increase in deposits of physical and legal persons mostly explains this increase in total liabilities.

Over 2004, significant growth was recorded in the liabilities in respect of loro correspondent accounts that grew by 101.8% (3 billion drams) and other liabilities to banks - 40.4% (6.6 billion drams). Increase in loro correspondent accounts has been supported by two banks, through adding loro correspondent accounts of non-resident banks. At yearend, 52% of loro correspondent accounts were accounted for non-resident banks, almost equally divided between Russian and Iranian banks.

During the year, total resources attracted by the banking system from physical and legal persons grew by 24.1% (44.1 billion drams) and by yearend made up to 227.0 billion drams.

As compared with the previous year, the outstanding events recorded in 2004 in the banking system may be considered as follows:

- Term deposit growth pace exceeded that of demand deposits. Thus, term deposits grew by 26.1% (18.9 billion drams), and demand deposits grew by 22.8% (25.2 billion drams) as opposed to 3.0% and 30.7% respective growths in the previous year.
- The driver for the growth in both demand and term deposits were excessively legal entities; funds attracted from legal entities grew by 40.5%, and those of individuals by 10.0% against 3.3% and 34.6%, respectively recorded in the previous year.

Deleted: entities

Deleted: non-resident

Deleted: their

Deleted: entities

Formatted: Bullets and Numbering

Deleted: ¶

Deleted: ¶

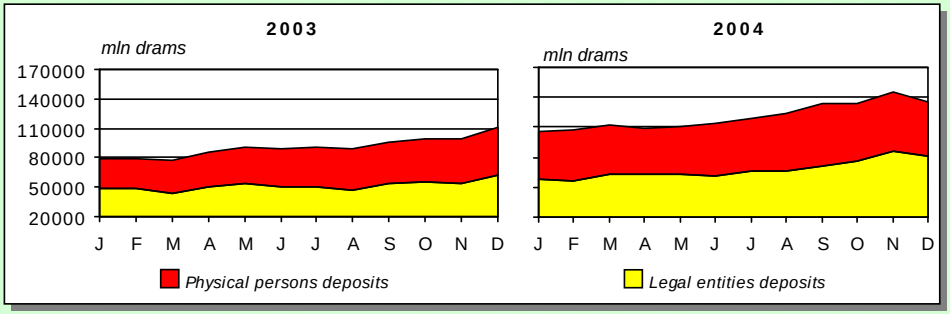
- The increase in deposits from physical and legal persons was absolutely on the account of residents, as a result, the share of such deposits in the total deposits grew by 5.7 percentage points to 80.7%.

Demand deposits of the legal entities, within the reported year, grew by 30.1%, mainly due to increase of volumes of their accounts (legal entity-customers grew in quantity by only 1%, and their current accounts by 8%).

Deleted: entities

Deleted: on the expense of

Figure 2. Trends in banking system demand deposits



Demand deposits of physical persons increased by 12.8%, mostly on account of customer base expansion which was significantly supported by increased number of organizations who used card system for remuneration of salaries (physical person-customers grew in volumes by 22%, and accounts thereof by 29%).

Deleted: entities

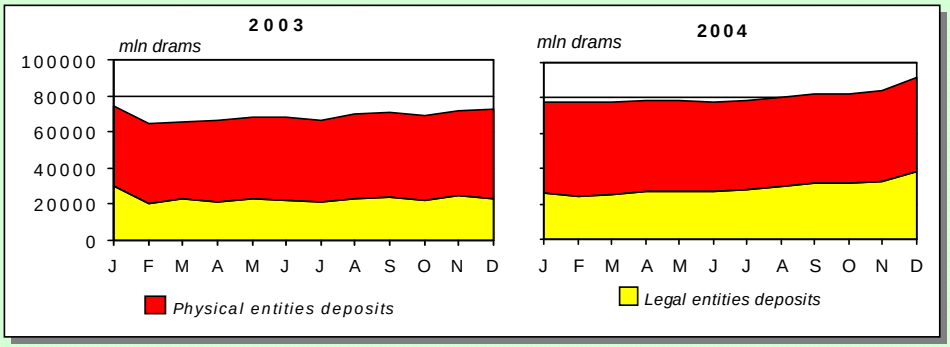
Deleted: entity

Increases in term deposits of 67.1% and 7.3% representing respectively legal and physical persons were mostly resulted by increase of term accounts in volumes, since term accounts of legal entities grew only by 2%, and that of individuals declined by 22%.

Deleted: entities

Deleted: only

Figure 3. Trends in banking system term deposits



The structure of attracted funds

As of December 31 2004, the share of interest-bearing liabilities in total liabilities of the banking system was 91.4%. If low-cost demand liabilities excluded, the share of interest-bearing time liabilities would have been 46.1%.

Demand liabilities (physical and legal persons) within total liabilities kept lower pace of growth in 2004 than they did in the previous year, and the share thereof declined by 3 percentage points.

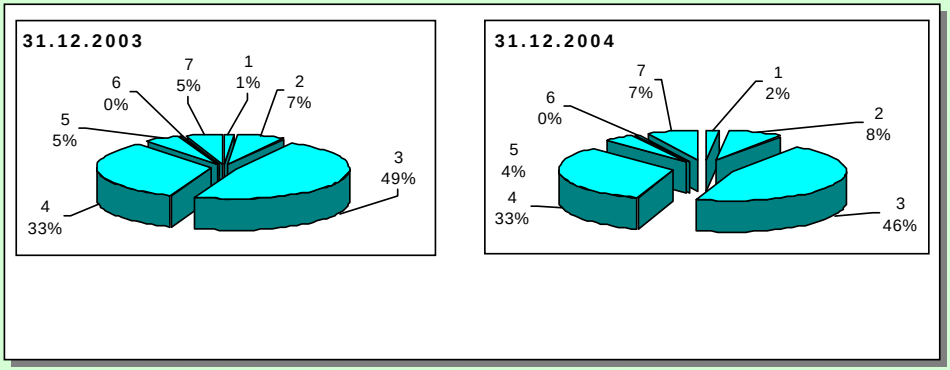
The average weighted maturity of total liabilities makes up about half of year. Thus, 53% of the attracted funds are demand (deposits, bank accounts, correspondent accounts and so on), 35% represent from 1 to 12 months maturities and 12% - above one year maturities.

Deleted: high cost

Deleted: high cost

Deleted: entitie

Figure 4. Total liabilities structure



1. Bank correspondent accounts, 2. Other liabilities to banks (including the Central Bank), 3. Demand liabilities, 4. Time liabilities, 5. Liabilities to Armenian Government 6. Accrued interest payable 7. Other liabilities

Deleted: *the*

Bank customers

The number of legal and physical persons serviced by the banking system increased by 20.1% or 81.4 thousands (due largely to growing number of physical persons) and by yearend amounted to 487 thousands. The number of individual customers reached 453.6 thousands, and legal entity customers – 33.4 thousands (whereas 51.5 thousands of legal entities have been registered in the State Register as of the end of the year who are obliged to have bank accounts).

Deleted: entitie

Deleted: entities

The number of bank accounts increased by 23.7% to 503.1 thousands, of which 96% are current accounts and 4% are time accounts. The number of current accounts increased by 26.8% or 102 thousands (owing to the increased physical persons accounts) and by yearend reached to 482.9 thousands. The number of time accounts fell by 21.9% or 5.7 thousands to 20.2 thousands (owing to the declined physical persons time accounts).

Deleted: entity

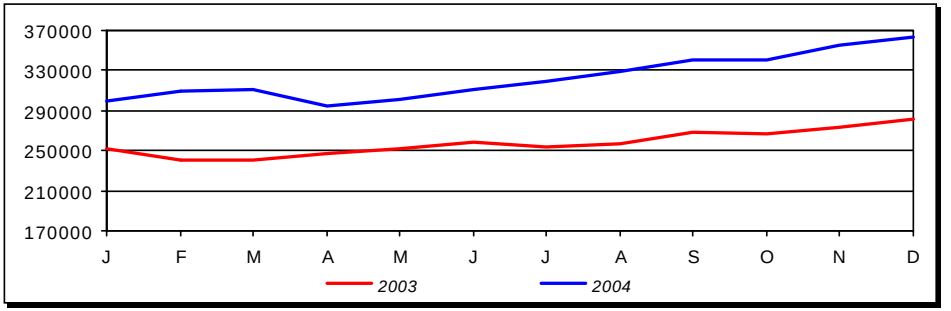
Deleted: entity

BANKING SYSTEM ASSETS

Banking System Allocated Funds Development Trends

Total assets of Armenian banking system grew during the year by 28.9% (81.4 billion drams) to amount to 363.6 billion drams, as of December 31 2004.

Figure 5. Total assets trends of banking system



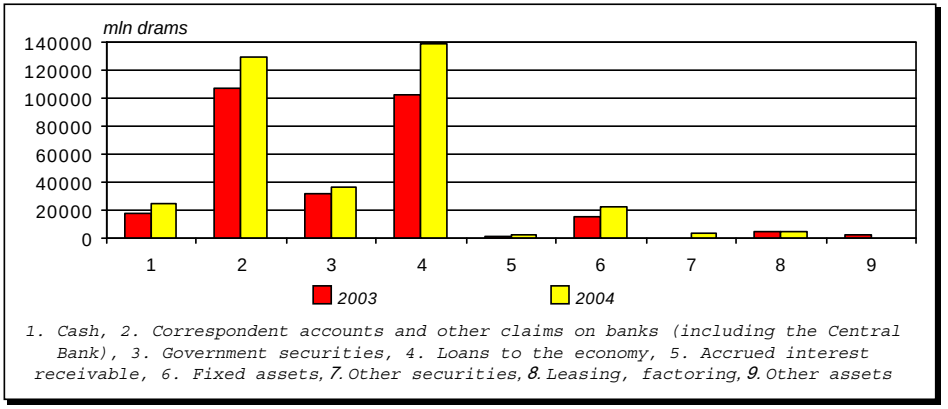
The growth of total assets was due largely to bank correspondent accounts increased by 25.5 billion drams and loans to the economy increased by 36.8 billion drams.

Nostro correspondent accounts show high concentration in terms of geographical coverage and residency. Thus, 96.7% of correspondent accounts are with non-resident banks against 97.3% in 2003; 68% of such accounts are placed with prime-rated US banks, 7.0% are placed with Russian banks, and 24% with European banks and 1% with banks in other countries.

Investments in Armenian government securities grew by 16.9% or 5.3 billion drams, at yearend reaching to 36.6 billion drams (securities purchased and sold under repo agreements included). In 2004, the annual interest rate of short-term government securities (T-bills) on average monthly basis was 5.1%, that of the government medium-term partial redemption coupon bonds – 8.3%, which were 9.7% and 14.3% during the same period in 2003. It is worthwhile to note that even in the event of such a low interest rate level, an appropriate investment growth has been recorded in government securities in the banking system. This is much highlighted by the need of ensuring a consistent level of high liquid assets, in the environment of considerable demand liabilities.

Deleted: .

Figure 6. Assets growth trends of banking system



1. Cash, 2. Correspondent accounts and other claims on banks (including the Central Bank), 3. Government securities, 4. Loans to the economy, 5. Accrued interest receivable, 6. Fixed assets, 7. Other securities, 8. Leasing, factoring, 9. Other assets

Volume of investments in other securities increased in 2004 by 3.5 billion drams to 4.0 billion drams by yearend.

Fixed assets of the banking system grew by 38.8% and totaled at the end of the year 22.0 billion drams, which made up 34.0% of total capital and 6.0% of total assets. In all banks, fixed assets were below than total capital, which means that fixed assets of the banks are not acquired on the account of borrowings. To this regard, starting from July 1, 2005, regulatory requirements will envisage tougher measures such as: in the regulatory capital calculations, the fixed assets owned by bank and used for banking activities, should be deducted from the regulatory capital by an amount exceeding 25% of Tire 1 capital.

The structure of banking system allocated funds

The share of earning assets in total assets was 75.2% by end of the year, and if low-yield correspondent accounts excluded, the share of the remained earning assets would have been 58.1%.

Deleted: estimations

Deleted: standard

Deleted: capital

Deleted: representing bank ownership and

Deleted: thereof

Deleted: net core

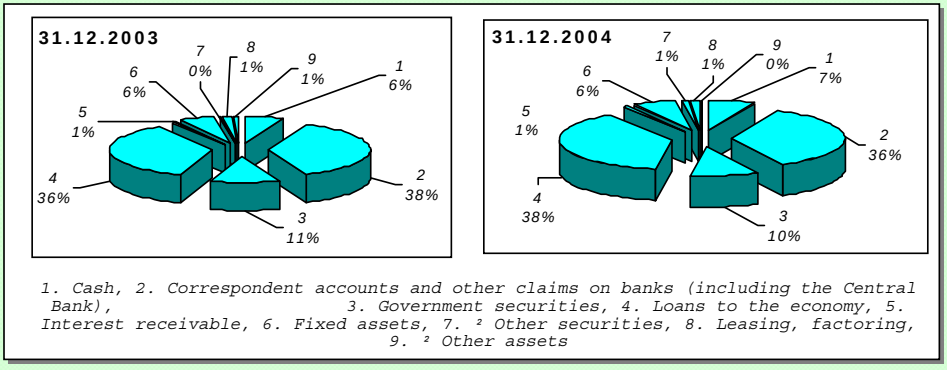
Deleted: ***B***

Deleted: ***structure***

Through out the year, the accelerating pace of loans to economy compared to that of total assets, led to surge in the share of loans in assets by 2 percentage points.

Deleted: with

Figure 7. Banking system assets structure



1. Cash, 2. Correspondent accounts and other claims on banks (including the Central Bank), 3. Government securities, 4. Loans to the economy, 5. Interest receivable, 6. Fixed assets, 7. ² Other securities, 8. Leasing, factoring, 9. ² Other assets

The average weighted maturity of total assets of the banking system fluctuates from 0,5 to 1 year. Thus, 41% of the allocated funds are demand, 42% represent from 1 to 12 months and 17% - above one-year maturities (medium-term maturity of assets has slightly grown due to mortgage loan increases).

Banking system loan investments

Over 2004, loan investments[5] of the banking system grew by 20.7% (26.7 billion drams) to 155.7 billion drams. Dram loan investments in 2004 grew by 29.8%, and foreign exchange loan investments increased by 17.2%, which caused the share of dram investments in total loan investments to rise by 2.1 percentage points to 29.6% later in the year.

Deleted: such

[5] *Loan investments include loans to economy, leasing, factoring and loans and deposits allocated in banks*

Lending to non-residents during the year declined by 41.5% reaching to 15.9 billion drams, mainly due to the reduced deposits with non-resident banks in one bank.

Lending to residents grew by 37.3% (38.0 billion drams) and reached to 139.8 billion drams by the yearend.

During the reported year, a growth in loan investments have been recorded in all branches of economy (industry branches have been considered as one branch). In 2004, consumer loans again expressed trends of outstanding growth, increasing by 69.4% (16.1 billion drams). Considerable were the growths of loans to the branches of Trade - by 47.3% (10.0 billion drams), Industry – 19.6% (5.8 billion drams), and Public catering and services – 93.1% (2.5billion drams). In industry branch, a significant growth was recorded especially in food industry, representing 34.3% or 3.6 billion drams.

Within the structure of loans provided to residents, the consumer loans share was lifted once again during 2004. The below chart representing the banking system loan investment structure shows clearly loans being mainly concentrated in consumer and trade sectors, and industry sector.

The Herfindahl-Hirschman Concentration Index of lending to different branches of economy attained higher points than it did in the previous year, raising by 0.01 and reaching to 0.15, which is quite low and observes a smaller concentration. The same index in respect of the bank average declined by 0.02 to 0.26 as compared to the previous period, which comes to prove that although the sectoral lending concentration in separate banks somewhat declined, however, some banks still maintain relatively high degree of lending concentration.

Alongside with the growth of total residents loans, higher pace in consumer and trade sectors increased the share of such loans, Keeping on this pace, the loan investment sectoral concentration degree would advance in future.

Deleted: robust

Deleted: Commerce

Deleted: stuff

Deleted: commerce

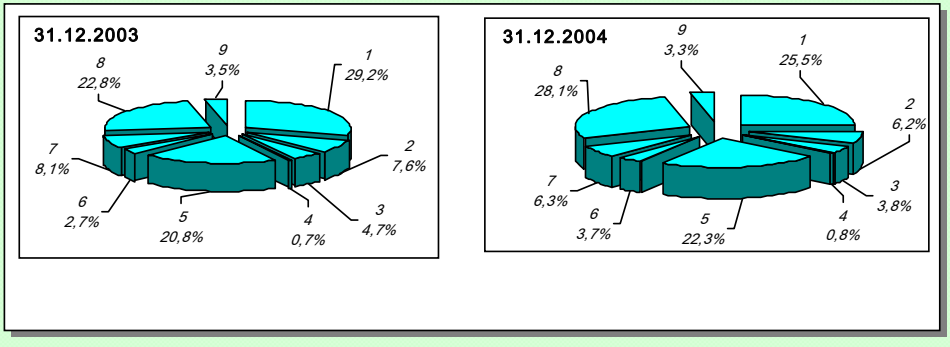
Deleted: rather

Deleted: percentage point

Deleted: at all

Deleted: commerce

Figure 8. Loans to residents and structure of receivables, by economy branches/sectors



1. Industry, 2. Agriculture, 3. Construction, 4. Transport and Communications, 5. Trade, 6. Public catering and other services sector, 7. Financial sector, 8. Consumer sector. 9. Other branches

It is noteworthy that in line with economy formation and development process, the need in long-term loans gradually grows. Within the reported period, the share of long-term loans in loan investments (one year maturity and above) increased profoundly (9.4 percentage points) to 47.4%. Such loans vary in average within a 3 year maturity range (whereas the market requires a longer-term maturity loans). A shortage in "long money" is being currently observed in the banking system, which could not be a driver for long-term lending. Scarcity of long-term funds is due to the absence of "long money" creating institutions in the country, such as: private pension funds and insurance companies, and launching of such institutions may only promote increasing long-term lending facilities.

In view of seeking long-term resources and ensuring lending to economy in a long run, provision of long-term targeted loans through banks, under international financial programs, appraise to be highly effective. Seven banks operating in Armenia are engaged in servicing loan projects being implemented in the country by the German-Armenian Fund, the World Bank, the European Bank for Reconstruction and Development, the "Eurasia" Fund, the North-West Agricultural Services Program (ASP), the International Financial Corporation, the National Center for Assistance of Small and Medium-Size Enterprises, the UN (International Migration Fund). These programs encompass almost all the sectors of economy. As of December 31, 2004 the main lending targets were represented by trade sector with 42% lending, agriculture sector - 21.1%, food industry – 8.3%, and service sector – 8.0%.

Deleted: is being

Deleted: stressed

Deleted:

Deleted: n

Deleted: important

Deleted: "

Deleted: produ

Deleted: commerce

Deleted: stuff

Loan repayment ratio of these loans is by far high, the share of 0.2% of overdue loans may be evidence to it. About 61.3% of loans provided under such international programs have more than one year, 31.5% - from six months to one year and 7.2% less six months maturity.

Deleted: degree

Quality of loan portfolio

By maintaining previous year's trends, the quality of loan portfolio improved significantly over the reported period.

During the year, the non-performing loans and receivables (including correspondent accounts) decreased by 33.7% and reached to 4.2 billion drams, that of standard assets increased by 28.7% to 240.4 billion drams. As a result, the share of standard loans and receivables (including correspondent accounts) grew by 1.6 percentage points and amounted to 98.3%.

Among non-performing assets, 20.7% of such loans were owed by non-residents, and 79.3% by residents. The share of non-performing loans within resident lending investments was somewhat higher in construction and consumer loan sectors, 4.3% and 3.7%, respectively.

BANKING SYSTEM FINANCIAL OUTCOMES

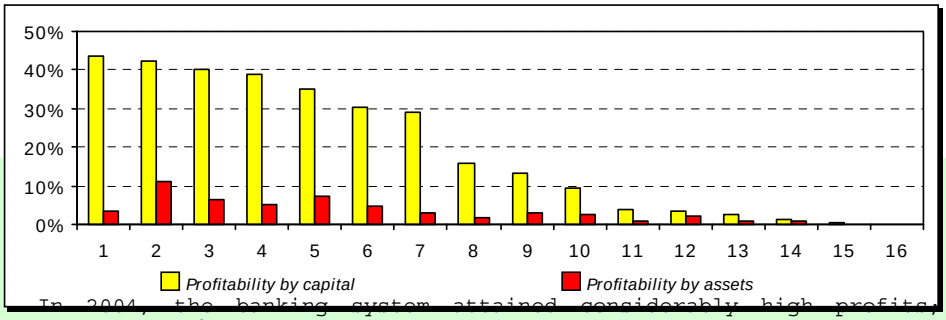
Banking system profitability

The retained earnings of the banking system amounted to 17.2 billion drams, of which 6.9 billion drams belonged to Armcommunication bank (profit of this bank was almost entirely formed on account of repaid losses accumulated over the proceeding periods).

Deleted: Haykapbank

In 2004, 17 banks made profits, while three incurred losses. Retained earnings of banks ended the year with profits, amounted to 18.1 billion drams, and those who ended the year with loss, the total loss amounted to 930 million drams.

Figure 9. Profitability by 16 profitable banks



In 2004, the banking system attained considerably high profits, banking system[6] return on assets (the ratio of retained earnings to average annual assets) was 3.2%, and while return on capital (the ratio of retained earnings to average annual capital) was 18.4%, compared to 2.7% and 14.4% for 2003, respectively. The net operational margin of the banking system was 4.5% during the year[7].

The Herfindahl-Hirschman Concentration Index on profit of 16 profitable banks (without Armcommunication bank) declined by 0.08 and became 0.05, as opposed to 2003. This characterizes the ease of system's profit concentration among profitable banks.

Deleted: Haykap

Banking system expense and income structure

[6] *To make a clear and comparable understanding, the system profitability is represented for 19 banks (without Armcommunication bank), since the latter's profit has been formed on account of returns.*

[7] *The net operational margin is equal to the ratio of the sum of net interest and non-interest earnings over total assets.*

Deleted: Haykap

The considerably high growth of interest income resulted by qualitative and quantitative increases in lending, and decrease of net provisioning, mostly explain the high level of banking system[9] profit at the reported year, compared to 2003. Commercial banks this year were especially active in credit market, where a marked competitiveness between banks was observed. As it is already said, in 2004, increase in lending exceeded that of total assets, and subsequently, the share of loans in total assets adequately grew. At the same time, the credit risk management level virtually upgraded.

As a result, interest income of the banking system gained from provided to the economy loans grew by 28.7% (4.6 billion drams) compared to 2003, and the net expense in respect of possible asset losses provisioning fell by 56.9% (1.8 billion drams).Within interest income, the share of interest income from loans increased by 4.8 percentage points and amounted to 76.0%, and that from government securities declined by 5 percentage points and made up to 11%. Notwithstanding to the investment growth in government securities reported during the year, the declined yield thereof caused the interest income on government securities to fall by 17.4% (622 billion drams), compared to the previous year. Within non-interest income structure this year, compared to 2003, a 47.0% rate of growth (1.2 billion drams) in income gained from foreign exchange purchase and sale was reported. Income on commissions collected from banking system declined, compared to 2003, by 10.6% or 906 million drams (due to Anelik bank's Moscow branch reorganization into a daughter company; this item thereof, in the reported year, is included into another article, namely "Return on investments in other organizations"). If the commissions of this daughter bank were regarded, as they were done in the previous year, an income growth of 24.9% (2.1 billion drams) with respect to total commissions of the system would be attained this year, mostly because of the increase in remittances .

A share of 58.3%, within interest expense, belonged to interest expenses made toward time deposits. Such expenses increased compared to 2003 by 6.1% (277 billion drams).

Deleted: easing

Deleted: loan

Deleted: yielded

Deleted: of yielded

Deleted: however,

Deleted: ast

Deleted: , to fall by 17.4% (622 billion drams)

Deleted: yielded

Deleted: from

Deleted: transfers

[9] *To make a clear and comparable understanding, the expense and income structure of the system is represented for19 banks (without Haykapbank).*

Within non-interest expense, accrued wages and equal to them payments, which have 38.8% share in non-interest expenses, increased compared to the previous year by 29.7% (1.7 billion drams), and number of banking employees grew by 8.6%. This comes to prove that the annual average salary in the banking system grew throughout the year.

Thus, compared to 2003, the gross income in the reported period grew by 17.9% to 8.7 billion drams, and gross expense increased by 9.9% and reached to 4.0 billion drams.

In the structure of gross income, the interest income compared to 2003 increased by 20.5%, non-interest income by 17.4% and recoveries from possible asset loss provisions by 14.1%.

Deleted: the 38.8% share of

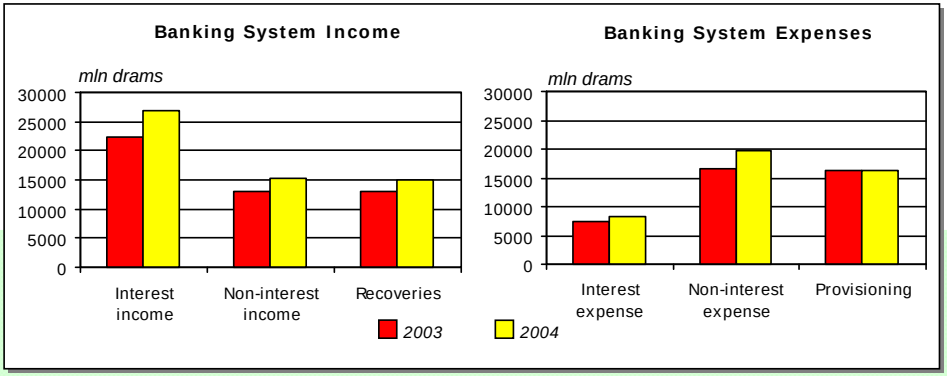
Deleted: year

Deleted: added

Deleted: ing

Deleted: from the reserve fund (ALRF)

Figure 10. Banking system income and expense



On the expense side, interest expense compared to 2003 grew by 12.2%, non-interest by 18.7%, and expense made for possible asset loss provisioning remained almost unchanged, growing by 0.1% .

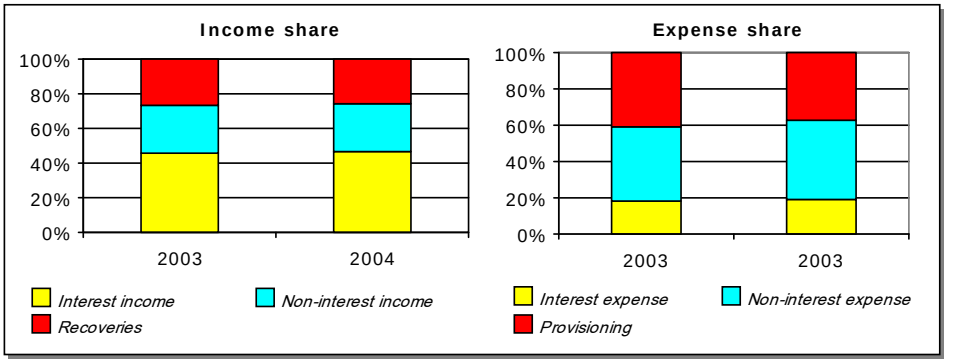
As a result of increases in the above indicated income and expense there were recorded the growth of the share of interest income in gross income, and the share of non-interest expense in gross expense.

Deleted: part

Deleted: I

Deleted: was attributional to

Figure 11. Banking system income and expense structure



PAYMENT AND SETTLEMENT SYSTEM

During the review year, non-cash payments on the territory of Armenia grew by 15% and amounted to 3516 billion drams.

Non-cash payments performed in Armenia mostly through credit card payment instruments represent 99.5% of total volume and 99.0% of total number of such payments (of which 58% of volume of payment instruments and 66% of number thereof were electronic payment orders), and the volume of debit instrument payments made up to 0.5% of total payments, and number thereof – 1%.

Number of cards provided by the banking system increased over the year by 78% and amounted to 108.9 thousands. The 43% of the serviced cards were ArCA cards, 42% - VISA cards, and 15% - MasterCards and other international cards. As of December 31, 2004, in circulation were about 47 thousand ArCa cards, 46 thousand VISA cards, 3 thousand

Deleted: dram

MasterCards, and 13 thousand other international cards. Fifteen commercial banks operating in Armenia are engaged in issuing and servicing plastic cards, of which ArCa cards were issued and serviced by 13 member banks of the system. Respectively 6 banks and 8 banks became members of MasterCard and VISA international card payment systems. In 2004, 98.8 billion drams worth transactions were implemented through plastic cards in Armenia, which is by 68% more than the previous year. The number of plastic cards transactions was 1.76 million, which is by 76% more than it was in 2003.

Armenian banks are members of WESTERN UNION, MONEY GRAM, ANELIK, UNISTREAM, EXPRESS and other payment systems. In 2004, volume of transactions from abroad to Armenia via these systems increased by 8.5% and totaled 190 billion drams, and volume of transactions from Armenia to abroad grew by 59% and amounted 29 billion drams. Number of transactions implemented throughout the year was 763.7 thousand, of which 723.3 thousand were transactions to Armenia, and 40.3 thousand – to the foreign countries.

Within 2004, the largest share of the total volume of inflowing and outflowing money transfers was held (31.5% and 30.7%, respectively) by the UNISTREAM system, leaving behind only the ANELIK system (with its share of 23.3% and 19.7%, respectively). Whereas in 2003, this picture was just on the contrary, the ANELIK was ahead of the list. However, the major share of money transfers in Armenia by quantity of inflows and outflows belonged to the ANELIK system (33.0% and 31.8%, respectively), and then to the UNISTREAM system (with 22.4% and 25.0%, respectively).

As of December 31 2004, the number of banks as members of the S.W.I.F.T. system was 18. The value of transfers abroad via the system outstripped the previous year's indicator by 44%, while transfers from abroad, by 42% and amounted 3092 billion drams and 3075 billion drams, respectively. International transfers by commercial banks were also performed through FASET, TELEX and FAX, with total amounts of transfers to abroad and to Armenia totaling 46 billion drams and 53 billion drams, respectively.

Deleted: N

Deleted: ere

Deleted: wa

Deleted: of the systems

Deleted: , etc

Deleted: S

BANKING SYSTEM FINANCIAL RISKS

Financial risks facing the banking system are currently within manageable limits.

Analysis and assessment of the financial risks of Armenian banking system shows that the credit risk is still important issue for the banking system.

Previous downward trends of credit risk continued during the year. The share of non-performing loans and receivables in total loans and receivables fell by 1.6 percentage points and made up 1.7%. Non-performing assets amounted to 7.6% of regulatory capital. If the provisions of 1.3 billion drams covering possible asset losses excluded from the amount of 4.2 billion drams of non-performing assets, then the uncovered portion of the non-performing assets would have been 5.3% of capital. The indicator of the risk on a single borrower was at an acceptable level of 14.2%, as of December 31 2004 (maximum limit is 20%). The indicator of the risk on a bank related party was 1.6% against regulatory capital (the required maximum indicator is 5%). Credit Registry helped much with its activity to promote credit risk management, which informed the bankers in advance about the creditor's credit history.

Net provisioning value (without Armcommunication bank) of the banking system became lower by 56.9% than in the previous year and totaled 1.4 billion drams.

Regarding foreign exchange risks, it is pivotal that, throughout the reported period, notably high fluctuations of the Armenian dram exchange rate vis-à-vis other currencies were marked. In 2004, the Armenian dram appreciated by an annual average of 7.8% against US dollar, and as at December 31, 2004 compared to the same period of 2003, the Armenian dram appreciated by 14.2% across the named currency.

In 2004, total loss to banks due to the fluctuations of the dram exchange rate vis-à-vis other currencies was 428 million dram making up 0.7% of the regulatory capital of the banking system. As a result of forex revaluation, 16 banks incurred loss, and 4 gained profit. Meanwhile, it is crucial that the banking system has earned 3.7 billion drams income out of foreign exchange trading effected in 2004. As of December 31 2004, the gross forex position of the banking system

Deleted: , which derives a privileged importance in the current banking system, remains one of the key challenges

Deleted: downward

Deleted: the assets

Deleted: categorized

Deleted: across total

Deleted: were

Deleted: the core

Deleted: reserve amoun

Deleted: t

Deleted: s

Deleted: standard

Deleted: Haykapbank

Deleted: yielded

was 7.3%, while the open position for second group (non-convertible) currencies was 1.2% against the required 25% and 5% maximum limits, respectively.

The calculation through the VAR (value at risk) model shows that the loss on foreign currency revaluation in 2005 will not most likely (95% probability) outpace the 385 million dram ceiling. The deviation degree of this evaluation from actual level is dependent on the degree of changes in open forex positions since the calculations used the open forex position data provided by banks as of December 31 2004.

In view of forex risks mitigation, stricter regulatory measures were envisaged from 2005. Starting April 1 up to October 1, 2005, the ratio of the first group (convertible) currencies' gross position of a bank may not exceed 20% of total capital, while, after October 1, 2005, it may not exceed 15% of total capital. Meanwhile, the open position for separate currencies may not be above 15% of total capital, starting April 1 up to October 1, 2005, after which the ceiling will be 10% of total capital.

The liquidity risk of the banking systems is low since the system has a considerable volume of high liquid assets amounting 158.2 billion drams (44% of total assets). In 2004, the total liquidity ratio fell by 1.0 percentage point to 47.1% at yearend. The increase in demand liabilities reduced the current liquidity ratio during the year by 2.8 percentage points to 98.7% at the end of the year. Nevertheless, the total and current liquidity ratios are far higher than the required limits and will not cause banks to face liquidity problems.

Regarding price risk issues, it is noteworthy that the acceptable fluctuations of fixed assets prices will not cause the banking system to incur vast losses as a result of revaluation. To this respect, in the event of 10% decrease and/or increase of market prices of the fixed assets, the banking system loss and/or profit will make up 3.4% of the total capital. At yearend, the fixed assets of the system was about 22 billion drams, while the amount of seized real estates owned totaled 0.7 billion drams. Investments in non-government risk-bearing securities at end-year amounted to nearly 4 billion drams, and if the prices thereof decrease or increase, say, by 10%, the system loss and/or profit will make 0.6% of the total capital.

Deleted: open position

Deleted: holding

Deleted: in

Deleted: forex

Deleted: over the total capital

Deleted: by

Deleted: ity

Deleted: norm

Deleted: do

Deleted: prudential

Reviews in the interest rate risk area shows that the banks' exposure to such a risk is not that high. Asset and liability maturities at banks are not long-term, which enable banks to often revise the interest rates along with the market changes. In the meantime, interest rate risk evaluation through *Duration* model shows that the average weighted maturity gap of assets and liabilities represents a small positive value (nearly 1 year), which evidence that market interest rate fluctuations will not much affect the economic value of banking system capital. Calculations made through the model prove that a 2% decrease of market interest rates (on both assets and liabilities) will increase the economic value of the banking system capital by 452 million drams.

In 2004, interest income of the banking system exceeded the previous year's indicator by 24.5% mostly owing to rising low-cost demand liabilities and highly profitable consumer and trade loans. However, it is key to note that interest income regarded as a basic source for banking system income, and once the interest margin reduced the net interest income of the banking system would probably decrease (meantime, if take into account the recent progressing trends of demand liabilities, we may assume that even in such a scenario interest risk is still far low).

Deleted: maturity

Deleted: is

Deleted: general

Deleted: commercial

CREDIT ORGANIZATIONS OPERATING IN THE TERRITORY OF THE REPUBLIC OF ARMENIA

During 2004, credit organization licenses have been granted to "First Mortgage Company" Limited Liabilities Company, "Izmirlian Eurasia" Limited Liabilities Company and "Cascade Credit" Closed Joint Stock Company. At yearend, nine credit organizations were operating in Armenia (with two branches), of which two leasing organizations, one credit union and six universal credit organizations.

At present, credit organizations develop at a rapid pace demonstrating high activity particularly in credit and lease markets. The average market interest rates of loans provided by credit organizations surpass generally over those of commercial banks, however, services proposed by credit organizations to wide circle of population are, as a rule, expected to be more accessible.

Total capital of credit organizations throughout the year added by 47.6% mostly due to statutory funds of three newly established credit organizations. By the end of year, the capital reached to 3.3 billion drams or made 5.0% of banking system capital.

Liabilities grew by 78.7% and reached to 2.4 billion drams or 0.8% of the banking system liabilities. Borrowings from legal and physical persons amounted to 1.3 billion drams, at yearend. Funds attracted from banks and other financial institutions totaled to 789 billion drams by the end of year.

Total assets of the credit organizations grew, over the year, by 59.3% (2.1 billion drams) and as of December 31, 2004 was 5.6 billion drams or 1.5% of the banking system assets. Remarkable increases in assets were recorded in respect to claims to banks and loan investments (including leasing). Loan investments increased by 32.7% and reached to 3.2 billion drams. 31% of total of allocated loans and lease of credit organizations were provided to consumer sector, 27% - to industry, and 11% - to agriculture.

Deleted: Number One

Deleted: Organization

Deleted: were

Deleted: was

Deleted: were

Deleted: households

Deleted: entitie

Deleted: demands

Deleted: n

Deleted: and banks

In 2004, the retained earnings of credit organizations was 155 million drams, return on assets was 3.9%, while on capital made up 6.3%.

THE PROSPECTS OF BANKING SUPERVISION DEVELOPMENT

In order to evaluate banking supervision achievements, studies on harmonization of banking supervision of Armenia with the Core Basel Principles were carried out by the Central Bank, in 2004. Within this research, subjects to review were: Armenian banking legislation, subleglislative acts and guideline papers of the Central Bank, as well as banking supervision and licensing procedures and policies being presently implemented by the Central Bank.

Research showed that the regulatory framework of Armenia's banking supervision was mainly consistent with the Core Basel Principles, however, there were some inconsistencies recorded therein, and to address them, the Central Bank will take remedial measures and will continue well doing that in future. First group of issues discovered thereon were related to consolidated supervision and collaboration among supervisory authorities, and the second group of issues were on launching corporate governance principles at banks. Regarding further improvement of banking supervision, possible ways sought to settle these key issues (see below).

Consolidated supervision and collaboration of supervising bodies

Pursuant to the Basel Principles, supervising bodies shall have possibility to carry out a direct or indirect supervision over bank related and bank daughter organizations. Presently, the Central Bank has rights to supervise only the daughter organizations. To this

Deleted: TRENDS OF BANKING SYSTEM¶

Deleted: al

Deleted: advice

Deleted: ,

Deleted: starting 2003, had

Deleted: n

Deleted: ,

Deleted: ould

Deleted: be enabled to

Deleted: may

regard, appropriate legislative changes are expected to draft to bring the bank related persons into the supervision field, as well as to identify the "real" owners of the bank.

Deleted: we

Deleted: actual

Unified Supervision System

In view of streamlining activities related to consolidated supervision and collaboration of supervisory authorities, and especially, enhancing effectiveness of risk management and risk minimization in financial market, a need to create a unified supervision system in Armenia has emerged. The establishment of such a unified supervision system within upcoming two years should be a key priority issue. The unified supervision system assumes integrating the different sectors' (banking, insurance and securities circulation) supervisors of financial market into one structure.

Deleted: as never

Deleted: , as banking, insurance, securities circulation, supervisors,

Risks arising to individual participants of financial market affect largely the activities of other participants therein. In this context, a particular importance is given to establishment of underlying requirements for all the participants of financial market, making all the risks available in financial market visible for supervising body, ensuring a horizontal equal development for all the participants, all of which failed to be covered by the present financial supervision structure.

Deleted: all

Deleted: ies

Deleted: and other issues

Sound and effective supervision over financial markets practiced worldwide, necessitates by far the need of introducing a unified supervision system in Armenia within a maximum short period.

With introduction of a unified supervision system, administrative costs of financial supervisory authorities would reduce to a minimum, thereby, enhancing the cost-effectiveness.

Corporate Governance Principles

At present, at almost all banks operating in Armenia a lack in internationally accepted corporate governance principles is observed. This fact implies serious risks, since the present management practice

and traditions fail to ensure bank transparency and protect interests of small owners and other investors, in addition to this, control mechanisms of banks are not efficient or are not in place. Within the context of further bank supervision improvement, introduction of corporate governance principles is regarded as a strategic issue. To enhance management quality at banks, the Central Bank has drafted a Corporate Governance Concept Paper, being initiated still in 2003. In this paper the corporate governance approaches in banks were properly presented, having been discussed among bank managers, bank association and international experts. On finalization of the conclusions, legislative changes will be made to the laws regulating banking industry in compliance with core provisions of corporate governance concept paper.

Deleted: supervisory

Deleted: by

Deleted: properly

Deleted: activity

The mission of the IMF/World Bank Financial System Assessment Program (FSAP) reviewed the 2000 Financial System Stability Assessment (FSSA) of Armenia in February-March, 2005. The FSAP mission's views on banking system improvements achieved within a period between two missions were positive. Mission assessment stressed that insurance system is still underdeveloped, and there is need for supervision development of this field. On the contrary, it marked tangible achievements in financial system improvements with regard to revision of banking legislation, establishment of credit registry, deposit insurance schemes and other issues.

Deleted: i

Deleted: s

Deleted: u

Deleted: ther

Deleted: improvements

It was noted that after bank liquidations in 2001-2002 the public confidence toward banking system was recovered, and banking system continued to develop in a rapid pace. Financial Stability Indicators (FSI) proved the positive shifts in the areas of banking system capital adequacy, liquidity and profitability. The assessment emphasized that within the fast developing economic environment, the banking system, because of low level of financial intermediation, still is not that focal point that could promote to the economic development.

Although the progressive loan investment advancements over 2-3 past years have been crucial for further expansion of financial intermediation, nevertheless, they need to be carefully monitored in order to avoid possible losses on credit risk. It is central to establish risk assessment

appropriate systems at banks, especially, to compliment the existing deficiency of corporate governance principles.

The FSAP mission made suggestions mainly covering the following areas:

- *carry out risk macroprudential analysis and set financial stability objectives;*
- *introduce corporate governance principles through making appropriate amendments to the laws;*
- *establish the consolidated supervision system and promote collaboration between supervisory authorities;*
- *ensure higher protection of rights of supervisors;*
- *support further development of the risk-based supervision.*

Deleted: *analogical*

Formatted: Bullets and Numbering

Deleted: *collaboration between*

Deleted: *consolidated*

Deleted: *;*

Formatted: Bullets and Numbering

Introduction of the New Capital Accord – Basel 2

Deleted: ***ensure higher protection of rights of creditors.¶***
¶

Introduction of corporate governance principles aims also at formulating new approaches of risk management at banks. The New Basel Accord (Basel 2) is under a primary focus of supervisors and financial organizations all over the world. By introducing the Basel-2 new horizons for the risk management and further improvement of supervision will be certainly opened. The Basel 2 Accord proposes a rather flexible system of bank risk assessment and contributes much to enhancing the risk management effectiveness within banks.

Already in the late 90-ies the Basel 1 (the 1988 Basel Accord) has lost its effectiveness throughout its ten years of activity. This fact was due, first of all, to advancements achieved in financial markets and instruments, which enabled a sound risk transfer through using new instruments of capital market (e.g. securitization), regardless the actual requirements of capital. Studies made in line with improvements in risk management systems showed that the capital requirement on some assets sometimes exceeded the economic capital necessary for "covering" that risk, or underestimated it. Already in 1998, active discussions were held at the Basel Committee toward making steps to developing a new Basel Accord (Basel 2). The Basel 2 Accord does not give the bare definition of capital requirement, but it places a major

Deleted: *commercial*

focus on the standards of management, internal controls and risk management systems, applicable possibly not only in G-10 countries.

The New Basel Accord incorporates three large components:

1. Minimum capital requirements

2. Supervisory policies and procedures

3. Market discipline

Minimum capital requirements component provides for provisions according to which bank capital adequacy calculations will include not only elements of credit risk, but also elements of operational and market risks. Moreover, the standard table of risk weights for calculating the capital requirements on credit risk, being in use now, will be replaced by appropriate risk weights calculated by banks. This means that each bank shall be able to calculate independently its minimum size of capital adequacy based on historical series and models.

Under Basel 2, the customer rating of a bank shall be evaluated by the bank itself, and the risk weights appropriate to this rating shall be assigned by the bank as well. The supervisory body shall approve solely the rating systems or methods to be applied by the bank. These new supervisory policies and procedures will require that the Central Bank supervisory capacities be sharply broadened. Meantime, the Accord stresses the banks transparency rather strongly than before.

In general, a series of banking supervisory issues are reviewed and highlighted. First, the banks may manage the risks in a more effective manner than the supervisors. Second, market and market discipline will gain much more benefit in bank regulation and supervision areas.

Deleted: *norms*

Deleted: *The first*

Deleted: *calculation methods*

Deleted: *minimum capital requirements on*

Deleted: *not only*

Deleted: *values*

Deleted: *From now on*

Deleted: *authorities*

Deleted: *will*

Deleted: *it used to do*

Deleted: *will be*

Deleted: *and focused*

The core of the Central Bank measures taken to address the bank supervision improvements is actually the launching of Basel 2 core principles in Armenia. In risk management area, a number of financial risk assessment methodologies have already been drafted by the Central Bank being currently applied at on-site inspections. These methodologies are expected to transfer to banks in nearest future, and to support the introduction thereof seminars are to be organized at banks.

Financial stability system

Formation of financial stability system is one of the strategic objectives for the Central Bank. The idea is to form such a system which stands outside of only supervisory issues and has a vital role for ensuring a sustained development of the financial system.

Recent developments and integration of financial instruments and markets, as well as financial crises challenged different countries, have urged almost all the government authorities in the world, except studying the separate parts of financial system, while developing policies to be concerned also with and pay a key attention to the financial stability of the country as a whole. The network of financial services are spread everywhere and the consequences of financial instability could harm everyone or even paralyze whole economy. Moreover, sound financial policies implemented by one country at present level of globalization could become unable to struggle against financial instabilitiy inflows from partner or border countries.

And Armenia is not isolated from these problems. High pace of economic development and accelerated inflow of remittances from abroad create grounds for paying more profound attention to the activities taking place outside of Armenia, but which could have undesirable effect on financial stability of the country.

With the aim to characterize the financial stability of Armenian economy, as well as for defining and periodic monitoring of the factors important for financial stability, the Central Bank of Armenia prepared a concept paper named "The Framework for Safeguarding Financial stability". The Central Bank of Armenia choose the safeguarding of financial stability as a strategic issue and a lot of work is going to be done in coming future with the aim of formulation of effective and efficient safeguarding framework.

The financial stability framework assumes the system of mechanisms aimed primarily for identification, analysis and assessment of risks dangerous for stability of financial sector of the country. New mechanisms are going to be designed and old ones to be reviewed in line with the development of the framework. The safeguarding of financial stability assumes the analysis of macroprudential risks of different sectors of economy (financial, real, exteranl), the

Deleted: Although this system

Deleted: core

Deleted: ,

Deleted: however, it

identification of risky areas and linkages, the assessment of risks, and design and implementation of appropriate actions for risk mitigation.

APPENDICES

Appendix 1

Armenia Commercial Banks and their branches

Deleted: ¶

Commercial Banks		Branches	
		31.12.2003	31.12.2004
1	ArmSavingsBank	101	101
2	ArdshinInvestBank	61	49
3	ArmEconomBank	24	27
4	Artsakh Bank	11	11
5	Converse Bank	8	13
6	Agricultural Cooperative Bank of Armenia	8	10
7	UniBank	5	6
8	Anelik Bank	5	6
9	AreximBank	4	4
10	InecoBank	2	2
11	HSBC Bank Armenia	1	1
12	Promethey Bank	1	1
13	ArmImpexBank	-	
14	Armenian Development Bank	-	
15	ArmInvestBank	-	
16	Mellat Bank	-	
17	Emporiki Bank-Armenia	-	
18	International Trading Bank	-	
19	InterInvestBank	-	1
20	ArmcommunicationBank	1	1
Total		**232**	**233**

Appendix 2

Survey balance sheet indicators of the banking system

Thousand AMD

			31.12.02	31.12.03	Change 31.12.03-31.12.02	31.03.04	Change 31.03.04-31.12.03	30.06.04	Change 30.06.04-31.03.04
			1	2	3	4	5	6	7
Assets	Cash	D	3606798	4826950	33.8%	4782057	-0.9%	4769502	-0.3%
		F	10491205	12551870	19.6%	14371238	14.5%	14488390	0.8%
	Correspondent account and reserve requirements balances	D	19168368	20734143	8.2%	18235146	-12.1%	18555791	1.8%
		F	41142638	62396975	51.7%	58720735	-5.9%	63091023	7.4%
	Government securities		31232848	31311092	0.3%	33766807	7.8%	36336093	7.6%
	Liabilities on securities purchased under repo agreements and foreign currency purchased under currency swap	D	-4439701	-2491066	-43.9%	-3521000	41.3%	0	-100.0%
		F		0	-	-766571	-	-5727062	647.1%
	Repo agreements (exluding inter-bank repos)	D			-	288000	-	0	-100.0%
		F			-	0	-	0	-
	Deposits with the Central Bank	D	0	100000	-	4474270	4374.3%	2590512	-42.1%
		F			-	0	-	267245	-
	Deposits with banks	D	68093	652247	857.9%	1014215	55.5%	1509313	48.8%
		F	19691399	22950759	16.6%	25259881	10.1%	20033891	-20.7%
	Loans to economy	D	19057449	32482437	70.4%	31775770	-2.2%	36841931	15.9%
		F	65428081	66257317	1.3%	75325008	13.7%	82467663	9.5%
	Loans to bank related parties and bank employees	D	405821	1375962	239.1%	1295177	-5.9%	1506867	16.3%
		F	4093297	2360374	-42.3%	2076315	-12.0%	1807299	-13.0%
	Allowances for asset losses		-3936700	-2996054	-23.9%	-3390997	13.2%	-2885855	-14.9%
	Other assets		13420131	7651633	-43.0%	7066628	-7.6%	8346244	18.1%
	Interest receivable	D	548761	785522	43.1%	885622	12.7%	942878	6.5%
		F	1938581	800162	-58.7%	990489	23.8%	1033602	4.4%
	Fixed assets		15267624	15818497	3.6%	16657160	5.3%	17516287	5.2%
	Other securities		4355297	461429	-89.4%	18143840	3832.1%	3379439	-81.4%
	Leasing, factoring		1628693	4119383	152.9%	4231278	2.7%	4100897	-3.1%
	Total balance sheet assets		243168682	282149632	16.0%	311681068	10.5%	310971950	-0.2%

Deleted: ¶

				1	2	3	4	5	6	7
Liabilities	Bank correspondent accounts		D	667542	382245	-42.7%	811790	112.4%	561914	-30.8%
			F	3599771	2600224	-27.8%	3146675	21.0%	4848988	54.1%
	Demand liabilities of individuals and legal entities		D	27921581	31940690	14.4%	27712320	-13.2%	29158684	5.2%
			F	56591321	78466297	38.7%	83843591	6.9%	85075071	1.5%
	Liabilities to banks		D	8105000	9050000	11.7%	9650060	6.6%	12647000	31.1%
			F	12602500	7288727	-42.2%	24330014	233.8%	11269168	-53.7%
	Term-deposits of individuals		D	3757978	4137482	10.1%	4509844	9.0%	4579926	1.6%
			F	39458301	45550489	15.4%	47649709	4.6%	46398578	-2.6%
	Term -deposits of legal entities		D	6618260	9860212	49.0%	9860212	0.0%	9273167	-6.0%
			F	20547238	19739552	-3.9%	19739552	0.0%	22051344	11.7%
	Other liabilities			23318357	23553066	1.0%	26471243	12.4%	28101729	6.2%
	Interest payable		D	399006	371293	-6.9%	381887	2.9%	398142	4.3%
			F	1045613	771364	-26.2%	862107	11.8%	867750	0.7%
	Total balance sheet liabilities			204632468	232036320	13.4%	258969004	11.6%	255231461	-1.4%
Equity	Paid-in capital			34736349	36769005	5.9%	37050340	0.8%	37925091	2.4%
	General reserves			4119766	4242383	3.0%	4243145	0.0%	5121041	20.7%
	Bank's own shares purchased back			-341562	0	-100.0%	0	-	0	-
	Retained earnings (loss)	current period		-1877830	6480851	-445.1%	3705382	-42.8%	4320180	16,6%
		previous period		-673598	614693	-191.3%	4948017	705.0%	4785896	-3,3%
	Total balance sheet equity			38536214	50113313	30.0%	52712064	5.2%	55740489	5.7%
Note	Collateral received			193418611	236507065	22.3%	240530783	1.7%	266056452	10.6%
	Including: government securities			5994284	5598668	-6.6%	4900617	-12.5%	5599667	14.3%
	Guarantees received					-	31900992	-	36191820	13.5%
	Written off	loans		18332634	9917368	-45.9%	9779470	-1.4%	10098456	3,3%
		receivables		6348902	3712817	-41.5%	3646376	-1.8%	3590570	-1,5%
		interests		20779121	5363307	-74.2%	5061682	-5.6%	4962317	-2,0%
	Guarantees issued			6039997	4987041	-17.4%	4632028	-7.1%	5352760	15.6%
	Collateral provided	total		2726509	835540	-69.4%	362000	-56.7%	1380447	281,3%
		Including: government securities		1126489	835540	-25.8%	362000	-56.7%	1308901	261,6%
	Note **Total number of banks under general supervision**			20	19		19		19	

Survey balance sheet indicators of the banking system

(to be continued)

			30.09.04	Change 30.09.04-30.06.04	31.12.04	Change 31.12.04-30.09.04	2004Å. annual *	Change 31.12.04-31.12.03	
			8	9	10	11	12	13	
Assets	Cash	D	5800885	21.6%	6964968	20.1%	6964968	2138018	44.3%
		F	22005194	51.9%	17745627	-19.4%	17745627	5193757	41.4%
	Correspondent accounts and reserve requirements balances	D	21182250	14.2%	25378491	19.8%	25378491	4644348	22.4%
		F	75063615	19.0%	87855477	17.0%	87855459	25458502	40.8%
	Government securities		36296092	-0.1%	36596314	0.8%	36596314	5285222	16.9%
	Liabilities on securities purchased under repo agreements and foreign currency purchased under currency swap	D	-4934500	-	-3935425	-20.2%	-3935425	-1444359	58.0%
		F	-562333	-90.2%	-301561	-46.4%	-301561	-301561	-
	Repo agreements (without inter-bank repos)	D	400000	-	20000	-95.0%	20000	20000	-
		F	0	-	0	-	0	0	-
	Deposits with the Central Bank	D	0	-100.0%	2583338	-	2583338	2483338	2483.3%
		F	0	-100.0%	0	-	0	0	-
	Deposits with banks	D	2635244	74.6%	2464560	-6.5%	2464560	1812313	277.9%
		F	19726159	-1.5%	11614200	-41.1%	11614200	-11336559	-49.4%
	Loans to economy	D	38952750	5.7%	40510627	4.0%	40510627	8028190	24.7%
		F	90655250	9.9%	94956687	4.7%	94958201	28699370	43.3%
	Loans to bank related parties and bank employees	D	2009938	33.4%	1468646	-26.9%	1468646	92684	6.7%
		F	1617435	-10.5%	2227656	37.7%	2227656	-132718	-5.6%
	Allowances for asset losses		-3825223	32.6%	-3802564	-0.6%	-3805466	-806510	26.9%
	Other assets		8671960	3.9%	8488322	-2.1%	8430001	836689	10.9%
	Interest receivable	D	962593	2.1%	1039638	8.0%	1039718	254116	32.3%
		F	1099176	6.3%	1075739	-2.1%	1072627	275577	34.4%
	Fixed assets		18293548	4.4%	21955412	20.0%	21955413	6136915	38.8%
	Other securities		602212	-82.2%	3962181	557.9%	3962181	3500752	758.7%
	Leasing, factoring		4079193	-0.5%	4761969	16.7%	4761969	642586	15.6%
	Total balance sheet assets		340731438	9.6%	363630302	6.7%	363567544	81480670	28.9%

				8	9	10	11	12	13	
Liabilities	Bank correspondent accounts		D	260221	-53.7%	286086	9.9%	286086	-96159	-25.2%
			F	6201054	27.9%	5733448	-7.5%	5733448	3133224	120.5%
	Demand liabilities of individuals and legal entities		D	31995836	9.7%	35051841	9.6%	35051842	3111151	9.7%
			F	101414717	19.2%	100524983	-0.9%	100524984	22058686	28.1%
	Liabilities to banks		D	15947988	26.1%	15108981	-5.3%	15108981	6058981	67.0%
			F	8993867	-20.2%	7827080	-13.0%	7827080	538353	7.4%
	Term-deposits of individuals		D	4619851	0.9%	4847757	4.9%	4847757	710275	17.2%
			F	45685991	-1.5%	48473761	6.1%	48473761	2923272	6.4%
	Term-deposits of legal entities		D	6019199	-35.1%	10251411	70.3%	10251411	391199	4.0%
			F	30571813	38.6%	35407063	15.8%	34120419	15667511	79.4%
	Other liabilities		D	28599730	1.8%	33984896	18.8%	35312641	10431831	44.3%
	Interest receivable		F	394923	-0.8%	428400	8.5%	428398	57107	15.4%
			D	880539	1.5%	969285	10.1%	969097	197921	25.7%
	Total liabilities		F	281585729	10.3%	298894992	6.1%	298935905	66858673	28.8%
Equity	Paid-in capital			38465846	1.4%	40134956	4.3%	40134956	3365951	9.2%
	General reserves			5121040	0.0%	5161084	0.8%	5161084	918701	21.7%
	Bank's own shares purchased back			0	-	0	-	0	0	-
	Retained earnings (loss)	Current period		7407191	71.5%	17259715	133.0%	17182041	10778865	166,3%
		Previous period		4294957	-10.3%	-2857403	-166.5%	-2857405	-3472096	-564,9%
	Total balance sheet equity			59145709	6.1%	64735310	9.5%	64631639	14621998	29.2%
Note	Collateral received			285136948	7.2%	304446478	6.8%	304446478	67939413	28.7%
	Including: government securities			4556307	-18.6%	4768657	4.7%	4768657	-830011	-14.8%
	Guarantees received			39225529	8.4%	50957543	29.9%	50957543	50957543	-
	Written off	Loans		9314824	-7.8%	9284120	-0.3%	9282606	-633248	-6,4%
		Receivables		3315948	-7.6%	3388264	2.2%	3388264	-324553	-8,7%
		Interests		4386396	-11.6%	4258866	-2.9%	4258841	-1104441	-20,6%
	Guarantees issued			6963235	30.1%	5835763	-16.2%	5835763	848722	17.0%
	Collateral provided	total		1177371	-14.7%	9561007	712.1%	9561007	8725467	1044,3%
		Including: government securities		1108480	-15.3%	1535702	38.5%	1535702	700162	83,8%
	Note Total number of banks under general supervision			19		20		20		

D – in drams (AMD) *F – in foreign currency (FC)*

** 2004 endyear indicators include final adjustments*

Formatted: Bullets and Numbering

Armenian Commercial Banks - Survey balance sheet indicators structure

			31.12.02	31.12.03	Change 31.12.03-31.12.02	31.03.04	Change 31.03.04-31.12.03	30.06.04	Change 30.06.04-31.03.04
			1	2	3	4	5	6	7
Assets	Cash	D	1.5%	1.7%	0.2%	1.5%	-0.2%	1.5%	0.0%
		F	4.3%	4.4%	0.1%	4.6%	0.2%	4.7%	0.0%
	Correspondent accounts and reserve requirements balances	D	7.9%	7.3%	-0.5%	5.9%	-1.5%	6.0%	0.1%
		F	16.9%	22.1%	5.2%	18.8%	-3.3%	20.3%	1.4%
	Government securities		12.8%	11.1%	-1.7%	10.8%	-0.3%	11.7%	0.9%
	Liabilities on securities purchased under repo agreements and foreign currency purchased under currency swap	D	-1.8%	-0.9%	0.9%	-1.1%	-0.2%	0.0%	1.1%
		A	0.0%	0.0%	0.0%	-0.2%	-0.2%	-1.8%	-1.6%
	Repo agreements (without inter-bank repos)	D	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	-0.1%
		F	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Deposits with the Central Bank	D	0.0%	0.0%	0.0%	1.4%	1.4%	0.8%	-0.6%
		F	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
	Deposits with banks	D	0.0%	0.2%	0.2%	0.3%	0.1%	0.5%	0.2%
		F	8.1%	8.1%	0.0%	8.1%	0.0%	6.4%	-1.7%
	Loans to economy	D	7.8%	11.5%	3.7%	10.2%	-1.3%	11.8%	1.7%
		F	26.9%	23.5%	-3.4%	24.2%	0.7%	26.5%	2.4%
	Loans to bank related parties and employees	D	0.2%	0.5%	0.3%	0.4%	-0.1%	0.5%	0.1%
		F	1.7%	0.8%	-0.8%	0.7%	-0.2%	0.6%	-0.1%
	Allowances for asset losses		-1.6%	-1.1%	0.6%	-1.1%	0.0%	-0.9%	0.2%
	Other assets		5.5%	2.7%	-2.8%	2.3%	-0.4%	2.7%	0.4%
	Interest receivable	D	0.2%	0.3%	0.1%	0.3%	0.0%	0.3%	0.0%
		F	0.8%	0.3%	-0.5%	0.3%	0.0%	0.3%	0.0%
	Fixed assets		6.3%	5.6%	-0.7%	5.3%	-0.3%	5.6%	0.3%
	Other securities		1.8%	0.2%	-1.6%	5.8%	5.7%	1.1%	-4.7%
	Leasing, factoring		0.7%	1.5%	0.8%	1.4%	-0.1%	1.3%	0.0%
	Total balance sheet assets		100.0%	100.0%	0.0%	100.0%	0.0%	100.0%	0.0%
			1	2	3	4	5	6	7

Liabilities	Banks correspondent accounts		D	0.3%	0.2%	-0.2%	0.3%	0.1%	0.2%	-0.1%
			F	1.8%	1.1%	-0.6%	1.2%	0.1%	1.9%	0.7%
	Demand liabilities of individuals and legal entities		D	13.6%	13.8%	0.1%	10.7%	-3.1%	11.4%	0.7%
			F	27.7%	33.8%	6.2%	32.4%	-1.4%	33.3%	1.0%
	Liabilities to banks		D	4.0%	3.9%	-0.1%	3.7%	-0.2%	5.0%	1.2%
			F	6.2%	3.1%	-3.0%	9.4%	6.3%	4.4%	-5.0%
	Term-deposits of individuals		D	1.8%	1.8%	-0.1%	1.7%	0.0%	1.8%	0.1%
			F	19.3%	19.6%	0.3%	18.4%	-1.2%	18.2%	-0.2%
	Term-deposits of legal entities		D	3.2%	4.2%	1.0%	3.8%	-0.4%	3.6%	-0.2%
			F	10.0%	8.5%	-1.5%	7.6%	-0.9%	8.6%	1.0%
	Other liabilities		D	11.4%	10.2%	-1.2%	10.2%	0.1%	11.0%	0.8%
	Interest receivable		F	0.2%	0.2%	0.0%	0.1%	0.0%	0.2%	0.0%
			D	0.5%	0.3%	-0.2%	0.3%	0.0%	0.3%	0.0%
	Total liabilities			100.0%	100.0%	0.0%	100.0%	0.0%	100.0%	0.0%
Equity	Paid-in capital			90.1%	73.4%	-16.8%	70.3%	-3.1%	68.0%	-2.2%
	General reserves			10.7%	8.5%	-2.2%	8.0%	-0.4%	9.2%	1.1%
	Bank's own shares purchased back			-0.9%	0.0%	0.9%	0.0%	0.0%	0.0%	0.0%
	Retained earnings (loss)	Current period		-4.9%	12.9%	17.8%	7.0%	-5.9%	7.8%	0,7%
		Previous period		-1.7%	1.2%	3.0%	9.4%	8.2%	8.6%	-0,8%
	Total balance sheet equity			100.0%	100.0%	0.0%	100.0%	0.0%	100.0%	0.0%

Armenian Commercial Banks - Survey balance sheet indicators structure
(to be continued)

			30.09.04	Change 30.09.04 - 30.06.04	31.12.04	Change 31.12.04 - 30.09.04	2004Ã annual**	Change 31.12.04 - 31.12.03
			8	9	10	11	12	13
Assets	Cash	D	1.7%	0.2%	1.9%	0.2%	1.9%	0.2%
		F	6.5%	1.8%	4.9%	-1.6%	4.9%	0.4%
	Correspondent accounts and reserve reserve requirements balances	D	6.2%	0.2%	7.0%	0.8%	7.0%	-0.4%
		F	22.0%	1.7%	24.2%	2.1%	24.2%	2.0%
	Government securities		10.7%	-1.0%	10.1%	-0.6%	10.1%	-1.0%
	Liabilities on securities purchased under repo agreements and foreign currency purchased under currency swap	D	-1.4%	-1.4%	-1.1%	0.4%	-1.1%	-0.2%
		F	-0.2%	1.7%	-0.1%	0.1%	-0.1%	-0.1%
	Repo agreements (without inter-bank repos)	D	0.1%	0.1%	0.0%	-0.1%	0.0%	0.0%
		F	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Deposits with the Central Bank	D	0.0%	-0.8%	0.7%	0.7%	0.7%	0.7%
		F	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%
	Deposits with banks	D	0.8%	0.3%	0.7%	-0.1%	0.7%	0.4%
		F	5.8%	-0.7%	3.2%	-2.6%	3.2%	-4.9%
	Loans to economy	D	11.4%	-0.4%	11.1%	-0.3%	11.1%	-0.4%
		F	26.6%	0.1%	26.1%	-0.5%	26.1%	2.6%
	Loans to bank related parties and employees	D	0.6%	0.1%	0.4%	-0.2%	0.4%	-0.1%
		F	0.5%	-0.1%	0.6%	0.1%	0.6%	-0.2%
	Allowances for asset losses		-1.1%	-0.2%	-1.0%	0.1%	-1.0%	0.0%
	Other assets		2.5%	-0.1%	2.3%	-0.2%	2.3%	-0.4%
	Interest receivable	D	0.3%	0.0%	0.3%	0.0%	0.3%	0.0%
		F	0.3%	0.0%	0.3%	0.0%	0.3%	0.0%
	Fixed assets		5.4%	-0.3%	6.0%	0.7%	6.0%	0.4%
	Other securities		0.2%	-0.9%	1.1%	0.9%	1.1%	0.9%
	Leasing, factoring		1.2%	-0.1%	1.3%	0.1%	1.3%	-0.2%
	Total balance sheet assets		100.0%	0.0%	100.0%	0.0%	100.0%	0.0%

			8	9	10	11	12	13
Il It	Banks correspondent accounts	D	0.1%	-0.1%	0.1%	0.0%	0.1%	-0.1%

			F	2.2%	0.3%	1.9%	-0.3%	1.9%	0.8%
	Demand liabilities of individuals and legal entities		D	11.4%	-0.1%	11.7%	0.4%	11.7%	-2.0%
			F	36.0%	2.7%	33.6%	-2.4%	33.6%	-0.2%
	Liabilities to banks		D	5.7%	0.7%	5.1%	-0.6%	5.1%	1.2%
			F	3.2%	-1.2%	2.6%	-0.6%	2.6%	-0.5%
	Term-deposits of individuals		D	1.6%	-0.2%	1.6%	0.0%	1.6%	-0.2%
			F	16.2%	-2.0%	16.2%	0.0%	16.2%	-3.4%
	Term-deposits of legal entities		D	2.1%	-1.5%	3.4%	1.3%	3.4%	-0.8%
			F	10.9%	2.2%	11.8%	1.0%	11.4%	3.3%
	Other liabilities			10.2%	-0.9%	11.4%	1.2%	11.8%	1.2%
	Interest receivable		D	0.1%	0.0%	0.1%	0.0%	0.1%	0.0%
			F	0.3%	0.0%	0.3%	0.0%	0.3%	0.0%
	Total liabilities			100.0%	0.0%	100.0%	0.0%	100.0%	0.0%
Equity	Paid-in capital			65.0%	-3.0%	62.0%	-3.0%	62.1%	-11.4%
	General reserves			8.7%	-0.5%	8.0%	-0.7%	8.0%	-0.5%
	Bank's own shares purchased back			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Retained earnings (loss)	Current period		12.5%	4.8%	26.7%	14.1%	26.6%	13,7%
		Previous period		7.3%	-1.3%	-4.4%	-11.7%	-4.4%	-5,6%
	Total balance sheet equity			100.0%	0.0%	100.0%	0.0%	100.0%	0.0%

D - in drams (AMD) *F – in foreign currency (FC)*

** 2004 annual data are represented in the table with respect to 19 banks acting within I – III quarters under general supervision, and 20 banks within IV quarter as at yearend.*

*** 2004 yearend indicators include final adjustments*

Appendix 4

Change in bank regulatory capital accounts

01.01.2004-31.12.2004

Thousand drams

	Amount at the beginning of period	Amount during the period	Amount at the end of period
Total capital	45367401	14444926	59812327
Tire 1 capital	43396303	10972682	54368985
Paid-in capital	36769004	3365952	40134956
Note: number of shares sold (pcs)	2379208	184201	2563409
General reserves	4243145	917939	5161084
Retained earnings	7047813	7276825	14324638
Amounts deducted from Tire 1 capital	4643229	586064	5229293
Long-term subordinated lending	-	-	-
Own shares repurchased by bank	-	-	-
Intangible assets (except for that of stipulated by Regulation 2)	497821	-298504	199317
Investments in other banks` statutory capital	817558	733601	1551159
Unused tangible assets	2418523	-79783	2338740
Amount exceeding the balance value of tangible assets and the balance amount of core capital	412506	-412506	-
Capital investments on own and leased fixed assets	496821	637897	1134718
Other deductions	-	5359	5359
Tire 2 capital	1971098	6419918	8391016
Revaluation reserves	1979027	3020596	4999623
Reserve generated from FX differences due to balance sheet consolidation	-	-	-
Other reserves	-7929	-1558	-9487
Long-term subordinated-borrowing	-	3400880	3400880

Appendix 5

Non-resident participation in the bank paid-in capital

Thousand drams

	31.12.02	Change during the period	31.12.03	Change during the period	31.12.04
Paid-in capital	34309252	2197169	36506421	3365952	39872373
including: non-residents	16934088	131143	17065230	3923222	20988452
share of non-residents (%)	49.4%	-2.6%	46.7%	5.9%	52.6%

Appendix6

Commercial Banks Income and Expense

Thousand drams

	31.12.02	31.12.03	Change 31.12.03-31.12.02	31.03.04	30.06.04	30.09.04	31.12.04	31.12.04*	Change 31.12.04-31.12.03
	1	2	3	4	5	6	7	8	9
Interests from correspondent accounts	284059	261917	-7.8%	40466	86280	148877	228767	228767	-12.7%
Interest received from resources allocated in the Central Bank	423775	472784	11.6%	139224	289351	407313	541284	541284	14.5%
Interest received from resources allocated in banks and other financial institutions	630951	601887	-4.6%	162874	318091	457294	604191	604191	0.4%
Interest received from loans provided to economy	14502850	15956529	10.0%	4441036	9374819	14724855	20529181	20529181	28.7%
Interest received from overdraft	645131	491091	-23.9%	84265	153831	242207	317153	317153	-35.4%
Interest received from credit cards	11980	40717	239.9%	26813	51334	94115	140519	140519	245.1%
Interest received from T-bills	3086299	3583888	16.1%	847725	1632039	2335348	2961637	2961637	-17.4%
Interest received from repo agreements	319294	318642	-0.2%	37958	79153	122867	159818	159818	-49.8%
Interest received from leasing	5088	3645	-28.4%	0	0	0	0	0	-100.0%
Other interest income	935078	694914	-25.7%	138860	280305	401978	516692	516692	-25.6%
Total, interest income,	**20844505**	**22426014**	**7.6%**	**6131716**	**12720572**	**19654606**	**27022186**	**27022186**	**20.5%**
Interest paid on correspondent accounts	76407	15173	-80.1%	4425	10088	29061	49614	49614	227.0%
Interest paid on bank accounts and demand deposits	458284	381196	-16.8%	102725	205648	318904	485684	485684	27.4%
Interest paid on resources from the Central Bank	485836	636953	31.1%	173524	357756	605022	847003	847003	33.0%
Interest paid on liabilities on repo agreements	138478	32736	-76.4%	5301	19472	34230	42793	42793	30.7%
Interest paid on resources from banks and other financial institutions	529891	343942	-35.1%	83003	160758	271677	390362	390362	13.5%
Interest paid on time deposits	5398720	4512406	-16.4%	1178644	2334428	3522813	4788978	4788978	6.1%
Interest paid on resources from international financial institutions	467239	303463	-35.1%	86569	177454	262421	286272	286272	-5.7%
Interest paid on overdraft	93	1335	1335.5%	175	204	1059	1059	1059	-20.7%
Interest expense on deposit insurance	0	225297	#DIV/0!	125529	250645	384773	523675	523675	132.4%
Interest on non-performing	1310935	557661	-57.5%	121042	255527	393087	474246	474246	-15.0%

assets accrued									
Other interest expense	292659	363138	24.1%	5099	19595	24277	27058	27058	-92.5%
Total, interest expense,	**7373300**	**7373300**	**0.0%**	**1973910**	**3952629**	**6068985**	**8275743**	**8275743**	**12.2%**
Net interest income	***11675672***	***15052714***	***28.9%***	***4157806***	***8767943***	***13585621***	***18746443***	***18746443***	***24.5%***
	1	2	3	4	5	6	7	8	9
Commissions received	7501599	8520639	13.6%	1553871	3395506	5400865	7619674	7619674	-10.6%
Income from guarantees, acceptance and L/C operations, and trust management	296676	347919	17.3%	51845	118769	192459	277609	277609	-20.2%
Net income from hedging derivatives	218	3530	1519.3%	-14	-1176	0	-247	-247	-107.0%
Net income from factoring	33498	68333	104.0%	49380	114037	190894	275912	275912	303.8%
Income from investment with other institutions	15355	54425	254.4%	69707	153675	491768	638498	638498	1073.2%
Net income from sale of securities	112744	236431	109.7%	92902	260556	375417	427445	427445	80.8%
Net income from FX purchase and sale	2236048	2501603	11.9%	747823	1478752	2519891	3693332	3693332	47.6%
Positive (negative) exchange rate difference from FX revaluation	-120092	-513863	327.9%	-165149	-425582	-695716	-428237	-428237	-16.7%
Net income from disposal of fixed assets	-469793	8884	-101.9%	39206	65329	65391	91844	91844	933.8%
Net income from revaluation of fixed assets	-195513	5509	-102.8%	0	0	-556	7819	7819	41.9%
Fines and penalties received	744815	590799	-20.7%	99491	187573	299380	410001	410001	-30.6%
Other non-interest income	1517615	1266558	-16.5%	242070	559006	934383	1449305	1449305	14.4%
Total non-interest income	**11673170**	**13090767**	**12.1%**	**2905105**	**6032339**	**10777067**	**15284629**	**15284629**	**16.8%**
Salary and salary-equivalent pays (other remuneration and financing of social requirements)	5389896	5886662	9.2%	1570543	3281824	5143560	7710963	7710963	31.0%
Business trip costs	251408	337150	34.1%	78416	180342	267790	348477	348477	3.4%
Contributions to Social Security Fund	712904	684018	-4.1%	166345	346416	545296	788023	788023	15.2%
Taxes, duties and other mandatory pays	746620	805375	7.9%	187603	381456	560975	761323	761323	-5.5%
Depreciation	1846546	1826832	-1.1%	521893	1086422	1691795	2375702	2375702	30.0%
Leasing charge for bank premises and other fixed assets	473514	528567	11.6%	171018	340755	494805	658111	658111	24.5%
Advertisement and representative costs	616728	842913	36.7%	161476	393482	591926	862835	862835	2.4%
Office and printing costs	330824	352905	6.7%	87606	167320	256001	355707	355707	0.8%
Audit and consultation services costs	255042	204322	-19.9%	46251	94550	177917	247554	247554	21.2%
Bank equipment maintenance costs	203597	196811	-3.3%	47477	101895	153929	215921	215921	9.7%
Transport costs	266920	250893	-6.0%	57652	125249	190554	270838	270838	7.9%

Communications charges	704037	787587	11.9%	203625	430415	686582	952560	952560	20.9%
Fines and penalties paid	130259	54194	-58.4%	3276	11870	18705	28857	28857	-46.8%
Training costs	44190	53314	20.6%	12122	22175	34927	41524	41524	-22.1%
Other non-interest expense	3505137	3789868	8.1%	302327	855753	1200823	1757843	1757843	-53.6%
Total non-interest expense	**15477622**	**16601410**	**7.3%**	**4130694**	**8817789**	**13859894**	**19971210**	**19971210**	**20.3%**
Net non-interest income	**-3804452**	**-3510643**	**-7.7%**	**-1225589**	**-2785450**	**-3082827**	**-4686581**	**-4686581**	**33.5%**
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Provisions to the general fund for loan and receivable loss	4216497	5165311	22.5%	1847988	3588206	5568971	8112327	8112327	57.1%
Provisions to the special fund for loan and receivable loss	17852856	11202553	-37.3%	2011515	3870337	6195873	16201558	16201558	44.6%
Provisions to the fund for possible securities loss	47701	21541	-54.8%	51	5013	5013	5064	5064	-76.5%
Total provisions	**22117054**	**16389405**	**-25.9%**	**3859554**	**7463556**	**11769857**	**24318949**	**24318949**	**48.4%**
Recoveries from the general fund for loan and receivable loss	4025248	4635761	15.2%	1679496	3461000	5229368	7387766	7387766	59.4%
Recoveries from the special fund for loan and receivable loss	10538879	8489341	-19.4%	1767799	3368562	5076247	22716600	22716600	167.6%
Recoveries from the fund for securities loss	13650	28350	107.7%	10	7695	10668	28905	28905	2.0%
Total recoveries	**14577777**	**13153452**	**-9.8%**	**3447304**	**6837257**	**10316283**	**30133271**	**30133271**	**129.1%**
Net provisions	**7539277**	**3235953**	**-57.1%**	**412250**	**626299**	**1453574**	**-5814322**	**-5814322**	**279.7%**
Profit before tax	**331943**	**8306118**	**2402.3%**	**2519967**	**5356194**	**9049220**	**19874184**	**19874184**	**139.3%**
Profit tax	911578	1790459	96.4%	483943	1036014	1642029	2718137	2718137	51.8%
Net profit	**-579635**	**6515659**	**-1224.1%**	**2036024**	**4320180**	**7407191**	**17156047**	**17156047**	**163.3%**
Dividends accrued	6899	2343	-66.0%	0	0	0	0	0	-100.0%
Undistributed profit	**-586534**	**6513316**	**-1210.5%**	**2036024**	**4320180**	**7407191**	**17156047**	**17156047**	**163.4%**

***** *2004 yearend indicators include final adjustments*

Appendix 7

Armenian Banking System – Return On Assets and Return On Equity*

Thousand dram

	2002	2003	2004
Return On Assets			
Banking System	2.4%	2.7%	3.3%
Average on banks (on profitable banks)	3.9%	3.3%	3.4%
Minimum on banks (on profitable banks)	24.6%	0.04%	0.1%
Maximum on banks (on profitable banks)	0.1%	11.5%	10.9%
Return on Equity			
Banking System	13.3%	14.4%	18.5%
Average on banks (on profitable banks)	16.7%	16.8%	19.8%
Minimum on banks (on profitable banks))	41.0%	0.2%	0.2%
Maximum on banks (on profitable banks)	0.1%	46.0%	43.2%

** Indicators of banking system does not include Armcommunication Bank*

Armenian Commercial Banks - Loan Investments

Thousand dram

	2002					
	Up to 1 year		1 year and more		Total	
	D	F	D	F	D	F
1. Total loans, deposits, factoring, leasing, repo agreements (2+3)	13746996	60739387	6042545	29985611	19789541	90724998
1.1 Time assets	12746377	53400078	6024166	28603006	18770543	82003085
including:	12735372	36492401	5768901	25980688	18504273	62473090
interbank loans, deposits, factoring, leasing, repo agreements		16905045		2462387		19367432
1.2. Prolonged assets	650379	3751324	18379	1382605	668758	5133929
including: loans	650379	3751324	18379	33974	668758	3785298
interbank loans, deposits, factoring, leasing, repo agreements						
1.3. Overdue assets	350240	3587984			350240	3587984
including: loans	350240	3584682			350240	3584682
interbank loans, deposits, factoring, leasing, repo agreements						
2. Loans, deposits, factoring, leasing, repo agreements with non-residents	1502	21313740	1124	5370878	2626	26684618
2.1. Time assets	1501	21308807	1124	5370878	2625	26679685
2.2. Prolonged assets		1462				1462
2.3. Overdue assets	1	3471			1	3471
3. Loans, deposits, factoring, leasing, repo agreements by sectors with residents, including	13113719	34534794	6673196	29505586	19786915	64040381
3.1 Industry	5982813	10149247	2282967	13775764	8265780	23925011
mining	36889	331172	49612	430011	86501	761183
energy	3595624	3496300	27000	5111003	3622624	8607303
food	1473208	3213493	964246	4471548	2437454	7685041
light	281856	152306	355148	984486	637004	1136792
chemical	30590	133391	210028	1667400	240618	1800791
building materials	86782	116065	110983	255308	197765	371373
precious items	95130	564979	281	44646	95411	609625
metallurgy	2448	902653	2410	292445	4858	1195098
machine engineering and electrical	30585	346433	135276	242701	165861	589134
other sectors of industry	349701	892455	427983	276216	777684	1168671
3.2 Agriculture	906499	3167330	400198	3312781	1306697	6480111
3.3 Construction	238274	1010254	719945	1306349	958219	2316603
3.4 Transport and Communication	155106	282327	156836	293838	311942	576165
3.5 Trade	3985375	5198929	1336253	5061529	5321628	10260459
3.6 Public catering and other services						
3.7 Financial sector	60470	2820521		466115	60470	3286636
3.8 Consumer loans	985594	10539655	939241	2761163	1924835	13300818
3.9 Other sectors of economy	799588	900416	837756	2994162	1637344	3894578

Appendix 8

Armenian Commercial Banks - Loan Investments

(to be continued)

Thousands drams

	2003					
	Up to 1 year		1 year and more		Total	
	D	F	D	F	D	F
1. Total loans, deposits, factoring, leasing, repo agreements (2+3)	21565930	58618230	13900314	34955705	35466244	93573936
1.1 Time assets	20334348	57440512	13900314	31157223	34234662	88597736
including:	16470760	34863434	13791334	29166947	30262094	64030382
interbank loans, deposits, factoring, leasing, repo agreements	350000	21425756		1301809	350000	22727565
1.2. Prolonged assets	666496	314609		3798482	666496	4113091
including: loans	385695	310777		2830000	385695	3140777
interbank loans, deposits, factoring, leasing, repo agreements						
1.3. Overdue assets	565086	863109			565086	863109
including: loans	547838	779922			547838	779922
interbank loans, deposits, factoring, leasing, repo agreements						
2. Loans, deposits, factoring, leasing, repo agreements with non-residents	622159	22034104	1965953	2598077	2588112	24632181
2.1. Time assets	232056	21909680	1965953	2598077	2198009	24507757
2.2. Prolonged assets		92163				92163
2.3. Overdue assets	390103	32261			390103	32261
3. Loans, deposits, factoring, leasing, repo agreements by sectors with residents, including	20790705	36245341	12087427	32696414	32878132	68941755
3.1 Industry	4912626	8312771	4913815	11632262	9826441	19945033
mining	22824	1118700	9335	110313	32159	1229013
energy	1853450	2471778	2380900	4040399	4234350	6512177
food	1646205	3258236	1316859	4216775	2963064	7475011
light	261664	545275	89602	432391	351266	977666
chemical	34726	52526	9856	150970	44582	203496
building materials	225391	211517	332488	681283	557879	892800
precious items	40834	137902	184930	24322	225764	162224
metallurgy	22308	399	23756	484213	46064	484612
machine engineering and electrical	206296	135236	61460	116979	267756	252215
other sectors of industry	598928	381202	504629	1374617	1103557	1755819
3.2 Agriculture	732858	3997374	203436	2775316	936294	6772690
3.3 Construction	1574440	667881	540951	2022178	2115391	2690059
3.4 Transport and Communication	232146	88061	49816	297043	281962	385104
3.5 Trade	7142331	4247093	3382295	6363706	10524626	10610799
3.6 Public catering and other services	669261	249027	396076	1387066	1065337	1636093
3.7 Financial sector	2500735	5732963	547	53376	2501282	5786339
3.8 Consumer loans	2635256	12130873	1441538	7006390	4076794	19137263

Deleted: É

3.9 Other sectors of economy	391052	819298	1158953	1159077	1550005	1978375

Armenian Commercial Banks - Loan Investments

(to be continued)

Thousand dram

	2004					
	Up to 1 year		1year and more		Total	
	D	A	D	F	D	F
1. Total loans, deposits, factoring, leasing, repo agreements (2+3)	27254809	54609924	18780183	55066890	46034991	109676814
1.1 Time assets	24751274	53740209	18780183	51757785	43531456	105497994
including:	20405296	43798496	18611658	49986326	39016954	93784822
interbank loans, deposits, factoring, leasing, repo agreements	1452000	9472146		971680	1452000	10443826
1.2. Prolonged assets	2071250	139181		2477784	2071250	2616965
including: loans	474147	138102		2477784	474147	2615886
interbank loans, deposits, factoring, leasing, repo agreements	500000				500000	
1.3. Overdue assets	432285	730534		831321	432285	1561855
including: loans	384907	668287			384907	668287
interbank loans, deposits, factoring, leasing, repo agreements						
2. Loans, deposits, factoring, leasing, repo agreements with non-residents	29100	9985424	820552	5092022	849652	15077446
2.1. Time assets	29001	9918706	820552	4260701	849553	14179407
2.2. Prolonged assets		22985				22985
2.3. Overdue assets	99	43733		831321	99	875054
3. Loans, deposits, factoring, leasing, repo agreements by sectors with residents, including	26885187	44067872	18300152	50531496	45185339	94599368
3.1 Industry	7514530	8738158	6062605	13277848	13577135	22016006
mining	2264938	1304208	55746	339457	2320684	1643665
energy	1338936	402953	2156088	2657440	3495024	3060393
food	1312925	4294895	2178675	6250487	3491600	10545382
light	227961	232067	233000	390547	460961	622614
chemical	13286	170734	10310	732253	23596	902987
building materials	394383	394330	390376	774231	784759	1168561
precious items	32523	217692	113013	208107	145536	425799
metallurgy		216	25168	24	25168	240
machine engineering and electrical	111000	776620	21745	342963	132745	1119583
other sectors of industry	1818578	944443	878484	1582339	2697062	2526782
3.2 Agriculture	272117	2438188	889901	5010389	1162018	7448577
3.3 Construction	633930	853748	1006467	2792545	1640397	3646293
3.4 Transport and Communication	356416	300606	184090	321375	540506	621981
3.5 Trade	7095664	7824896	5796945	10424864	12892609	18249760
3.6 Public catering and other services	1086427	1107976	1143555	1877338	2229982	2985314
3.7 Financial sector	4010520	4558892		251082	4010520	4809974
3.8 Consumer loans	5014733	17051651	2503059	14748790	7517792	31800441
3.9 Other sectors of economy	900851	1193757	713530	1827265	1614381	3021022

D - in drams (AMD) *F – in foreign currency (FC)*

Armenian Commercial Banks - Loan Investments by economy sectors and maturity

	2002					
	Up to 1 year		1 year and more		Total	
	D	F	D	F	D	F
1. Total loans, deposits, factoring, leasing, repo agreements (2+3)	12.4%	55.0%	5.5%	27.1%	17.9%	82.1%
1.1 Time assets	11.5%	48.3%	5.5%	25.9%	17.0%	74.2%
including:	11.5%	33.0%	5.2%	23.5%	16.7%	56.5%
interbank loans, deposits, factoring, leasing, repo agreements		15.3%		2.2%		17.5%
1.2. Prolonged assets	0.6%	3.4%	0.0%	1.3%	0.6%	4.6%
including: loans	0.6%	3.4%	0.0%	0.0%	0.6%	3.4%
interbank loans, deposits, factoring, leasing, repo agreements						
1.3. Overdue assets	0.3%	3.2%			0.3%	3.2%
including: loans	0.3%	3.2%			0.3%	3.2%
interbank loans, deposits, factoring, leasing, repo agreements						
2. Loans, deposits, factoring, leasing, repo agreements with non-residents	0.0%	19.3%	0.0%	4.9%	0.0%	24.1%
2.1. Time assets	0.0%	19.3%	0.0%	4.9%	0.0%	24.1%
2.2. Prolonged assets		0.0%				0.0%
2.3. Overdue assets	0.0%	0.0%			0.0%	0.0%
3. Loans, deposits, factoring, leasing, repo agreements by sectors with residents, including	11.9%	31.2%	6.0%	26.7%	17.9%	57.9%
3.1 Industry	5.4%	9.2%	2.1%	12.5%	7.5%	21.6%
Mining	0.0%	0.3%	0.0%	0.4%	0.1%	0.7%
energy	3.3%	3.2%	0.0%	4.6%	3.3%	7.8%
food	1.3%	2.9%	0.9%	4.0%	2.2%	7.0%
light	0.3%	0.1%	0.3%	0.9%	0.6%	1.0%
chemical	0.0%	0.1%	0.2%	1.5%	0.2%	1.6%
building materials	0.1%	0.1%	0.1%	0.2%	0.2%	0.3%
precious items	0.1%	0.5%	0.0%	0.0%	0.1%	0.6%
metallurgy	0.0%	0.8%	0.0%	0.3%	0.0%	1.1%
machine engineering and electrical	0.0%	0.3%	0.1%	0.2%	0.2%	0.5%
other sectors of industry	0.3%	0.8%	0.4%	0.2%	0.7%	1.1%
3.2 Agriculture	0.8%	2.9%	0.4%	3.0%	1.2%	5.9%
3.3 Construction	0.2%	0.9%	0.7%	1.2%	0.9%	2.1%
3.4 Transport and Communication	0.1%	0.3%	0.1%	0.3%	0.3%	0.5%
3.5 Trade	3.6%	4.7%	1.2%	4.6%	4.8%	9.3%
3.6 Public catering and other services	-	-	-	-	-	-
3.7 Financial sector	0.1%	2.6%		0.4%	0.1%	3.0%
3.8 Consumer loans	0.9%	9.5%	0.8%	2.5%	1.7%	12.0%
3.9 Other sectors of economy	0.7%	0.8%	0.8%	2.7%	1.5%	3.5%

Armenia Commercial Banks - Loan Investments by economy sectors and maturity
(to be continued)

	2003					
	Up to 1 year		1 year and more		Total	
	D	F	D	F	D	F
1. Total loans, deposits, factoring, leasing, repo agreements (2+3)	16.7%	45.4%	10.8%	27.1%	27.5%	72.5%
1.1 Time assets	15.8%	44.5%	10.8%	24.1%	26.5%	68.7%
including:	12.8%	27.0%	10.7%	22.6%	23.5%	49.6%
interbank loans, deposits, factoring, leasing, repo agreements	0.3%	16.6%		1.0%	0.3%	17.6%
1.2. Prolonged assets	0.5%	0.2%		2.9%	0.5%	3.2%
including: loans	0.3%	0.2%		2.2%	0.3%	2.4%
interbank loans, deposits, factoring, leasing, repo agreements						
1.3. Overdue assets	0.4%	0.7%			0.4%	0.7%
including: loans	0.4%	0.6%			0.4%	0.6%
interbank loans, deposits, factoring, leasing, repo agreements						
2. Loans, deposits, factoring, leasing, repo agreements with non-residents	0.5%	17.1%	1.5%	2.0%	2.0%	19.1%
2.1. Time assets	0.2%	17.0%	1.5%	2.0%	1.7%	19.0%
2.2. Prolonged assets		0.1%				0.1%
2.3. Overdue assets	0.3%	0.0%			0.3%	0.0%
3. Loans, deposits, factoring, leasing, repo agreements by sectors with residents, including	16.1%	28.1%	9.4%	25.3%	25.5%	53.4%
3.1 Industry	3.8%	6.4%	3.8%	9.0%	7.6%	15.5%
mining	0.0%	0.9%	0.0%	0.1%	0.0%	1.0%
energy	1.4%	1.9%	1.8%	3.1%	3.3%	5.0%
food	1.3%	2.5%	1.0%	3.3%	2.3%	5.8%
light	0.2%	0.4%	0.1%	0.3%	0.3%	0.8%
chemical	0.0%	0.0%	0.0%	0.1%	0.0%	0.2%
building materials	0.2%	0.2%	0.3%	0.5%	0.4%	0.7%
precious items	0.0%	0.1%	0.1%	0.0%	0.2%	0.1%
metallurgy	0.0%	0.0%	0.0%	0.4%	0.0%	0.4%
machine engineering and electrical	0.2%	0.1%	0.0%	0.1%	0.2%	0.2%
other sectors of industry	0.5%	0.3%	0.4%	1.1%	0.9%	1.4%
3.2 Agriculture	0.6%	3.1%	0.2%	2.2%	0.7%	5.2%
3.3 Construction	1.2%	0.5%	0.4%	1.6%	1.6%	2.1%
3.4 Transport and Communication	0.2%	0.1%	0.0%	0.2%	0.2%	0.3%
3.5 Trade	5.5%	3.3%	2.6%	4.9%	8.2%	8.2%
3.6 Public catering and other services	0.5%	0.2%	0.3%	1.1%	0.8%	1.3%
3.7 Financial sector	1.9%	4.4%	0.0%	0.0%	1.9%	4.5%
3.8 Consumer loans	2.0%	9.4%	1.1%	5.4%	3.2%	14.8%
3.9 Other sectors of economy	0.3%	0.6%	0.9%	0.9%	1.2%	1.5%

Armenia Commercial Banks - Loan Investments by economy sectors and maturity
(to be continued)

	2004					
	Up to 1 year		1year and more		Total	
	D	F	D	F	D	F
1. Total loans, deposits, factoring, leasing, repo agreements (2+3)	17.5%	35.1%	12.1%	35.4%	29.6%	70.4%
1.1 Time assets	15.9%	34.5%	12.1%	33.2%	28.0%	67.8%
including:	13.1%	28.1%	12.0%	32.1%	25.1%	60.2%
interbank loans, deposits, factoring, leasing, repo agreements	0.9%	6.1%		0.6%	0.9%	6.7%
1.2. Prolonged assets	1.3%	0.1%		1.6%	1.3%	1.7%
including: loans	0.3%	0.1%		1.6%	0.3%	1.7%
interbank loans, deposits, factoring, leasing, repo agreements	0.3%				0.3%	
1.3. Overdue assets	0.3%	0.5%		0.5%	0.3%	1.0%
including: loans	0.2%	0.4%			0.2%	0.4%
interbank loans, deposits, factoring, leasing, repo agreements						
2. Loans, deposits, factoring, leasing, repo agreements with non-residents	0.0%	6.4%	0.5%	3.3%	0.5%	9.7%
2.1. Time assets	0.0%	6.4%	0.5%	2.7%	0.5%	9.1%
2.2. Prolonged assets		0.0%				0.0%
2.3. Overdue assets	0.0%	0.0%		0.5%	0.0%	0.6%
3. Loans, deposits, factoring, leasing, repo agreements with residents by sectors, including	17.3%	28.3%	11.8%	32.5%	29.0%	60.8%
3.1 Industry	4.8%	5.6%	3.9%	8.5%	8.7%	14.1%
mining	1.5%	0.8%	0.0%	0.2%	1.5%	1.1%
energy	0.9%	0.3%	1.4%	1.7%	2.2%	2.0%
food	0.8%	2.8%	1.4%	4.0%	2.2%	6.8%
light	0.1%	0.1%	0.1%	0.3%	0.3%	0.4%
chemical	0.0%	0.1%	0.0%	0.5%	0.0%	0.6%
building materials	0.3%	0.3%	0.3%	0.5%	0.5%	0.8%
precious items	0.0%	0.1%	0.1%	0.1%	0.1%	0.3%
metallurgy		0.0%	0.0%	0.0%	0.0%	0.0%
machine engineering and electrical	0.1%	0.5%	0.0%	0.2%	0.1%	0.7%
other sectors of industry	1.2%	0.6%	0.6%	1.0%	1.7%	1.6%
3.2 Agriculture	0.2%	1.6%	0.6%	3.2%	0.7%	4.8%
3.3 Construction	0.4%	0.5%	0.6%	1.8%	1.1%	2.3%
3.4 Transport and Communication	0.2%	0.2%	0.1%	0.2%	0.3%	0.4%
3.5 Trade	4.6%	5.0%	3.7%	6.7%	8.3%	11.7%
3.6 Public catering and other services	0.7%	0.7%	0.7%	1.2%	1.4%	1.9%
3.7 Financial sector	2.6%	2.9%		0.2%	2.6%	3.1%
3.8 Consumer loans	3.2%	11.0%	1.6%	9.5%	4.8%	20.4%
3.9 Other sectors of economy	0.6%	0.8%	0.5%	1.2%	1.0%	1.9%

Appendix10

Allocation of Bank Loan Investments (%)

31.12.04	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
Loan investments allocation by economy sectors										
1. Industry	5.3	15.6	61.7	54.9	12.2	15.1	46.0	26.4	24.4	11.2
mining	0.0	0.0	0.0	12.0	0.0	0.0	0.0	0.8	0.2	0.0
energy	0.0	0.0	61.7	11.5	0.0	0.0	0.0	5.5	9.3	3.3
food	0.4	6.9	0.0	19.8	6.3	2.8	0.0	2.2	11.1	4.6
light	0.6	1.6	0.0	0.0	1.3	0.0	3.4	5.7	0.2	0.1
chemical	0.3	0.8	0.0	0.0	0.0	0.0	15.5	0.0	0.0	0.5
building materials	0.0	1.2	0.0	0.7	0.4	0.0	0.0	0.0	0.2	1.0
precious items	0.0	2.1	0.0	0.0	0.0	0.0	16.6	0.2	1.1	0.2
metallurgy	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
machine engineering and electrical	0.0	0.0	0.0	3.4	0.0	0.0	0.0	0.4	0.0	1.5
other sectors of industry	4.0	3.0	0.0	7.5	4.0	12.3	10.4	11.8	2.4	0.0
2. Agriculture	5.3	0.5	0.0	0.0	0.0	0.0	4.2	0.3	4.7	0.4
cattle breeding	3.1	0.2	0.0	0.0	0.0	0.0	4.2	0.2	0.2	0.0
plant growing	2.2	0.3	0.0	0.0	0.0	0.0	0.0	0.1	4.6	0.3
3. Construction	25.0	0.2	0.0	6.5	0.0	23.9	6.7	0.0	2.3	1.1
4. Transport and communication	0.1	2.0	0.0	0.1	0.1	0.0	0.0	0.4	0.3	0.8
5. Trade	0.1	30.8	0.2	17.3	29.5	29.9	13.5	16.9	27.2	24.7
wholesale	0.1	14.2	0.2	17.3	14.1	29.9	13.5	13.3	16.3	24.0
retail	0.0	16.6	0.0	0.1	15.4	0.0	0.0	3.5	10.9	0.7
6. Catering and other services	0.5	10.2	0.0	0.0	4.8	1.7	11.2	4.9	2.5	0.1
7.Financial sector	9.4	0.0	38.1	4.1	0.1	10.2	0.0	18.2	4.8	8.6
Including resident banks	0.0	0.0	0.0	2.3	0.0	5.1	0.0	4.5	4.6	0.0
8. Consumer loans	52.5	37.9	0.1	15.9	46.5	12.0	15.6	20.8	31.8	50.2
9. Other sectors of economy	1.9	2.9	0.0	1.1	6.9	7.2	2.9	12.2	1.8	2.9

Total by banks	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Allocation Bank Loan Investments (%)
(to be continued)

31.12.04	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15	Bank 16	Bank 17	Bank 18	Bank 19	Bank 20	Total by sectors
Loan investments allocation by economy sectors											
1. Industry	0.0	26.4	28.2	10.4	22.4	8.5	12.8	36.4	22.3	0.0	25.5
mining	0.0	0.0	3.5	0.6	2.3	0.0	0.0	9.2	1.3	0.0	2.8
energy	0.0	0.0	0.0	0.1	0.8	0.0	0.0	0.1	0.5	0.0	4.7
food	0.0	25.8	18.3	6.1	12.8	4.2	0.0	18.2	7.7	0.0	10.0
light	0.0	0.0	1.0	1.8	0.1	0.0	0.0	0.0	0.5	0.0	0.8
chemical	0.0	0.0	0.0	0.0	0.0	0.3	0.0	2.1	3.3	0.0	0.7
building materials	0.0	0.0	0.0	1.3	0.4	0.8	1.4	6.8	4.6	0.0	1.4
precious items	0.0	0.2	1.7	0.1	0.3	0.0	0.1	0.0	0.0	0.0	0.4
metallurgy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
machine engineering and electrical	0.0	0.0	0.0	0.3	0.0	0.0	1.0	0.0	1.7	0.0	0.9
other sectors of industry	0.0	0.4	3.6	0.0	5.7	3.1	10.2	0.0	2.7	0.0	3.7
2. Agriculture	0.0	0.0	0.1	35.0	19.2	0.0	2.4	2.6	1.5	0.0	6.2
cattle breeding	0.0	0.0	0.1	23.5	8.8	0.0	0.0	2.6	1.2	0.0	3.7
plant growing	0.0	0.0	0.0	11.5	10.4	0.0	2.4	0.0	0.3	0.0	2.5
3. Construction	0.0	0.3	0.6	0.4	11.3	0.0	12.4	9.0	1.7	0.0	3.8
4. Transport and communication	0.0	0.0	0.2	1.2	0.0	0.7	1.0	2.7	2.3	0.0	0.8
5. Trade	4.8	26.5	36.7	27.1	17.2	11.6	13.6	21.0	18.8	0.0	22.3
wholesale	4.8	13.8	26.0	12.0	9.1	2.2	11.6	9.9	14.4	0.0	14.6
retail	0.0	12.7	10.7	15.0	8.2	9.4	1.9	11.0	4.4	0.0	7.6
6. Catering and other services	0.0	1.0	2.9	6.5	5.0	1.1	0.0	8.0	5.3	0.0	3.7
7.Financial sector	82.1	23.4	0.0	1.9	10.9	48.6	0.0	6.4	2.9	0.0	6.3
including resident banks	82.1	19.1	0.0	0.0	2.3	0.0	0.0	0.0	2.9	0.0	1.9
8. Consumer loans	13.1	19.9	31.2	17.6	13.4	2.3	43.6	13.9	40.0	0.0	28.1
9. Other sectors of economy	0.0	2.5	0.1	0.0	0.6	27.3	14.2	0.0	5.2	0.0	3.3

Total by banks	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Appendix10

Allocation Bank Loan Investments (%)
(to be continued)

31.12.04	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
Loans to sectors by banks										
1. Industry	0.5	3.5	6.8	32.7	4.2	0.8	0.4	3.3	7.4	2.4
mining	0.0	0.0	0.0	64.3	0.0	0.0	0.0	0.9	0.6	0.0
energy	0.0	0.0	37.1	37.1	0.0	0.0	0.0	3.8	15.3	3.9
food	0.1	3.9	0.0	29.9	5.5	0.4	0.0	0.7	8.5	2.5
light	1.8	12.0	0.0	0.0	14.2	0.0	0.9	23.5	1.5	0.5
chemical	1.1	6.8	0.0	0.0	0.0	0.0	4.8	0.0	0.0	4.3
building materials	0.0	4.9	0.0	7.0	2.8	0.0	0.0	0.0	1.3	4.0
precious items	0.0	29.7	0.0	0.0	0.0	0.0	8.4	1.3	21.3	2.4
metallurgy	0.0	0.0	0.0	0.0	73.7	0.0	0.0	0.0	0.9	0.0
machine engineering and electrical	0.0	0.0	0.0	57.4	0.0	0.0	0.0	1.3	0.0	9.3
other sectors of industry	2.5	4.5	0.0	30.4	9.3	4.6	0.6	10.1	4.9	0.0
2. Agriculture	2.0	0.5	0.0	0.0	0.0	0.0	0.1	0.2	5.9	0.3
cattle breeding	1.9	0.3	0.0	0.0	0.0	0.0	0.2	0.2	0.4	0.0
plant growing	2.0	0.7	0.0	0.0	0.0	0.0	0.0	0.2	14.0	0.7
3. Construction	15.1	0.3	0.0	26.2	0.1	8.8	0.4	0.0	4.7	1.6
4. Transport and communication	0.2	14.0	0.0	1.6	0.6	0.0	0.0	1.7	3.1	5.6
5. Trade	0.0	7.8	0.0	11.8	11.5	1.9	0.1	2.4	9.4	6.1
wholesale	0.0	5.5	0.0	17.9	8.4	2.9	0.2	2.9	8.6	9.0
retail	0.0	12.3	0.0	0.2	17.5	0.0	0.0	1.5	11.0	0.5
6. Catering and other services	0.3	15.5	0.0	0.1	11.1	0.7	0.6	4.2	5.3	0.1
7.Financial sector	3.4	0.0	17.0	9.8	0.2	2.3	0.0	9.3	5.9	7.5
including resident banks	0.0	0.0	0.0	18.5	0.0	3.8	0.0	7.6	19.0	0.0
8. Consumer loans	4.3	7.7	0.0	8.6	14.4	0.6	0.1	2.4	8.7	9.8
9. Other sectors of economy	1.3	4.9	0.0	4.9	18.1	3.0	0.2	11.8	4.2	4.8
Total by banks	2.3	5.7	2.8	15.1	8.7	1.4	0.2	3.2	7.7	5.5

Allocation Bank Loan Investments (%)
(to be continued)

31.12.04	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15	Bank 16	Bank 17	Bank 18	Bank 19	Bank 20	Total by sectors
Loans to sectors by banks											
1. Industry	0.0	1.4	7.4	4.8	5.3	0.6	1.1	5.6	12.0	0.0	100.0
mining	0.0	0.0	8.3	2.3	4.9	0.0	0.0	12.6	6.1	0.0	100.0
energy	0.0	0.0	0.0	0.3	1.1	0.0	0.0	0.1	1.4	0.0	100.0
food	0.0	3.4	12.2	7.0	7.7	0.7	0.0	7.0	10.6	0.0	100.0
light	0.0	0.0	9.0	27.2	0.7	0.0	0.0	0.0	8.8	0.0	100.0
chemical	0.0	0.0	0.0	0.7	0.0	0.9	0.0	12.3	69.1	0.0	100.0
building materials	0.0	0.0	0.0	11.3	1.7	1.0	2.2	19.0	44.8	0.0	100.0
precious items	0.0	0.6	28.0	2.0	4.4	0.0	0.5	0.0	1.3	0.0	100.0
metallurgy	0.0	0.0	0.0	25.3	0.0	0.0	0.0	0.0	0.0	0.0	100.0
machine engineering and electrical	0.0	0.0	0.0	4.0	0.0	0.0	2.5	0.0	25.4	0.0	100.0
other sectors of industry	0.0	0.1	6.5	0.0	9.2	1.4	5.9	0.0	10.0	0.0	100.0
2. Agriculture	0.0	0.0	0.1	66.4	18.7	0.0	0.8	1.6	3.3	0.0	100.0
cattle breeding	0.0	0.0	0.2	75.1	14.4	0.0	0.0	2.8	4.5	0.0	100.0
plant growing	0.0	0.0	0.0	53.7	25.1	0.0	2.1	0.0	1.5	0.0	100.0
3. Construction	0.0	0.1	1.1	1.1	18.0	0.0	7.1	9.2	6.3	0.0	100.0
4. Transport and communication	0.0	0.0	1.6	16.8	0.1	1.3	2.7	12.7	38.1	0.0	100.0
5. Trade	0.0	1.6	11.0	14.2	4.6	0.9	1.3	3.7	11.6	0.0	100.0
wholesale	0.1	1.2	11.9	9.6	3.7	0.3	1.7	2.6	13.5	0.0	100.0
retail	0.0	2.2	9.4	23.0	6.4	2.1	0.5	5.6	7.9	0.0	100.0
6. Catering and other services	0.0	0.3	5.1	20.5	8.0	0.5	0.0	8.3	19.4	0.0	100.0
7.Financial sector	2.8	4.9	0.0	3.4	10.4	12.9	0.0	4.0	6.2	0.0	100.0
including resident banks	9.5	13.3	0.0	0.0	7.4	0.0	0.0	0.0	20.9	0.0	100.0
8. Consumer loans	0.1	0.9	7.4	7.3	2.9	0.1	3.3	1.9	19.5	0.0	100.0
9. Other sectors of economy	0.0	1.0	0.2	0.0	1.0	13.8	9.2	0.0	21.6	0.0	100.0

Total by banks	0.2	1.3	6.7	11.7	6.0	1.7	2.2	3.9	13.7	0.0	100.0

Appendix11

Non-performing and whiten off loans and receivables of Armenian Banks

Thousand dram

	2003				2004			
	Non-performing assets		Off-balance sheet		Non-performing assets		Off-balance sheet	
	D	F	D	F	D	F	D	F
Non-performing and off-balance sheet assets /total/	**3296309**	**3017724**	**2367213**	**8383639**	**1153634**	**3098191**	**4146844**	**8525540**
1. Residents non-performing and off-balance sheet assets, total	1982143	2839671	2286832	7855268	1152544	2218564	4032290	7645610
1. 1. Industry	464670	675222	603497	1716375	187527	530234	868169	1228299
mining	13160	0	170087	0	0	0	0	0
energy	0	0	0	136955	0	0	4947	117559
food	224190	286441	208903	542422	148861	67544	281033	433520
light	24700	284855	181941	336793	14407	2196	11789	172516
chemical	0	19618	170	184520	6000	38867	165747	143201
building materials	4000	0	0	6940	3171	91136	37080	5956
precious items	124350	4081	10102	514	0	160169	10102	18675
metallurgy	0	0	0	25927	0	0	0	0
machine engineering and electrical	2000	39619	0	393936	87	0	313717	248736
other sectors of industry	72270	40608	32294	88368	15001	170322	43754	88136
1.2. Agriculture	24391	98895	39457	293482	44560	128799	31076	220328
1.3. Construction	286900	42763	130678	168674	217679	9558	203472	142239
1.4. Transport and communication	12673	40858	0	53596	359	31123	2315	50818
1.5. Trade	467541	467884	128210	1896669	217412	204651	209454	1944581
1.6. Public catering and other services	762	269893	33569	63153	13007	113984	72968	119680
1.7. Financial sector	0	0	1510	16923	0	0	2348	647049
1.8. Consumer loans	260423	1173912	136417	1596549	372835	1063288	701089	1637456
1.9. Other sectors of economy	464783	70244	1213494	2049847	99165	136927	1941398	1655160
2 Non- Residents non-performing and off-balance sheet assets, total	1314166	178053	80381	528372	1090	879627	114554	879930

Appendix 12

Accrued allowances on loans, receivables and off-balance sheet items containing credit risk

Thousand drams

Loans	Loan investments	Share	Allowances on loans granted	
			balance	%
	31.12.02			
1. Standard	100730866	92.6%	1007477	1.00%
2. Watch	3191078	2.9%	319197	10.00%
3. Non-standard	2635882	2.4%	527180	20.00%
4. Doubtful	2175946	2.0%	1087973	50.00%
Total	**108733773**	**100%**	**2941826**	**2.71%**

Loans	Loan investments	Share	Allowances on loans granted	
			balance	%
	31.12.03			
1. Standard	116311522	95.1%	1163114	1.00%
2. Watch	4183038	3.4%	418301	10.00%
3. Non-standard	869127	0.7%	173820	20.00%
4. Doubtful	918881	0.8%	459443	50.00%
Total	**122282567**	**100%**	**2214677**	**1.81%**

Loans	Loan investments	Share	Allowances on loans granted	
			balance	%
	31.12.04			
1. Standard	143958286	97.9%	1559821	1.08%
2. Watch	1544424	1.1%	154437	10.00%
3. Non-standard	388502	0.3%	77701	20.00%
4. Doubtful	1123196	0.8%	561598	50.00%
Total	**147014408**	**100%**	**2353555**	**1.60%**

Accrued allowances on loans, receivables and off-balance sheet items containing credit risk

(to be continued)

Thousand dram

Receivables	Receivables	Share	Allowances on receivable	
			balance	%
	31.12.02			
1. Standard	55012535	98.5%	550383	1.00%
2. Watch	456144	0.8%	68426	15.00%
3. Non-standard	188061	0.3%	37613	20.00%
4. Doubtful	196542	0.4%	98271	50.00%
Total	**55853282**	**100%**	**754693**	**1.35%**

Receivables	Receivables	Share	Allowances on receivable	
			balance	%
	31.12.03			
1. Standard	70429076	99.4%	704303	1.00%
2. Watch	359879	0.5%	35988	10.00%
3. Non-standard	62119	0.1%	12423	20.00%
4. Doubtful	17210	0.0%	8606	50.01%
Total	**70868284**	**100%**	**761320**	**1.07%**

Receivables	Receivables	Share	Allowances on receivable	
			balance	%
	31.12.04			
1. Standard	96445229	98.8%	964455	1.00%
2. Watch	284979	0.3%	28497	10.00%
3. Non-standard	21649	0.0%	4329	19.99%
4. Doubtful	889077	0.9%	444539	50.00%
Total	**97640935**	**100%**	**1441820**	**1.48%**

Accrued allowances on loans, receivables and off-balance sheet items containing credit risk
(to be continued)

Thousand dram

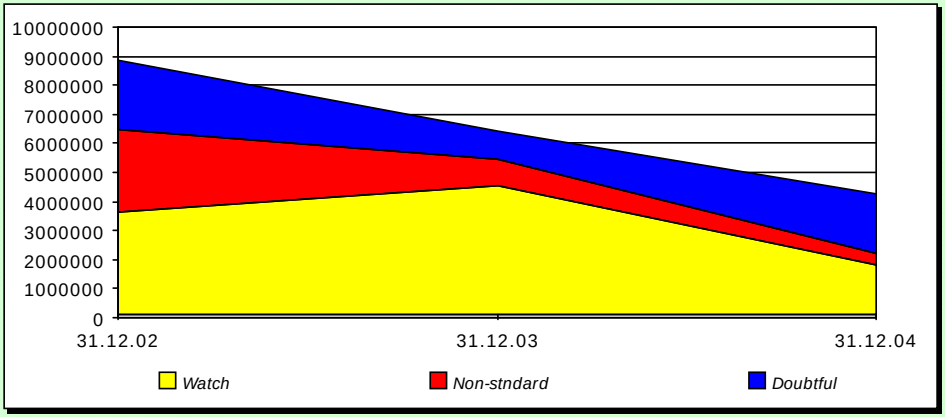
Off-balance sheet items	Off-balance sheet items	Share	Allowances on off-balance sheet items	
			balance	%
	31.12.02			
1. Standard	10926721	96.7%	109267	1.00%
2. Watch	320118	2.8%	32012	10.00%
3. Non-standard	2027	0.0%	405	20.00%
4. Doubtful	11698	0.1%	5849	50.00%
Total	**11301507**	**100%**	**188476**	**1.67%**

Off-balance sheet items	Off-balance sheet items	Share	Allowances on off-balance sheet items	
			balance	%
	31.12.03			
1. Standard	16025363	97.5%	160281	1.00%
2. Watch	330672	2.0%	33067	10.00%
3. Non-standard	27159	0.2%	5432	20.00%
4. Doubtful	48653	0.3%	24327	50.00%
Total	**16431847**	**100%**	**223106**	**1.36%**

Off-balance sheet items	Off-balance sheet items	Share	Allowances on off-balance sheet items	
			balance	%
	31.12.04			
1. Standard	19813976	98.9%	198141	1.00%
2. Watch	16781	0.1%	1678	10.00%
3. Non-standard	493	0.0%	99	20.00%
4. Doubtful	5190	0.0%	2595	50.00%
Total	**20038615**	**100%**	**404688**	**2.02%**

Appendix 13

Dynamic of non-performing loans, receivables



Appendix 14

Armenian Commercial Banks - Cash flows*

Thousand dram

	2003	2004				2004
		I	II	III	IV	
Net cash flows from operational activity	**38879263**	**-4129398**	**15470**	**22630739**	**5399670**	**31845176**
Net cash flow before a change in operational assets and liabilities	***20997434***	***5161588***	***5440845***	***7091854***	***7252960***	***32590941***
Interest received on loans	***16548750***	***4452290***	***5190981***	***5384684***	***6050586***	***21072791***
Net commission received	5985337	1478636	1861575	2062772	2300166	7586280
Net income from repo agreements	159078	49684	43936	27559	26654	147833
Net income from marketable securities	239344	88349	204245	84983	64914	442491
Net income from FX purchase and sale	2340676	747819	730923	1041154	1172314	3693331
Interest paid on accounts and deposits attracted	-5218436	-1248043	-1382522	-1405309	-1590659	-5599095
Income from leasing and factoring operations	68545	170864	199538	189936	195387	755725
Interest received on deposits allocated	1028683	278869	263202	365164	436465	1344947
Interest paid on loans attracted	-1083521	-371465	-288127	-430817	-300754	-1390073
Interest paid on financial activity	-25013	-9968	-9511	-9146	-8784	-37409
Salary and salary-equivalent pays	-5507685	-1616426	-1686284	-1912223	-2361140	-7598521
Taxes paid	-1801436	-504767	-1359657	-675201	-454926	-2995255
Collection of loans written off	3601051	775592	564146	794544	1080728	3221816
Collection of receivables written off	395444	124539	267468	704578	52597	8896869
Income from investment activity	4264577	665721	837146	864641	592800	2964384
Dividends received	2040	79894	3786	4536	-3389	84827
Net cash flow from a change in operational assets and liabilities	17881829	-9290986	-5425376	15538885	-1853290	-745764
Decrease (increase) in loan investments	***-30430902***	***-7904963***	***-14979214***	***-10522026***	***-8743062***	***-42125806***
Increase (decrease) in deposits attracted)	51600612	16875521	-2043455	24611183	9741811	49036853
Decrease (increase) in securities held through repo agreements	1343198	-1271513	-2586439	1822909	241075	-1918968

Increase (decrease) in securities sold through repo agreements	-713850	475000	422000	-275000	2010850	2757850
Decrease (increase) in marketable securities	-1169577	-17277884	15070321	1293164	-2671734	-3587569
Decrease (increase) in factoring operations	-1834770	-124772	44921	-8477	-720529	-808857
Decrease (increase) in assets provided for leasing	0	0	0	419	10730	11149
Net cash flow from other operational activity	-912882	-62375	-1353510	-1383288	-1722431	-4110417
including: on derivatives	-1374	-14	-1162	1176	-6224	-6224
including: fines and penalties paid	218083	71071	89922	92123	67850	292632
Net cash flow from investment activities	**-10403035**	**-4512547**	**2720012**	**-1229484**	**7022158**	**-3794810**
Decrease (increase) in securities held up to maturity	***-1486100***	***-1665121***	***-917288***	***26395***	***1369294***	***-8948591***
Decrease (increase) in investment in non-term securities	-636554	8615	-157	862	5541	16297
Decrease (increase) in deposits with other banks	-3560348	-2395437	5220684	-737094	9399540	11488282
Disposal (acquisition) of fixed assets and non-tangible assets	-4812847	-150499	-903737	-645953	-2759504	-4494878
Net money flow from other investment activities	92814	-310105	-679490	126306	-992713	-1855920
Cash flow from financial activity	**6154843**	**7032382**	**-1672591**	**-1079688**	**7259159**	**11551098**
Dividends paid	***-1511611***	***-400103***	***-433696***	***-620546***	***-848331***	***-2302676***
Increase (decrease) in loans received from the Central Bank	1500000	0	2700000	300000	0	3000000
Increase (decrease) in loans received from banks	-177075	8094604	-5709618	-1747010	1238483	2533321
Increase (decrease) in other borrowings	852439	4486	386611	641031	1345554	1689898
Increase (decrease) in proceeds from leasing	20460	887	1071	0	116736	118694
Increase (decrease) in securities issued by bank	562266	-562266	0	0	3400880	2838614
Shareholders contribution to statutory fund	5126038	281335	778631	257705	875231	2242680
Net money flow from other financial activities	-217674	-386561	604410	89132	1130606	1430567
FX impact on cash funds and their equivalents	-261207	-223074	-1163211	-969752	-477378	-2781264

Net growth of cash flows	**34369864**	**-1832637**	**-100321**	**19351815**	**19203609**	**36820200**
Cash and cash equivalents net, at the beginning of the period	***68554513***	***97680897***	***95988931***	***95888610***	***115272397***	***97680897***
including: funds with a limited use	718986	1421412	764524	895240	825139	1412721
Impact of indicators of banks, removed from the banking system, on the cash and cash-equivalents	-5253996					-25109
Cash and cash equivalents net, at the end of the period	97670381	95848260	95888610	115240425	134476006	134475988
including: funds with a restricted use	1411074	764524	897484	825139	825139	2304804
Note						
1. Assets written off to off-balance sheet during a quarter (year)	8030638	882777	1617473	731372	1366172	1366172
including: loans	6443335	852268	1304836	634084	1311179	1311179
receivables	1586971	43623	312637	97288	54993	54993
2. Repayment of assets written off to off-balance sheet during a quarter (year)	5196956	909398	803142	1505514	1181041	1181041
including: loans	4797689	784600	546084	800936	1128361	1128361
receivables	399267	126466	257058	704578	52679	52679
3. Interest written off to off-balance sheet during a quarter (year)	1012412	76634	192025	109213	103991	103991
4. Repayment of interest written off to off-balance sheet during a quarter (year)	1224503	109022	115028	132474	165594	165594

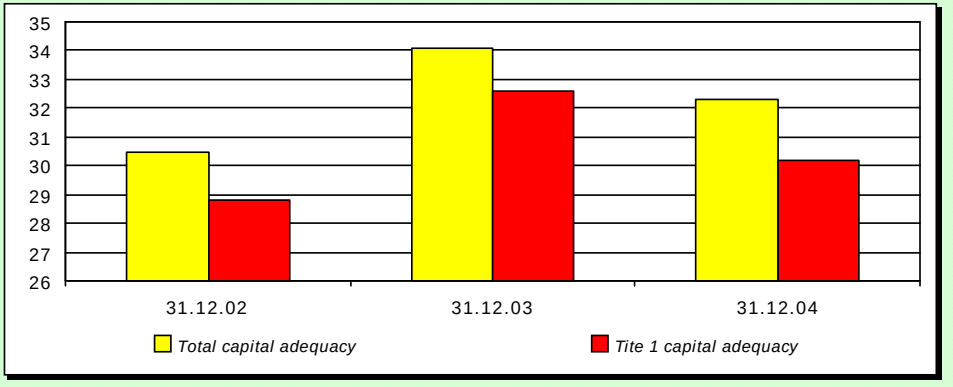
** 2004 annual data are represented in the table with respect to 19 banks acting within I – III quarters under general supervision, and 20 banks within IV quarter as at yearend.*

Appendix15

Main prudential regulations of banks

%

	31.12.02	31.12.03	31.03.04	31.06.04	30.09.04	31.12.04
Total capital adequacy	30.5	34.1	35.5	34.3	33.7	32.3
Tire 1 capital adequacy	28.8	32.6	33.5	32.3	31.7	30.2
Total liquidity	44.5	48.1	46.5	44.6	47.6	47.1
Current liquidity	108.8	101.4	100.3	96.1	99.9	98.7
Maximum risk on a single borrower	27.4	12.5	12.9	14.7	13.0	14.7
Maximum risk on a bank related party	0.9	2.4	1.9	2.1	1.9	1.7
Maximum risk on all bank related parties	2.9	6.1	5.1	5.7	5.2	3.8



Appendix 16

Armenian Credit Organizations and Branches

31.12.2004

	Credit organizations	Branches	
		31.12.2003	31.12.2004
1	"Arfin" credit union	-	-
2	" Agroleasing" credit organization	-	-
3	"ACBA leasing" credit organization	-	-
4	"SEF international" universal credit organization	1	2
5	"Express-credit" universal credit organization	-	-
6	"Gladzor" universal credit organization|		
7	"First mortgage company" universal credit organization		-
8	"Izmiryan-Eurasia" universal credit organization		-
9	"Cascade-credit" universal credit organization		-
	Total	**1**	**2**

Armenian Credit Organizations - Survey balance sheet indicators of the banking system

Thousand dram

			31.12.2003	31.03.2004	Change 31.03.04-31.12.03	30.06.2004	Change 30.06.04-31.03.04
Assets	Cash		104908	154398	47.2%	69926	-54.7%
	Claims on the CBA						
	Current accounts with the banks		225467	325772	44.5%	341609	4.9%
	Claims on banks and other financial institutions		56600	25835	-54.4%	74673	189.0%
	Government securities		314008	291058	-7.3%	149620	-48.6%
	Loans to legal entities		393365	210295	-46.5%	251195	19.4%
	Loans to individuals		1007475	1061788	5.4%	1312951	23.7%
	Loans to bank related parties and employees		103098	776	-99.2%	22535	2804.0%
	Fixed assets		196489	396893	102.0%	479600	20.8%
	Leasing, factoring		945222	616192	-34.8%	510309	-17.2%
	Other securities						
	Other assets		347333	195805	-43.6%	414883	111.9%
	Interest receivable		12632	14227	12.6%	20898	46.9%
	Possible asset loss allowances		-163557	-59664	-63.5%	-93292	56.4%
	Total assets		**3543040**	**3233375**	-8.7%	**3554907**	9.9%
Liabilities	Demand liabilities						
	Liabilities to banks and other financial organizations		717715		-100.0%	36880	
	Time liabilities to individuals		107540	184049	71.1%	223562	21.5%
	Time liabilities to legal entities*		23206	941969	3959.2%	811397	-13.9%
	Interest payable		5206	14368	176.0%	8365	-41.8%
	Other liabilities		479064	252715	-47.2%	232294	-8.1%
	Total liabilities		**1332731**	**1393101**	**4.5%**	**1312499**	**-5.8%**
Equity	Paid - in capital		2180718	2180718		2335110	7.1%
	including: non-resident share participation		783643	783643		951499	21.4%
	General Reserve		41234	181406	339.9%	181406	
	Credit organizations capital purchased back		-13545	-13545		-180250	1230.7%
	Undistributed profit (loss)	Current period	-168110	-154525	-8.1%	141989	-191.9%
		Previous period	32634	-216366	-763.0%	-235847	9.0%
	Total balance sheet equity		**2210309**	**1977688**	**-10.5%**	**2242408**	**13.4%**
	Note Total number of credit organizations		6	6		7	

** Including liabilities to the government*

Armenian Credit Organizations - Survey balance sheet indicators of the credit organizations

(to be continued)

Thousand dram

		30.09.04	öá÷áËáõÃÛáõÝÁ 30.09.04-30.06.04	31.12.2004	öá÷áËáõÃÛáõÝÁ 31.03.04-30.09.04	öá÷áËáõÃÛáõÝÁ 31.12.04-31.12.03
Assets	Cash	40180	-42.5%	57256	42.5%	-45.4%
	Claims on the CBA					
	Current accounts with banks	762657	123.3%	1141378	49.7%	406.2%
	Claims on banks and other financial institutions					
	Liabilities to banks and other financial organizations	380799	410.0%	510734	34.1%	802.4%
	Government securities	66538	-55.5%		-100.0%	-100.0%
	Loans to legal entities	385947	53.6%	702302	82.0%	78.5%
	Loans to individuals	1462747	11.4%	1595211	9.1%	58.3%
	Loans to bank related parties and employees	85945	281.4%	95332	10.9%	-7.5%
	Fixed assets	248021	-48.3%	243626	-1.8%	24.0%
	Leasing, factoring	581652	14.0%	856549	47.3%	-9.4%
	Other securities					
	Other assets	408929	-1.4%	531844	30.1%	53.1%
	Interest receivable	30895	47.8%	41184	33.3%	226.0%
	Possible asset loss allowances	-93764	0.5%	-132217	41.0%	-19.2%
	Total assets	**4360546**	**22.7%**	**5643200**	**29.4%**	**59.3%**
Liabilities	Demand liabilities					
	Liabilities to banks and other financial organizations	287147	678.6%	788773	174.7%	9.9%
	Time liabilities to individuals	289734	29.6%	580919	100.5%	440.2%
	Time liabilities to legal entities*	764162	-5.8%	733301	-4.0%	3060.0%
	Interest payable	10454	25.0%	11745	12.4%	125.6%
	Other liabilities	342464	47.4%	266282	-22.2%	-44.4%
	Total liabilities	**1693961**	**29.1%**	**2381020**	**40.6%**	**78.7%**
Equity	Paid- in capital	3009245	28.9%	3659071	21.6%	67.8%
	Including: non-residents share participation	1603837	68.6%	1947435	21.4%	148.5%
	General Reserve	42558	-76.5%	42558		3.2%
	Credit organization`s capital purchased back	-180250		-473200	162.5%	3393.5%
	Undistributed profit Current period	-86172	-160.7%	152546	-277.0%	-190.7%

	(loss)	Previous period	-257644	9.2%	-257644	0.0%	-889.5%
	Total balance sheet equity		2666585	18.9%	3262179	22.3%	47.6%

** Including liabilities to the government*

Formatted: Bullets and Numbering

Appendix 18

Armenian Credit Organizations - survey balance sheet indicators structure

			31.12.2003	31.03.2004	Change 31.03.04-31.12.03	30.06.2004	Change 30.06.04-31.03.04
Assets	Cash		3.0%	4.8%	1.8%	2.0%	0.2%
	Claims on the CBA						
	Current accounts with banks		6.4%	10.1%	3.7%	9.6%	5.9%
	Claims on banks and other financial institutions		1.6%	0.8%	-0.8%	2.1%	2.9%
	Government securities		8.9%	9.0%	0.1%	4.2%	4.1%
	Loans to legal entities		11.1%	6.5%	-4.6%	7.1%	11.7%
	Loans to individuals		28.4%	32.8%	4.4%	36.9%	32.5%
	Loans relatied to bank parties and employees		2.9%	0.0%	-2.9%	0.6%	3.5%
	Fixed assets		5.5%	12.3%	6.7%	13.5%	6.8%
	Leasing, factoring		26.7%	19.1%	-7.6%	14.4%	22.0%
	Other securities						
	Other assets		9.8%	6.1%	-3.7%	11.7%	15.4%
	Interest receivable		0.4%	0.4%	0.1%	0.6%	0.5%
	Possible asset loss allowances		-4.6%	-1.8%	2.8%	-2.6%	-5.4%
	Total assets		**100.0%**	**100.0%**		**100.0%**	**100.0%**
Liabilities	Demand liabilities						
	Liabilities to banks and other financial institutions		53.9%		-53.9%	2.8%	56.7%
	Time liabilities to individuals		8.1%	13.2%	5.1%	17.0%	11.9%
	Time liabilities to legal entities*		1.7%	67.6%	65.9%	61.8%	-4.1%
	Interest payable		0.4%	1.0%	0.6%	0.6%	0.0%
	Other liabilities		35.9%	18.1%	-17.8%	17.7%	35.5%
	Total liabilities		**100.0%**	**100.0%**		**100.0%**	**100.0%**
Equity	Paid- in capital		98.7%	110.3%	11.6%	104.1%	92.5%
	Including: non-residents share participation		35.5%	39.6%	4.2%	42.4%	38.3%
	General Reserve		1.9%	9.2%	7.3%	8.1%	0.8%
	Credit organizations capital purchased back		-0.6%	-0.7%	-0.1%	-8.0%	-8.0%
	Undistributed profit (loss)	Current period	-7.6%	-7.8%	-0.2%	6.3%	6.5%
		Previous period	1.5%	-10.9%	-12.4%	-10.5%	1.9%
	Total balance sheet equity		**100.0%**	**100.0%**		**100.0%**	**100.0%**

** Including liabilities to the government*

Armenian Credit Organizations – survey balance sheet indicators
(to be continued)

			30.09.04	Change 30.09.04-30.06.04	31.12.2004	Change 31.03.04-30.09.04	Change 31.12.04-31.12.03
Assets	Cash		0.9%	0.8%	1.0%	0.2%	-1.9%
	Claims on the CBA						
	Current accounts with banks		17.5%	11.6%	20.2%	8.6%	13.9%
	Claims on banks and other financial institutions		8.7%	5.8%	9.1%	3.2%	7.5%
	Government securities		1.5%	-2.5%		2.5%	-8.9%
	Loans to legal entities		8.9%	-2.8%	12.4%	15.3%	1.3%
	Loans to individuals		33.5%	1.0%	28.3%	27.3%	-0.2%
	Loans relatied to bank parties and employees		2.0%	-1.5%	1.7%	3.2%	-1.2%
	Fixed assets		5.7%	-1.1%	4.3%	5.4%	-1.2%
	Leasing, factoring		13.3%	-8.6%	15.2%	23.8%	-11.5%
	Other securities						
	Other assets		9.4%	-6.0%	9.4%	15.5%	-0.4%
	Interest receivable		0.7%	0.2%	0.7%	0.5%	0.4%
	Possible asset loss allowances		-2.2%	3.2%	-2.3%	-5.6%	2.3%
	Total assets		**100.0%**		**100.0%**	**100.0%**	
Liabilities	Demand liabilities						
	Liabilities to banks and other financial institutions		17.0%	-39.7%	33.1%	72.8%	-20.7%
	Time liabilities to individuals		17.1%	5.2%	24.4%	19.2%	16.3%
	Time liabilities to legal entities *		45.1%	49.2%	30.8%	-18.4%	29.1%
	Interest payable		0.6%	0.6%	0.5%	-0.1%	0.1%
	Other liabilities		20.2%	-15.3%	11.2%	26.5%	-24.8%
	Total liabilities		**100.0%**		**100.0%**	**100.0%**	
Equity	Paid- in capital		112.9%	20.3%	112.2%	91.8%	13.5%
	Including : non-residents share participation		60.1%	21.9%	59.7%	37.8%	24.2%
	General Reserve		1.6%	0.8%	1.3%	0.5%	-0.6%
	Credit organizations capital purchased back		-6.8%	1.2%	-14.5%	-15.7%	-13.9%
	Undistributed profit (loss)	Current period	-3,2%	-9,8%	4,7%	14,4%	12,3%
		Previous period	-9,7%	-11,6%	-7,9%	3,7%	-9,4%
	Total balance sheet equity		**100.0%**		**100.0%**	**100.0%**	

** Included liabilities government*

Appendix 19

Armenian Credit Organizations -Income and Expense

Thousand dram

	31.12.03	31.03.04	30.06.04	30.09.04	31.12.04	Change 31.12.04- 31.12.03
Interest income	471119	121442	274465	418972	597829	126710
Interest expense	172442	18369	36494	79432	111339	-61103
Net interest income	*298677*	*103073*	*237972*	*339540*	*486490*	*187813*
Non interest income	242820	55274	96285	122199	127577	-115243
Non interest expense	401287	110350	233139	455940	614034	212747
Net non interest income	*-158467*	*-55076*	*-136854*	*-333741*	*-486457*	*-327990*
Provision to loan and receivable possible loss aloowances	988107	324317	387206	638547	773000	-215107
Recovery from loan and receivable possible loss allowances	517203	121106	428503	547002	961582	444379
Net provisions	*470904*	*203211*	*-41297*	*91545*	*-188582*	*-659486*
Gross income	1231142	297822	799253	1088173	1686988	455846
Gross expense	1561836	453036	656838	1173919	1498373	-63463
Pre-tax profit	-330694	-155214	142415	-85746	188615	519309
Net profit	-343974	-155640	141989	-86172	155461	499435
Undistributed profit	*-343974*	*-155640*	*141989*	*-86172*	*155461*	*499435*

Appendix 20

Armenian Credit Organizations - Loan Investments

	31.12.03	31.03.04	30.06.04	30.09.04	31.12.04	Change 31.12.04-31.12.03
Industry	763821	603769	497017	731976	1025809	34.3%
Agriculture	280894	220855	312495	337906	400071	42.4%
Construction		44924	88759	117329	97000	100%
Transport and Communication		2376	2232	12570	70444	100%
Trade	266955	249538	110849	111360	204310	-23.5%
Financial sector	56600	25835	74553	329771	465348	722.2%
Consumer loans	471427	597304	862576	1003408	1172954	148.8%
Other sectors	499399	166536	234475	249933	321610	-35.6%
Total	**2339096**	**1911137**	**2182956**	**2894253**	**3757546**	**60.6%**

Appendix 21

Armenian Credit Organizations - Loans Investments Structure by Economy Sectors

	31.12.03	31.03.04	30.06.04	30.09.04	31.12.04	Change 31.12.04- 31.12.03
Industry	32.7%	31.6%	22.8%	25.3%	27.3%	-5.4%
Agriculture	12.0%	11.6%	14.3%	11.7%	10.6%	-1.4%
Construction		2.4%	4.1%	4.1%	2.6%	2.6%
Transport and Communication		0.1%	0.1%	0.4%	1.9%	1.9%
Trade	11.4%	13.1%	5.1%	3.8%	5.4%	-6.0%
Financial sector	2.4%	1.4%	3.4%	11.4%	12.4%	10.0%
Consumer loans	20.2%	31.3%	39.5%	34.7%	31.2%	11.1%
Other sectors	21.4%	8.7%	10.7%	8.6%	8.6%	-12.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	

Appendix 22

Armenian Credit Organizations - Loans Investments Structure by Risk Categories

	31.12.03	Share in total	31.03.04	Share in total	30.06.04	Share in total	30.09.04	Share in total	31.12.04	Share in total
Standard	1995315	74.8%	**2150282**	89.3%	2601288	89.8%	3648169	90.7%	4814781	89.2%
Watch	466344	17.5%	**149059**	6.2%	164302	5.7%	309655	7.7%	353216	6.5%
Non-standard	7845	0.3%	**103719**	4.3%	50296	1.7%	19022	0.5%	216971	4.0%
Doubtful	196267	7.4%	**4992**	0.2%	81581	2.8%	44949	1.1%	10707	0.2%
Bad loans		x		x		x		x		x
Total	**2665771**	**100.0%**	**2408052**	**100.0%**	**2897467**	**100.0%**	**4021795**	**100.0%**	**5395675**	**100.0%**