CENTRAL BANK OF THE REPUBLIC OF ARMENIA

BANKING SYSTEM OF ARMENIA

DEVELOPMENT
SUPERVISION
REGULATION

2006

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PREFACE

The recent trends of stable development in the macroeconomic environment, which have positively affected the developments in the banking system as well, continued in 2005.

In the reporting year, financial intermediation of the banking system has risen, and the measures carried out in that direction in the last couple of years have contributed to such an advance. Those undertakings have ensured an inflow of financial resources into the banking sector, while established mechanisms of lending and economic activity have considerably enlarged the volumes of loans. Performing on a competitive field, the banking sector has attracted broader circles of customers in the reporting year. Rising financial intermediation provides evidence that the banking system has enough potential for expansion and magnification under a sustainable economic development.

Under faster growth rates of assets of the banking system (21.2 percent) and loans to the economy (39.1 percent), in relation to the nominal GDP growth of 17.5 percent, the ratios of banking system assets/GDP and banking system loans/GDP have risen by 0.6 pp. and 1.3 pp. to 19.8 percent and 8.3 percent, respectively. However, the level of financial intermediation in Armenia is still too low[1].

As an indicator of the level of financial intermediation, a relatively higher interest rates spread in Armenia is witnessing an insufficient financial intermediation of the country's financial system. In 2005, the interest rates spread of the Armenian banks remained high, ranging between 13-16 percent, which is high enough in relation to the 5 percent spread in Baltic and Central European countries.

High spread is mostly a result of a limited supply of loans under large demand. The demand for long-term loans is currently growing but 'long' savings in the economy are not observable, and the mismatches in attraction and allocation of financial resources generate a need for additional coverage against losses expected from other risks (liquidity, interest rate). To this effect in 2006, the Central Bank will embark on implementing supervision of other market participants (insurance market, securities market) and take several actions to develop these sectors, as strong presence of insurance and securities markets is a vital precondition for creation of long-term funds in the economy.

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[1] *The ratio of banking system assets/GDP in some European and CIS countries is 50 percent and over.*

Implementing a policy of sustained development and minimization of risks in the banking system, the Central Bank highlighted the importance of introducing core principles of corporate governance in 2005. To this end, both the legislative amendments and supervision have mainly pursued the above-said policy. In 2005, RA Law on Changes and Addenda to the Law on Banks and Banking was adopted establishing legal status of banks' management bodies, particularly general meeting of participants, board, executive body and chief accountant of the bank, determining organizational criteria, and other provisions for corporate governance.

Target inspections in banks in 2005 were carried out to identify weaknesses in internal control mechanisms at banks. The main purpose of these inspections was the study of the 'Observance of minimum internal control implementation requirements and risk management system in banks'.

As a result of consistent policies exercised by banks and the Central Bank, the current risks in the Armenian banking system are in a manageable band.

The banking sector in 2005 showed certain encouraging developments:

- Currency structure of banking system assets and liabilities changed notably; dram denominated assets and liabilities increased by 49 percent and 44 percent and foreign currency denominated assets and liabilities increased by 4 percent and 5 percent, respectively, which resulted in an impressive enlargement of the share of dram assets and liabilities;
- Currency structure of deposits changed considerably, too, as deposits grew entirely owing to the growth of dram denominated deposits, resulting in a broader share of dram deposits;
- Statutory fund of the banking system had an incredible growth of 50 percent;
- Volumes of lending increased sharply, by 39 percent, pushing the share of loans in total loans to grow by 5.4 percent to make up 41.8 percent at year-end.

Loans grew in number by 35 percent and amounted to 222.4 thousand. Having grown both in value and number, any drop of quality in loan investments has not been observed. It is worthwhile to mention that the seasonality in lending to the economy, shown in the previous year, was maintained. Lending by the banking sector in 2005 and in recent years grew mainly due to consumer loans (including mortgage loans) and commercial loans. Growth of net disposable household income has contributed to AMD 22.6 bln growth of consumer loans (in 2005, private sector's disposable income grew by 16 percent).

In 2005, Industry, Construction and Services were the main contributors to the nominal GDP growth. Contribution to the growth of construction came not from the increased lending by the banking sector but rather owing to enlarged volumes of construction, as funded by the private sector. However, the nominal growth of output in Construction was 59 percent while lending to this sector by the banking system rose by 49 percent. A 34 percent increase was recorded in Services sector, with the banking sector's lending grown by 65 percent.

In 2005, loans to Industry grew by 10 percent while the nominal growth of industrial output was 22 percent. High nominal growth output, compared to the previous years, was recorded in processing industry, 26 percent.

In line with fast growing loan investments, the quality of banking system loans even slightly improved. The share of non-performing loans at year-end was a mere 1.6 percent a large part of which represents the category of watched assets. During the year, the share of net provisioning in total assets was just 0.3 percent, denoting a low level of credit risk.

SUPERVISION AND REGULATION OF THE BANKING SYSTEM

Functions of units implementing banking supervision and supporting a supervision process

The Central Bank is vested with authority to ensure necessary conditions for a stable, liquid, solvent and normally functioning banking system and defend interest of lenders and depositors. Banking Supervision Department, Banking Methodology and Analyses Department, Statistics Department and Legal Department are the units of the Central Bank that are responsible for and support the process of supervision.

Banking Methodology and Analyses Department and Legal Department support the process of banking supervision in methodological, analytical and legal aspects. Statistics Department collects and generalizes information from entities licensed by the Central Bank.

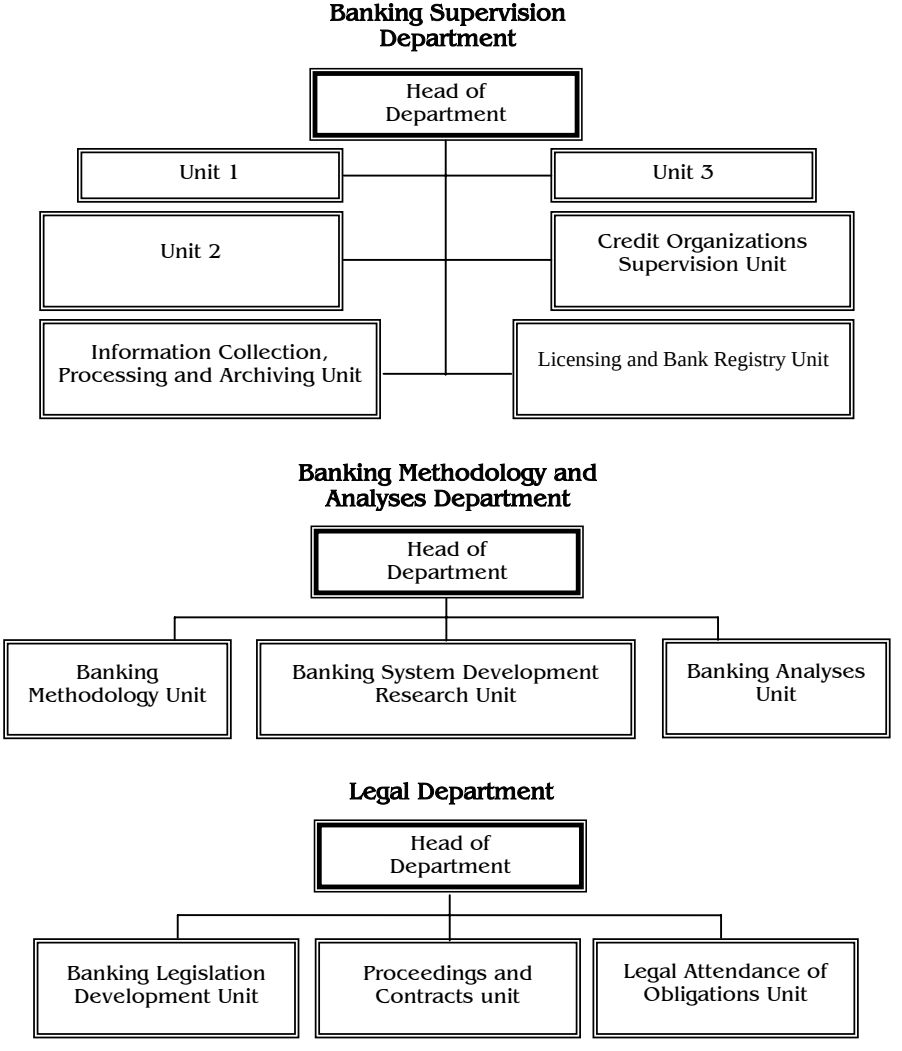
Banking Supervision Department is responsible for implementing the essentials of supervision:

- Licensing of banks and other financial organizations (credit organizations, foreign exchange offices, foreign currency dealers, currency stock exchanges);
- Off-site supervision of activities of banks and other financial organizations;
- On-site examination of banks and other financial organizations; and
- Termination of banks and other financial organizations.

Heads of banking supervision, banking methodology and analyses and legal departments are members of the Licensing and Supervision Committee of the Central Bank. The committee is a consultative body of Chairman or Board of the Central Bank, and is entitles to decision-making under its competences.

Departments included in the Licensing and Supervision Committee

(as at 31.12.2005)



The Licensing and Supervision Committee

The Licensing and Supervision Committee of the Central Bank is a consultative body of the Central Bank Chairman or Board, chaired by Chairman of the Bank. The Committee organizes its proceedings by way of meetings that are convened as and when needed, but not less than once a week. The Committee has functions as follows:

- Issuing preliminary approval to the creation of banks; registering and licensing banks, branch offices of banks and representations;
- Issuing qualification and professional integrity criteria for, and registration of, managers and staff of banks, credit organizations, money transferors, currency dealers, exchange offices and those of other entities licensed by the Central Bank;
- Making decision on imposing or not imposing sanction on infringements committed by, and on explanations or objections from, banks; or penalizing banks having committed violations;
- Licensing and registering other organizations;
- Making decision on imposing or not imposing sanction on infringements committed by other organizations licensed by the central Bank, and on explanations or objections from organizations being supervised, if any;
- Registering the changes provided for by RA Law on Banks and Banking and Regulation 1, approved by Board of the central Bank; and
- Issues ensuing from other competences provided for by regulatory acts of the Central Bank.

Licensing of banks and other financial organizations

The Central Bank implements licensing of banks and other financial organizations pursuant to: a) Regulation 1 'Registration and Licensing of Banks and Branch Offices of Foreign Banks, Registration of Branch Offices and Representations of Banks, Qualification and Registration of Managers of Banks and Branch Offices of Foreign Banks'; b) Regulation 13 'Registration and Licensing of Credit Organizations; Registry of Branch Offices and Representations of Credit Organizations; Approval to Acquiring Significant Participation in Statutory Funds of Credit Organizations; Procedure of Manager Qualification; Regulation of Activity of Credit Organizations; and Technical

Adequacy Requirements to Credit Organizations'; c) Regulation 10 'Licensing and Regulation of FX Purchase and Sale Operations'; d) Regulation 12 'Licensing and Regulation of FX Dealer Purchase and Sale Operations'; e) Regulation 16 'Licensing of Money Transferor Firms; Registry of Branch Offices and Representations; Regulation of Activity and Manager Qualification'; f) Regulation 17 'Licensing of Firms Dealing with Processing and Clearing of Payment Instruments and Payment and Settlement Documents; Registry of Branch Offices and Representations and Manager Qualification'; g) Regulation 18 'Issuing Permission for Creation and Operation of the Armenian Payments and Settlements Systems'; h) Regulation 19 'Issuing Permission for Participation in Foreign Payments and Settlements Systems'; and Regulation 11 'Licensing, Regulation and Control of FX Trading in Armenia'. The Licensing and Bank Registry Unit of the Banking Supervision Department is responsible for these activities.

Board of the Central Bank issues approval to letters of request from banks whose:

- founders are free of bad reputation and are not criminally prosecutable;
- investments in equity are of lawful origin;
- business plan is feasible and meets the format defined by the Central Bank;
- internal organizational structure is adequate for ensuring normal relationship and effective risk management;
- professional integrity of executive body and management meets the Central Bank requirements; and
- constituent documents are accurate and free of misreported data.

The Licensing and Supervision Committee is responsible for examining the qualification and professional integrity of appointed or selected managers of banks, branch offices of banks and branch offices of foreign banks (and of other organizations licensed by the Central Bank), and the qualification and professional integrity of currency dealers. Each year, the qualification requirements are updated and modernized.

Supervision of banks and other financial organizations

The Four units of the Banking Supervision Department carry out off-site supervision of banks and other organizations licensed by the Central Bank and on-site inspections at the entities under control. Three units are responsible for supervision of banks and one is responsible for credit organizations.

Off-site supervision of banks and credit organizations is implemented pursuant to the rules of the 'Off-Site Supervision Manual'. The paper sets forth the principles and methods for off-site supervision; regulates the processes of off-site supervision by specifying sequence and timeframe; defines the engagement of the parties in off-site supervision and the scope of rights and obligations thereof. The off-site supervision involves an ongoing analysis of activity of a bank, based on information received from banks in form of statements and otherwise, in order to evaluate the bank's financial performance, risks, and the compliance with the requirements of banking laws and other regulatory acts. The main task of off-site supervision is identification and evaluation of risks through weekly, monthly, quarterly and annual analyses of financial condition of a bank, in order to prevent or reduce its possible losses.

Implementation of off-site supervision as well as the provisions of Regulation 3 'Bank Statements; Reporting and Release' and Regulation 15 'Credit Organization Statements; Reporting and Release' require that controlled entities submit reporting forms to the Statistics Department of the Central Bank in a defined content and timing. Once examined, these forms would then need to be handed to the Banking Supervision Department and Banking Methodology and Analyses Department. For a more efficient organization of the supervisory and analytic work, these departments are also using information from Credit Registry, previous statements submitted to the Central Bank, current and previous written communications and notifications from banks, their prospective development programs, published financial accounts and audit opinions attached thereto, results of inspections at controlled entities (banks) and information received otherwise.

The results of analyzed information from banks are used to prepare internal surveys for each bank. Such surveys disclose material change in ratios and indicators of activity of banks/credit organizations; present the main trends, and shifts in such trends, of business lines; point out the problems and areas of exposure. Off-site supervision reveals not only the divergence of a bank's or credit organization's financial indicators from the Central Bank-set ratios but also learns the causes for such a deviation, evaluates the changes and develops an adequate plan of actions in order to manage the risks identified. Off-site supervision is designed also to evaluate and analyze expected financial condition and risks of a bank/credit organization.

Off-site supervision reviews credit, foreign currency, interest rate, and liquidity risks of banks for which purpose it uses the VAR, duration, and GAP methodologies and stress-testing.

The information received from banks is used to calculate, on a monthly basis, the summarized assessment of bank indicators – CAMELS. Reviewing and analyzing the CAMELS estimations, calculated based on statements, the indicators, and the main cause and trends for a change in indicators, the supervision service carries out adjustment of the CAMELS estimations in accordance with 'Procedure of Calculation, Approval and Release of CAMELS for the Armenian Banks'. In the event there are sharp deviations in the CAMELS estimations, the supervision service will launch a thorough analysis to disclose the cause for divergence.

The CAMELS estimation ranges in the scale of 1-5. The estimation scoring less than 3 may serve a ground for the Central Bank to waive a letter of request for establishing territorial subdivisions of a bank; put tighter prudential standards or impose stricter penalties, and set limitations on implementing certain transactions. Where the estimation for a bank scores 2 or less, that bank will be considered insolvent.

The summarized assessment of indicators of the Armenian banks – the CAMELS – is calculated using the evaluation of a bank's Capital adequacy (C); Assets quality (A); Management (M); Earnings (E); Liquidity (L); and Sensitivity to market risk (S). The assessment of the CAMELS components is done through calculation of various financial ratios that describe these components.

The evaluation of a bank's capital adequacy will consider the size of standard capital and the normative requirements of capital adequacy, major borrower, a single borrower, bank related parties. The evaluation of the assets quality will review the level of credit risk, share of non-performing loans and assets, concentration of assets, and sufficiency of assets provisioning. The evaluation of earnings of a bank will estimate the ROA and ROE ratios and some other ratios that denote the level of earnings generated from the main business of banking. The evaluation of liquidity will consider a bank's current and general liquidity indicators, and its ability to perform obligations in short-run (up to 180 days). The last component – Sensitivity to market risk will be evaluated taking into account a bank's exposure to foreign currency risk and the levels of interest rate and real estate price risks.

The evaluation of management of bank will be carried out using the results of answers in a questionnaire that contains statements of question on corporate governance, organizational structure, internal control service, internal policies of risk management, and qualification of staff of the bank.

The CAMELS is calculated as an arithmetic mean of estimations of the above components.

For a more comprehensive review of risks identified during off-site supervision and revelation of the reason for such risks, on-site inspection at banks and other organizations licensed by the Central Bank will follow, pursuant to an examination schedule as approved by a chairman order. The Central Bank implements on-site inspections at banks and branch offices of foreign banks pursuant to the 'Manual of Implementation of Inspections at Banks'. If there is need to disclose unusual transactions and/or scrutinize information systems, the staff from other departments (Legal Department, Information Systems Development Department, etc.) of the Central Bank can be involved in those inspections.

The plan of inspections is approved by the Licensing and Supervision Committee. After each inspection, the team of supervisors will prepare a report in a form presented in the 'Manual of Implementation of Inspections at Banks'.

In supervising different aspects of a bank, supervisors evaluate as to what extent the bank's internal control system, relevant processes and internal policies and procedures are applied. The evaluation includes the internal control mechanisms, effectiveness of internal audit, and makes sure whether staff of the bank performs in compliance with the principles set by the management. Special focus is placed on the review of the bank's management system and identification of associated risks, particularly on differentiating rights and liabilities between board and executive management of the bank.

The procedures for termination of banking activities are carried out pursuant to RA Laws on Central Bank; Banks and Banking; Bank and Credit Organization Bankruptcy, and Regulation 7 'Formation of Temporary Administration at Insolvent Banks and Credit Organizations; Reporting by Head of Temporary Administration'. These regulatory papers establish grounds for liquidation, insolvency and bankruptcy of banks, the procedure of work of temporary administration and other procedures relating to termination of the banking business. Once a bank is recognized insolvent, its management will be passed on to bank administrators who are appointed by Board of the Central Bank. However, Banking Supervision Department remains responsible for implementing the supervision of the bank. Insolvency of a bank will involve depletion of 50 percent and more of its core capital, an inability to meet creditors' lawful claims, frequent violations of reserve requirement, lower CAMELS indicators, etc.

CHANGES IN REGULATORY FRAMEWORK

In 2005, the Central Bank continued improving regulatory acts that govern the Armenian financial system. Amendments were introduced to the banking and foreign currency legislation, which the National Assembly endorsed thereafter.

In November 2005, the National Assembly adopted RA Laws on Changes and Supplements to the Law on Banks and Banking; on Supplements to the Law on Bank Secrecy; on Supplement to the Civil Code; on Supplement to the Law on Accounting Treatment; on Supplement to the Law on Limited Liability Companies, which had been developed by the Central Bank.

In consideration of sustainable development of, and minimization of risks, in the Armenian banking system, the legislative reforms were mainly pursuing establishment of core principles of corporate governance at banks which the Central Bank highly prioritizes.

RA Law on Banks and Banking established the legal status of a bank's management, particularly general meeting of participants, board, executive body and chief accountant; it further provided criteria for organization of activity, and other provisions of corporate governance. The Law also established clauses relating to functional specificity of internal and external audits at banks.

Particularly, for an increased effectiveness of managerial capacity and more transparency of activity of a bank's management especially in respect of building extra strengths to defend shareholder and customer interest, the following provisions have been established:

1. Issues under the competence of a general meeting of participants, board, executive body, chief accountant, and internal audit of the bank cannot be transferred to other bodies or other parties in general, except for the cases provided for by law.

2. Chairman or member of the board cannot serve at the same time as a member of the executive body or another employee of that bank, and as a member of board, member of executive body or another employee of another bank or credit organization, except when that bank or another bank or credit organization are considered as affiliated parties.

A bank's chief executive officer, deputy CEO, chief accountant, other members of higher management, head or staff of internal audit cannot serve at the same time as chief executive officer, deputy CEO, chief accountant, members of higher management, head or staff of internal audit of another bank.

Members of the executive body may, besides scientific, teaching and creative activities, do other paid work only if agreed with the board of the bank.

3. Members of board should not be affiliated. Members of board and members of executive body of the bank cannot be interrelated parties. Members of board receive remuneration.

A special procedure of formation of the board of bank has been established.

4. The law also established quite broad a scope of information publishable and reportable by banks.

RA Law on Banks and Banking established provisions pertaining to entering by banks into major transactions or transactions that involve interest; ensuring transparency of activity of the bank, and certain clauses determining fiduciary responsibility of bank managers. Changes to this law also pursued introduction of core Basle principles of banking supervision for implementation of consolidated supervision. The law provided a definition for the parties holding direct and indirect significant participation, their rights and obligations, in the context of consolidated supervision. Under the law, mechanisms of collecting information on the parties holding indirect significant participation were defined.

Changes in the regulatory framework included the definition of peculiarities of the procedure for liquidation of banks. Pursuing to get a clearer attitude for state oversight during liquidation of banks, the chapter of bank liquidation in RA Law on Banks and Banking has been reedited in view of defending rights and lawful claims of bank creditors and depositors.

In December 2005, a decision on creating a unified supervisory authority was made in order to ensure a stable financial system, increased financial intermediation, enhanced confidence in the banking system, and a maximum protection of interest of customers of the financial market. Subsequently, RA Law on Foundation of Unified System for Financial Regulation and Supervision was adopted, and a package of laws covering changes and supplements to a number of laws followed thereafter.

This law is designed to regulate the measures to be taken to introduce a unified system for financial regulation and supervision in Armenia, including the transfer of the function of regulation and oversight of other financial market participants to the Central

Bank, the relations arising out of these measures, and the authorities of the body responsible for regulation and oversight of the financial system. The law provides that a 'financial system' is the entirety of relations between the participants of the financial system while participants include banks, credit organizations, other parties licensed by the Central Bank, securities market participants, investment companies, investment funds, private pension funds, insurance companies, and pawnshops. According to the law, the function of licensing, regulation and supervision of the above-mentioned participants of the financial system has been transferred to the Central Bank.

In order to remove weaknesses identified in the course of implementing RA Law on Currency Regulation and Currency Control, the National Assembly adopted, in December 2005, a law on Changes and Supplements to the Law. It provides that banks act as currency dealers and are accountable to the Central Bank, as established by the Central Bank. Meantime, the Central Bank has clarified the grounds for making the Central Bank-licensed parties liable.

In 2005, several adjustments were made to the Central Bank regulations whereby Regulation 1 and the common form of license for banking activity changed.

The changes made would enable to use more comprehensive information to disclose the real owners of the bank, since some broader scope of information was required to receive in relation to significant participants.

The procedure for presenting bank managers to the qualification and professional integrity examinations has been clarified.

There have been more requirements to business plans of banks and branch offices, stipulating that they use proper internal control and risk management mechanisms from the very start of business.

Other measures for the development of regulatory framework were the approval of:

a) 'Guidance for Considering the Employees Related to the Main Activity of Bank or Performing Under Direct Leadership of Executive Director, or with Capacity to Affect the Management's Decision-Making as Manager of Bank'; pursuant to the guidance, for a more effective supervision over the bank, an employee of the bank can be considered by Board of the Central Bank as manager of that bank, as provided for by RA Law on Banks and Banking, Article 22(1); and

b) the approval of 'Criteria for Considering the Parties with Capacity to Foreordain Lines and Scope Business or Management Decisions of Legal Entities or with Capacity to Materially Affect the Making or Enforcement of Decisions as Significant Participant', aimed at creating more effective and clearly defined grounds for enforcement of Article 9(b) of RA Law on Banks and Banking.

Changes and supplements have been made to Regulation 2 'Regulation of Banking; Prudential Standards for Banking'. The Regulation has been designed so as to comply with the requirements of RA Law on Currency Regulation and Currency Control stipulating that the statutory fund of the Armenian banks be paid-in solely in dram.

The modified Regulation 2 provides that securities of, other claims to, and claims backed by, organizations having been granted high rating ('A', 'B' and 'C') by the Central Bank would be included in the calculation of bank capital adequacy by 20 percent risk weight, if rated as 'A' and 'B'; and by 50 percent risk weight, if rated as 'C'. Further, the Central Bank is planning to use securities of the organizations rated as 'A', 'B' and 'C' in its market operations. The above changes would help enterprises enhance their transparency and reliability, improving the cooperation between banks and real sector.

Because of the need to offset an expected huge inflow of foreign currency, the Central Bank has altered reserve requirement by raising the respective indicator to 8 percent from the previous 6 percent. As well as the calculation of the standard has changed, whereby reserves attracted in dram shall be kept in dram; reserves attracted in dollar shall be kept in dollar; reserves in euro shall be kept in euro; and reserves in other currencies shall be kept in dollar.

Accordingly, changes and supplements have been made to Regulation 3 'Bank Statements; Reporting and Release'.

SUPERVISION IN 2005

The Banking Supervision Department of the Central Bank carries out off-site and on-site supervision in order to identify and prevent risks in the banking system, and to smooth away impediments to stable development of the banking system.

In 2005, the Department implemented 51 on-site inspections – 5 complex and 41 target examinations at banks, and 4 complex and 1 target examinations at credit organizations.

Pursuing a developed and risk-averse banking system, the most important line in the Central Bank's policy in 2005 was introducing core principles of corporate governance at banks, and both the legislative changes and exercised supervision had been designed to fulfill such a policy. Target examinations at banks have been carried out to identify weaknesses in internal control mechanisms. Of 41 target examinations, 25 have been launched to check the compliance with 'Minimum requirements for exercising internal control and risk management at banks'.

On-site inspections efficiency and supervision staff workload

	2003	2004	2005
Banking Supervision Department staff	39	41	44
Total assets of banking system (average annual)	253.6 bln drams	365.8 bln drams	397.6 bln drams
Average workload per supervisor	6.5 bln drams	8.9 bln drams	9.0 bln drams
Inspections performed during the year, including:	17	25	51
complex examinations at banks	7	5	5
target examinations at banks	10	17	41
in credit organizations	-	3	5
Number of inspectors	42	94	149

Problems in the banking system disclosed by inspections are primarily relating to the inconsistency of internal control systems and the absence of corporate governance principles. Shortcomings identified in credit organizations are mainly pertinent to infringements in accounting rules, and inadequate proficiency of staff and management, and underdeveloped internal control mechanisms.

In 2005, the Central Bank inspected 250 foreign exchange offices. The licenses of 71 offices were revoked. In 27 cases the punitive measures were abated. In 20 cases foreign exchange offices paid fines.

The 2005 results of supervision show that 21 banks committed 1848 and 10 credit organizations committed 148 violations of banking laws. Of these violations, 101 were abated while most violations were imposed punitive measures in form of warning.

Comercial bank and credit organization violations, and punitive measures, in 2005

	Banks	Credit Organizations
Violation		
Accounting treatment	31	7
Asset classification	55	4
Legislative	485	6
Regulatory	831	61
Noncompliance with instruction	30	4
Delayed reports	6	8
Inaccurate data	148	38
Credit registry	262	20
Punitive measures		
Fine to bank/credit organization	347	6
Fine to manager	241	15
Penalty	3	
Warning	1165	105
Manager disqualification	3	
Not applied	10	
Abated	79	22

STAFF TRAINING AND COOPERATION WITH OTHER COUNTRY EXAMINERS

In 2005, the introducing of corporate governance and new Basle 2 principles (bringing Basle 2 in banks and inviting discussions on the issue at a preliminary stage) as well as ensuring a stable financial system were under the Central Bank's focus. These issues first and foremost meant initiatives toward enhancing professional knowledge of the Central Bank staff. Further macroeconomic and banking system developments may pose new risks that necessitates an ongoing process of revising applicable laws and regulations. So, promoting banking supervisors, lawyers, methodologists and statisticians vocationally is vital.

In view of improving professional skills and obtaining international supervisory practices, bank supervisors have attended training courses and conferences on supervision issues and modern practices. The topics covered were: 'Corporate Governance', 'Banking Regulation and Supervision', 'Key Supervisory Issues', 'Market risk Analysis', 'Financial Stability', 'Evaluation and Oversight of Banking Risks', 'Credit Risk Modeling', 'New Basle 2 Capital Accord' and etc.

A US Federal Reserve Bank-initiated international seminar on Risk Management and Internal Control in Yerevan, attended by representatives of the Central Bank and eight other central banks has been a great contribution to the training of bank supervisors. Seminars have been organized in Yerevan by the Bank of France on 'Legal Aspects of Corporate Governance' and by the Bank of Netherlands on 'Combating Money Laundering and Funding of Terrorism'.

The Central Bank staff training has received an active support from the IMF, the Centre for Central Bank Studies of the Bank of England, the Bank of France, the German Bundesbank, Central Banks of the Netherlands, Switzerland and Russia, BIS, the National Bank of Poland, the Financial Stability Institute and etc. The topics addressed during seminars covered actual issues of banking supervision, such as: evaluation and management of risks at banks, new supervisory tools and approaches, normative restrictions, the main provisions of New Basle Capital Accord, combating money laundering and funding of terrorism, and financial stability.

The seminars arranged by BIS, the Bank of France, the National Bank of Poland and the Financial Stability Institute have enabled to learn experience of evaluating and managing credit, market, and operational risks.

The seminars arranged by the Netherlands Bank and German Bundesbank have addressed issues related to the New Basle Capital Accord, including core principles of Basle 2, new approaches to risk limitation, and difficulties connected with introducing the new Accord. The results of the seminars are of practical importance especially in the context of risk-based supervision. To this effect, the Central Bank is planning discussion with commercial banks in 2006 to prepare prospective programs for introducing the new Basle Accord.

In 2005, an International Conference of the Regional Group of the Basle Committee on Banking Supervision for the States of Transcaucasia, Central Asia and Russia was held in Armenia, which addressed issues on the banking system developments in participant countries, problem areas, attempts to solution as well as whether an introduction of the new Basle Accord was meaningful, and etc.

The Banking Supervision Department and Banking Methodology and Analyses Department of the Central Bank keep contacts and cooperate with their counterparts in other countries to raise effectiveness of supervision and further improve supervisory tools.

BANKING SYSTEM IN 2005

GENERAL PROVISIONS

Banks operating in Armenia

As of December 31 2004, there were 20 banks and 233 branch offices operating in Armenia.

In the first quarter 2005, a banking license was granted to ArmSwissBank CJSC. As of December 31 2005, there were 21 banks and 267 branch offices operating in Armenia.

The Armenian banking system this year again demonstrated further involvement in serving the national economy, and the indicators of financial intermediation denote so: at year-end, total assets of the banking system were 19.8 percent and loans 8.3 percent of GDP versus respective figures of 19.2 percent and 7.0 percent in the preceding year.

Concentration in the banking system

The level of concentration in the banking system in 2005 somewhat trended down as the Herfindahl-Hirschman Concentration Index[2] fell slightly.

Herfindahl-Hirschman Concentration Index

	31.12.03	31.12.04	31.12.05
Total assets	0.10	0.09	0.08
Total liabilities	0.12	0.10	0.09
Total capital	0.06	0.06	0.06
Loans to economy	0.09	0.09	0.08
Term deposits to physical and legal persons	0.09	0.11	0.10
Demand liabilities (including bank accounts) of physical and legal persons	0.23	0.18	0.17

[2] The Index accepts values in the interval from 0 to 1 and thus denotes concentration (values close to 0 mean a low level of concentration).

In the recent years, the concentration index has been relatively low for capital but high for deposits.

The primary cause of lowering concentration in the banking system is a little increased competition among major banks, however there remains polarization between major and minor banks. In the reporting year, inequality between major and minor banks in respect of deposits grew: the 10 largest banks accounted for 80 percent of term deposits of the banking system earlier the year and 88 percent at the end of the year. Nevertheless, the polarization for largest 4 banks has reduced, as they accounted for 47 percent of assets and 50 percent of liabilities at the end of the year versus 49 percent and 52 percent, respectively, at the beginning of the year.

Banking sector concentration (%)

	31.12.03	31.12.04	31.12.05
Total assets			
CI 4 (a share of 4 largest banks in the system)	48	49	47
CI 10 (a share of 10 largest banks in the system)	80	81	81
Total liabilities			
CI 4	52	52	50
CI 10	82	84	85
Total capital			
CI 4	28	32	35
CI 10	63	65	64
Loans to economy			
CI 4	38	45	43
CI 10	82	85	85
Term deposits of individuals and legal entities			
CI 4	47	51	51
CI 10	80	80	88
Demand liabilities of individuals and legal entities (including bank accounts)			
CI 4	65	60	64
CI 10	85	86	86

BANKING SYSTEM CAPITAL

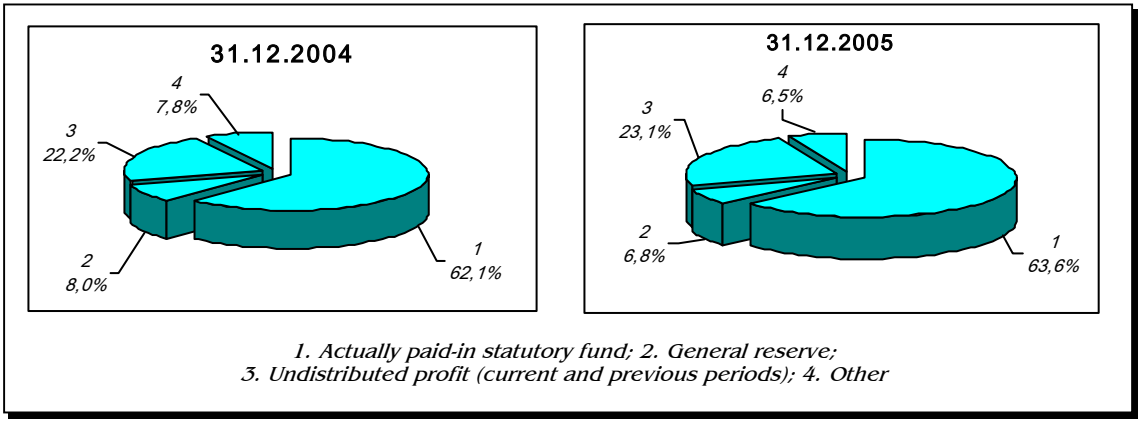
Banking system capital growth trends

In 2005, total capital of the banking system grew by 46.6 percent (by AMD 30.1 bln) and amounted to AMD 94.8 bln. An unprecedented growth of statutory fund of the banking system has been the main contributor to such a growth.

Over the year, statutory fund has increased by AMD 20.2 bln; general reserve by AMD 1.3 bln. 14 banks have reported growth of statutory fund generated both from internal and external sources. The share of non-resident participation in statutory fund has increased by a mere 0.2 pp. and made up 52.8 percent at year-end. The requirement of meeting the minimum total capital threshold of AMD 2.4 bln from July 1 2005 has also supported the growth of statutory fund.

In the reporting year, the banking system has generated profit of AMD 12.0 bln. Six banks have paid dividends of AMD 2.9 bln from the last period profits.

Chart 1. Total capital structure



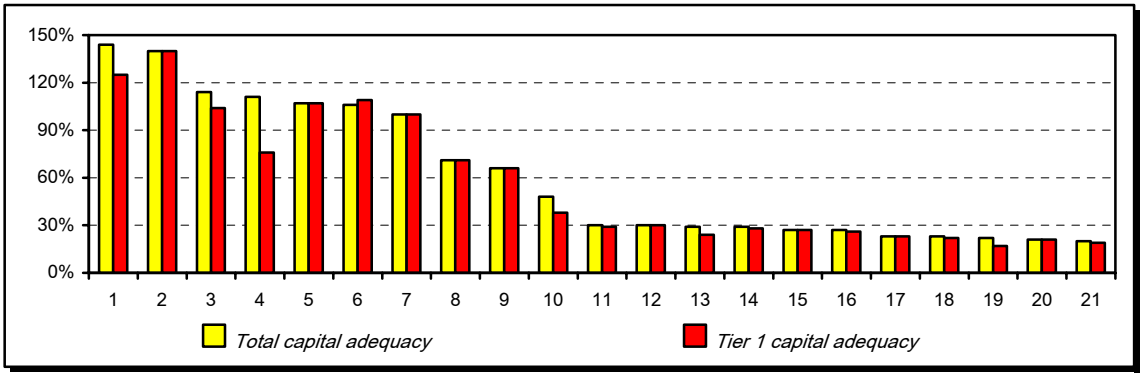
1. Actually paid-in statutory fund; 2. General reserve;
3. Undistributed profit (current and previous periods); 4. Other

Total capital of the system has grown quicker in relation to total assets, and the ratio of leverage over the year has risen by 3.7 pp. and made up 21.5 percent as of December 31 2005.

Banking system capital adequacy

The growth of loan investment by the banking sector has ceded to the growth of total capital, resulting in faster growing total capital and tier 1 capital in relation to risk-weighted assets. So, the total capital and tier 1 capital adequacy indicators have risen by 1.3 pp. and 1.4 pp. to make up 33.7 percent and 31.7 percent, respectively. The adequacy indicators of the Armenian banks impressively outstrip the required level of 12 percent and 8 percent.

Chart 2. Total capital and tier 1 capital adequacy by banks



Bank ownership

The organizational structure of 21 commercial banks in Armenia looks as follows: 1 cooperative bank; 2 limited liability companies; 2 open joint-stock companies; and 16 closed joint-stock companies.

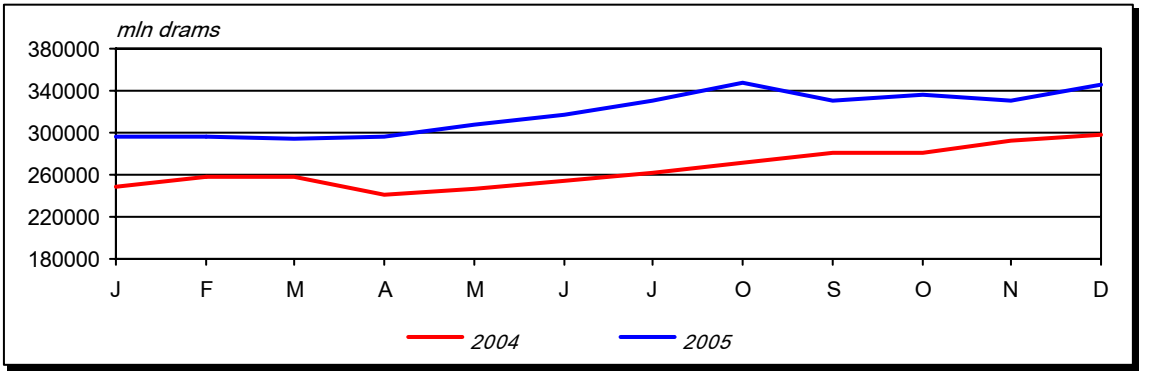
The participants of the Armenian banking system (shareholders, equity holders) comprise 1614 individuals and legal entities, 57 of which are non-residents. Without consideration of the two open joint-stock company banks, the participants of the 19 banks include 87 individuals and legal entities of which 24 are non-residents. In four banks, one party (2 resident legal entities, 1 non-resident legal entity, and 1 non-resident individual) holds a 100 percent of equity. In seven banks, one shareholder holds more than 50 percent of shares.

BANKING SYSTEM LIABILITIES

Growth trends of funds attracted by the banking system

In 2005, total liabilities of the banking system grew by 15.7 percent (by AMD 47.0 bln) and totaled AMD 345.9 bln at year-end. The growth has largely been fuelled by a considerable increase of dram-denominated liabilities, by 44.2 percent, whereas foreign currency liabilities have grown by 5.4 percent. As a result, the share of dram liabilities rose by 6.6 pp. and made up 33.3 percent at the end of the year. So, even though the dollarization has shrunk considerably, it still is high enough.

Chart 3. Growth trends of banking system liabilities



The rise in total liabilities has been determined largely by growing deposits of individuals and legal entities.

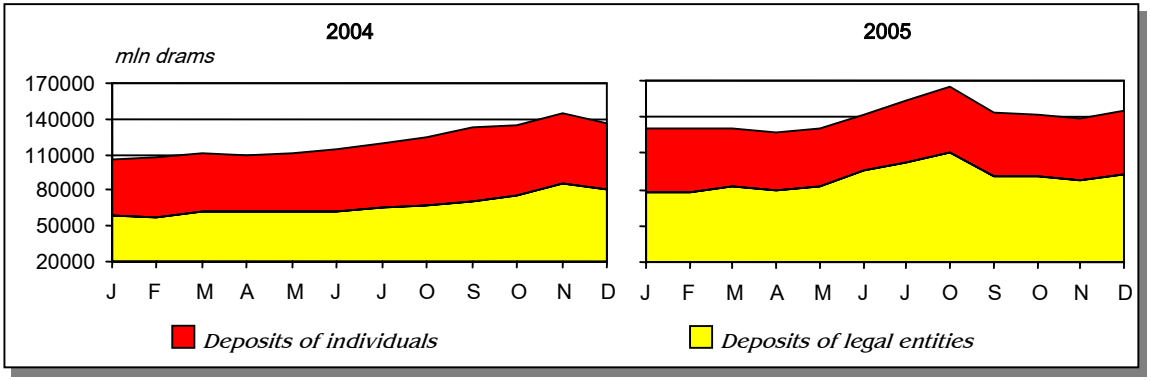
In 2005, the structure of liabilities denoted a notable growth of other liabilities to banks (including to CBA) by 31.6 percent (by AMD 7.3 bln), while loro correspondent accounts of banks decreased by 17.4 percent (by AMD 1.0 bln). At year-end, non-resident banks accounted for 62 percent of loro accounts, over 90 percent of which attributable to banks in Russia and Iran. Liabilities to other financial organizations have risen by 30.3 percent (by AMD 1.9 bln).

Total funds attracted by the banking system over the year have increased by 15.1 percent (by AMD 34.4 bln) and amounted to AMD 261.3 bln at the year-end.

The year was different in relation to 2004 in that the growth of deposits attracted from individuals and legal entities had been fully attributable to dram-denominated deposits grown by 70.9 percent (by AMD 34.9 bln), while foreign currency deposits have decreased by 0.3 percent (by AMD 0.5 bln). RA Law on Changes and Supplements

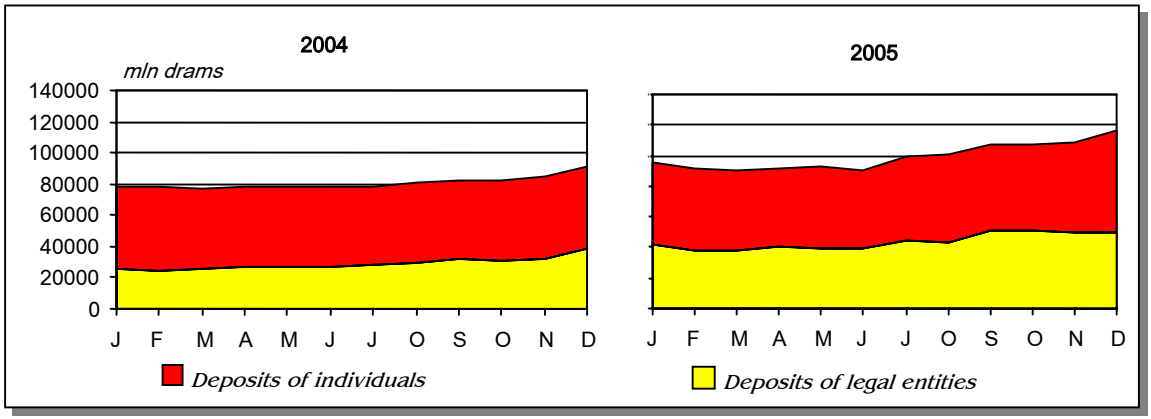
to the Law on Currency Regulation and Currency Control and RA Law on Guaranteeing Remuneration of Bank Deposits of Individuals, providing that the guaranteed extent of a foreign currency bank deposit is one million Armenian drams and the guaranteed extent of dram bank deposit is two million Armenian drams, has further contributed to the above-said growth.

Chart 4. Growth trends of banking system demand deposits



In the reporting year, demand liabilities of legal entities have risen by 14.6 percent, determined by both an added number of legal entity-customers, by 9 percent, and incremented current accounts of certain customers, by 12 percent (by 5.4 thousand).

Chart 5. Growth trends of banking system term deposits



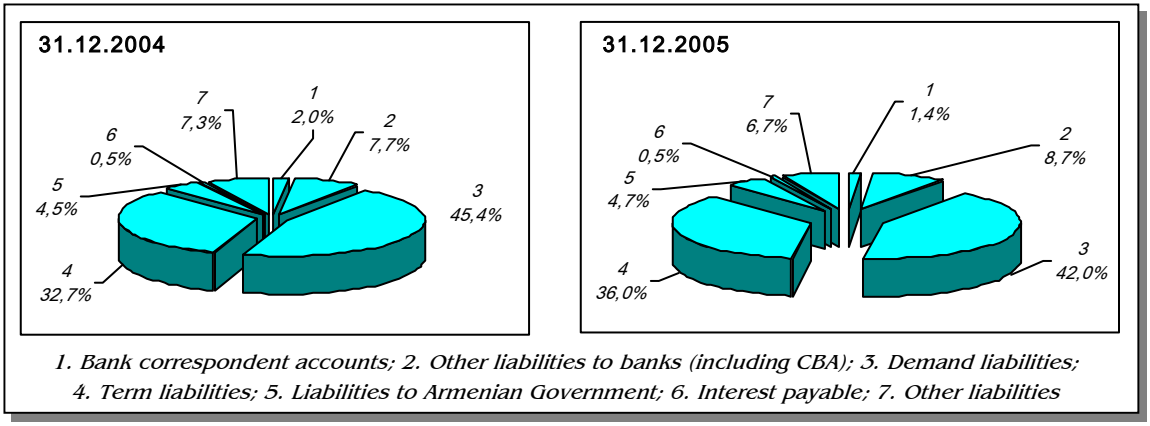
Though the number of customer-individuals has increased over the year by 47 percent and the number of their accounts, by 78 percent, demand liabilities of individuals has reduced by 4.1 percent.

The growth of term deposits of legal entities and individuals, by 29.1 percent and 25.8 percent respectively, has outpaced their quantitative growth of 17 percent. This denotes that the volumes of term deposits have tended to enlargement.

Structure of funds attracted by the banking system

As of December 31 2005, the share of cost-bearing liabilities in total liabilities was 92.3 percent compared to the previous year's 91.4 percent. Without account of low cost demand liabilities, the share of cost-bearing term liabilities has risen by 2.3 pp. compared to the previous year and made up 48.4 percent at the end of the year. This is determined by the fact that the growth rate (7.0 percent) of demand liabilities during the year has considerably lost to that of total liabilities (15.7 percent). At the end of the year, as a result, the share of demand liabilities of both individuals and legal entities in total liabilities has reduced by 3.4 pp.

Chart 6. Structure of funds attracted by the banking system



1. Bank correspondent accounts; 2. Other liabilities to banks (including CBA); 3. Demand liabilities; 4. Term liabilities; 5. Liabilities to Armenian Government; 6. Interest payable; 7. Other liabilities

The average weighted period of maturity of total liabilities of the system is about half a year. 47 percent of funds attracted are demand resources (deposits, bank accounts, correspondent accounts, etc.); 41 percent of funds hold maturities from 1 month up to 12 months; and 12 percent are funds holding maturities over a year.

Commercial bank customers

In 2005, the number of legal entities and individuals serviced by the banking sector rose by 44.3 percent or by 215.5 thousand (almost completely to the expense of individuals) and amounted to 702.5 thousand at year-end. The number of customers-individuals was 666.1 thousand, and the number of legal entity customers – 36.4 thousand.

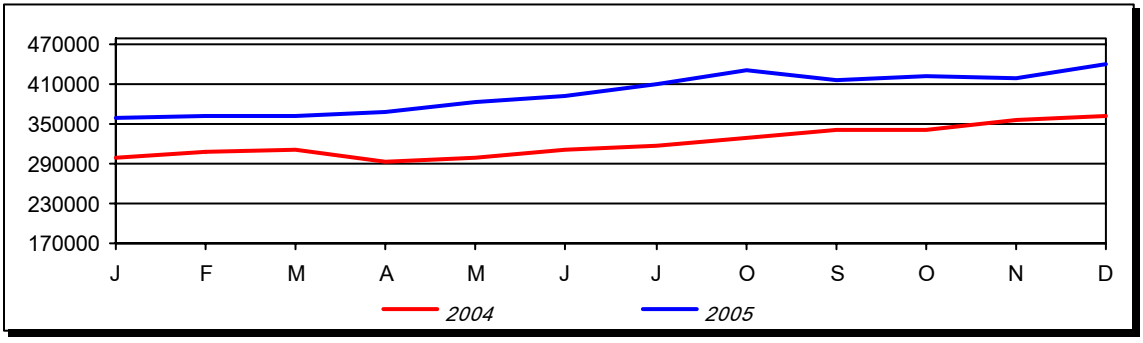
The number of bank accounts rose as well by 69.5 percent to make up 853.0 thousand, with current accounts holding 97 percent and saving accounts holding 3 percent shares. The number of current accounts rose by 71.7 percent or by 346.5 thousand (mostly owing to the growth of accounts of individuals) and made up 829.4 thousand at year-end. The number of term accounts dropped by 17.2 percent or by 3.5 thousand (mostly owing to the growth of term accounts of individuals) and made up 23.6 thousand at year-end.

BANKING SYSTEM ASSETS

Growth trends of funds allocated by the banking system

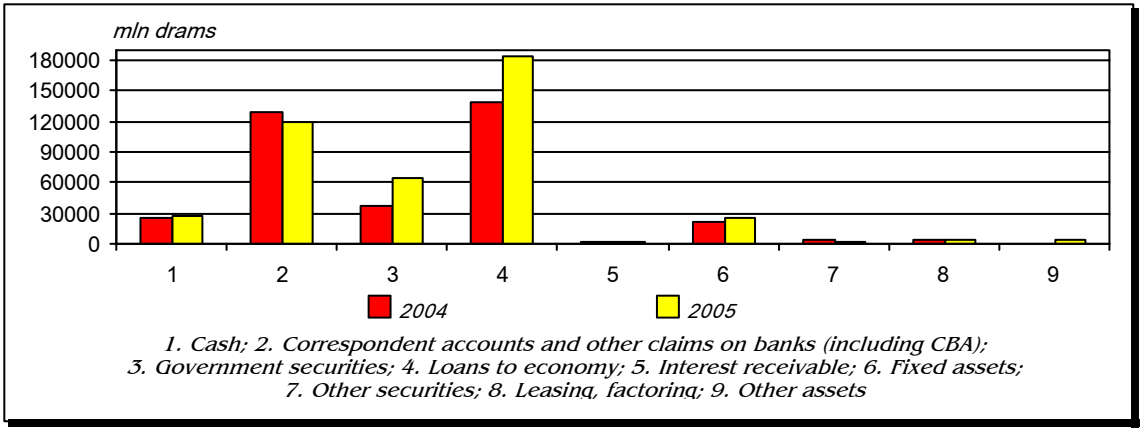
In 2005, total assets of the Armenian banking system increased by 21.2 percent (by AMD 77.1 bln) and amounted to AMD 440.7 bln at the end of the year.

Chart 7. Banking system total assets trends



In the reporting year, loans to the economy and investments in T-bills have increased materially.

Chart 8. Banking system assets growth trends



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

Nostro correspondent accounts again demonstrated high concentration in terms of geographic coverage and residency. Thus, 96.0 percent of correspondent accounts (96.7 percent in the previous year) are with non-resident banks. Interestingly, while in the previous year, 68 percent of correspondent accounts of non-resident banks were placed with prime-rated US banks, as of December 31 2005, only 37 percent of such correspondent accounts were placed with US banks; 50 percent with European banks; 5 percent with Russian banks; and 8 percent with banks in other countries.

Investment in government securities has increased by 79.2 percent or by AMD 29.0 bln and totaled AMD 65.6 bln at the end of the year. The average yield on T-bills at yearend was 3.74 percent; the average yield on medium-term coupon bonds with partial redemption was 5.09 percent. The yield on these two papers dropped, against the indicator at the beginning of the year, by 0.57 pp. and 0.86 pp., respectively. Interestingly, even with such a drop in interest rates, the banking system reported an increase in investment in T-bills, generally determined by consideration of ensuring a required stock of high liquid assets given the notable pool of demand liabilities.

Investment in other securities has reduced by AMD 3.0 bln to amount to AMD 1.0 bln at year-end.

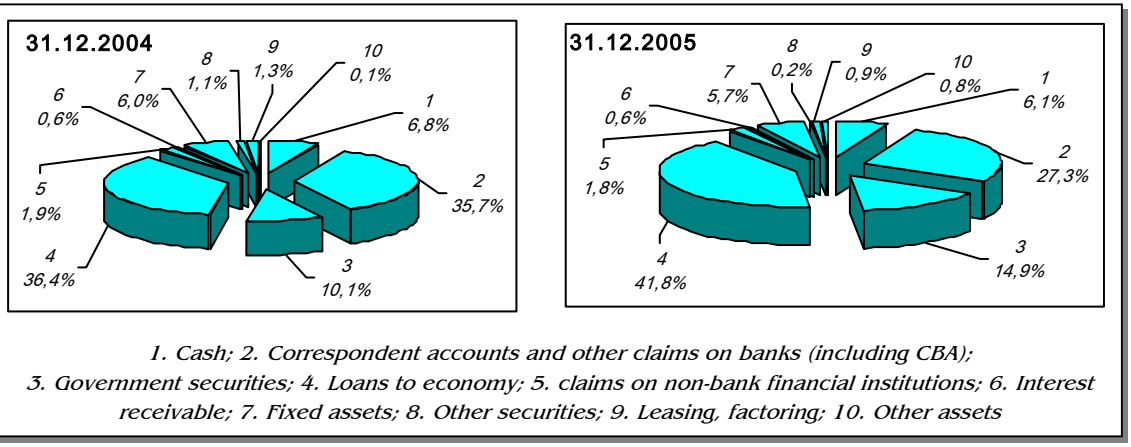
Fixed assets of the banking system has grown during the year by 13.9 percent and totaled AMD 25.0 bln at year-end. This figure of fixed assets represents 26.4 percent of total capital and 5.7 percent of total assets. The size of fixed assets at all banks has yielded to total capital, witnessing that the fixed assets had not been obtained to the

expense of borrowed funds. In this respect, some tightening has been introduced to the calculation of regulatory capital, since July 1 2005, whereby the amount of fixed assets owned and used by the bank should be deducted to the extent exceeding 25 percent of total capital.

The structure of funds allocated by the banking system

The share of earning assets in total assets was 73.6 percent against 75.2 percent in the previous year. Without account of low-earning correspondent accounts, the share of the rest of earning assets would be 64.5 percent (58.1 percent in the previous year). Given a sluggish growth of demand liabilities over the year, banks have preferred investments in loans to the economy and government securities.

Chart 9. Structure of banking system assets



1. Cash; 2. Correspondent accounts and other claims on banks (including CBA); 3. Government securities; 4. Loans to economy; 5. claims on non-bank financial institutions; 6. Interest receivable; 7. Fixed assets; 8. Other securities; 9. Leasing, factoring; 10. Other assets

Growth rates of investment in loans to the economy and government securities have notably outstripped the growth rate of total assets, pushing the share of loans to rise by 5.4 pp. in assets and investment in government securities to grow by 4.8 pp.

The average weighted maturities of total assets ranges in the period of half a year through one year. 30 percent of allocated funds are demand resources; 32 percent hold 1-12 month maturity period; and 38 percent hold a maturity period of over one year.

Loan investment by the banking system

The loan investment[3] by the banking system over the year has increased by 33.7 percent (by AMD 52.4 bln) and amounted to AMD 208.1 bln. Dram-denominated loan investment has increased by 64.0 percent, and foreign currency-denominated loans investment by 20.9 percent. As a result, the share of dram loan investment in total loan investment has risen by 6.7 pp. and made up 36.3 percent at the end of the year.

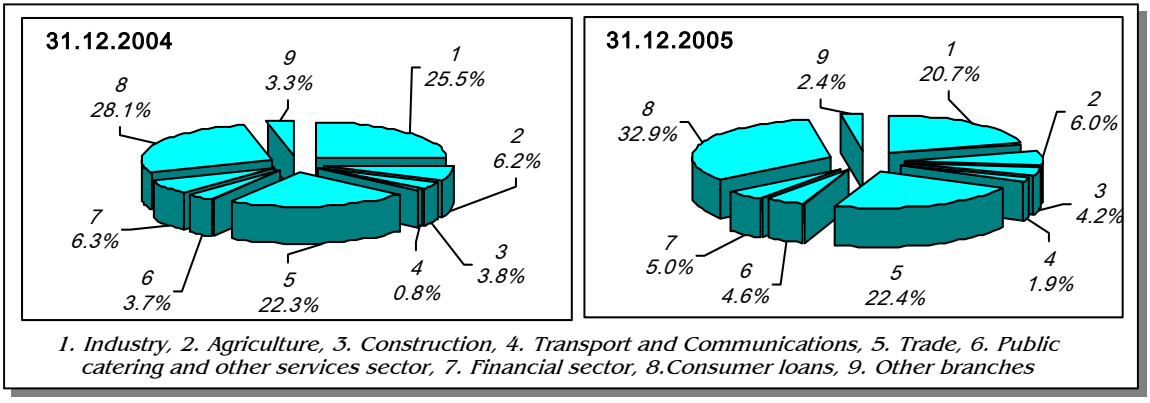
The loans to non-residents have increased by 23.3 percent and amounted to AMD 19.6 bln.

The loans to residents have increased by 34.9 percent (by AMD 48.7 bln) and amounted to AMD 188.5 bln.

In the reporting year, and in the preceding year as well, all sectors of the economy (industry branches were viewed as one common sector) reported a growth of loan investment. In 2005, consumer loans again showed dramatic growth trends: these loans grew by 57.6 percent (by AMD 22.6 bln). A notable increase in lending has also been reported in trade (35.4 percent, AMD 11.0 bln); in industry (9.8 percent, AMD 3.5 bln); and in public catering and other services (65.1 percent, AMD 3.4 bln). In the industry sector, a huge grow of lending has been reported by energy, chemistry, food production and building materials branches.

The share of consumer loans in the structure of loans to residents was again large in 2005. The chart showing loan investment by the banking sector makes it evident that the loans mostly are concentrated in the consumer, trade and industry branches.

Chart 10. 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 loans, 9. Other branches

[3] *Loan investment includes loans to the economy, leasing, factoring and loans and deposits with banks.*

Because consumer loans made the highest share in total loans at the beginning of the year and tended over the year to be fast growing, these loans made the Herfindahl-Hirschman Concentration Index to slightly rise against the previous year's figure by 0.06 to make up 0.21, which is still considered to be low and denoting less concentration. Based on the average of the banks, the same indicator again rose by 0.06 against the preceding year and made up 0.32, showing that lending concentration is relatively high at some banks.

As the economy further develops, there is great demand for long-term loans. In the reporting year, the share of loans in long-term (1 year and over) loan investment has increased considerably, by 9.0 pp., and made up 56.4 percent. In the banking system, long-terms funds are still a scarcity, which is fundamental in providing long-term loans. Such long-term funds are insufficient because of the lack of long-term money-generating institutions, such as pension funds, and matured insurance business in the country.

Long-term target loans that are disbursed through banks under international financial institutions projects are a material support to a long-run lending to the economy. Six banks in Armenia are chosen to service credit programs by the World Bank Enterprise Development Project, German-Armenian Fund, Izmirlian-Eurasia Small Business Lending Fund, The World Bank Agricultural Reforms Support, the European Bank for Reconstruction and Development, the North-West Agricultural Services Program, International Financial Corporation, the World Bank Micro and Small Business Project and programs under other international financial organizations. These programs cover almost all sectors of the economy, with the trade sector having received 43.8 percent of the total lending, agriculture – 17.2 percent, and services – 9.5 percent, as of December 31 2005.

The loans provided through banks under these programs amounted at the end of the year to AMD 24.9 bln or 13.2 percent of total loans. These loans have high repayment rate as the share of overdue loans is 0.3 percent. About 67.8 percent of loans under international projects have a maturity period of over one year, 26.0 percent – from six months to one year, and 6.2 percent – up to six months.

Quality of loan portfolio

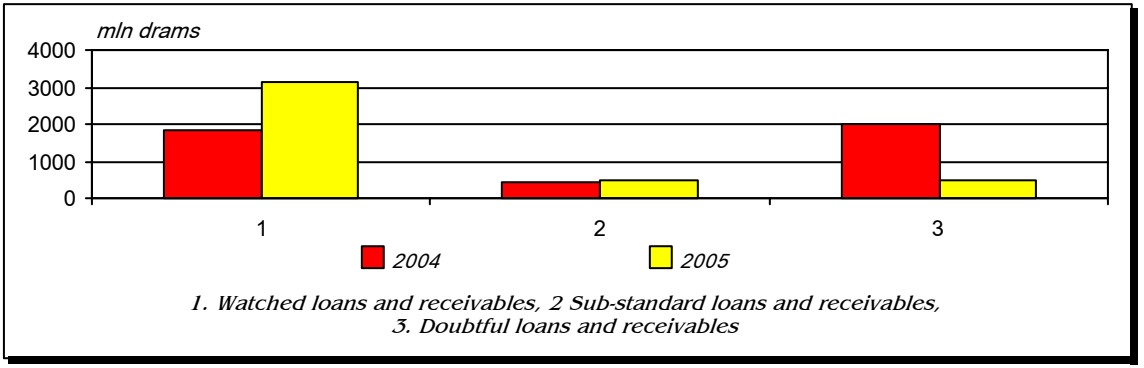
In 2005 too, the quality of loan portfolio of the banking system underwent further improvement.

The amount of non-performing loans and receivables (including correspondent accounts) grew during the year by 2.0 percent and totaled AMD 4.3 bln. The amount of

standard loans grew by 7.9 percent and totaled AMD 259.5 bln. As a result, the share of standard loans and receivables (including correspondent accounts) has grown by 0.1 pp. and made up 98.4 percent.

The end-year figures show that non-residents accounted for 4.6 percent of non-performing loans, while residents accounted for 95.4 percent. The share of non-performing loans in residents' loan investment has been relatively high in loans to the construction, 6.9 percent, and low in loans to the transport and communications, 0.3 percent.

Chart 11. Growth of the banking system non-performing assets mln drams



1. Watched loans and receivables, 2 Sub-standard loans and receivables, 3. Doubtful loans and receivables

BANKING SYSTEM FINANCIAL RESULTS

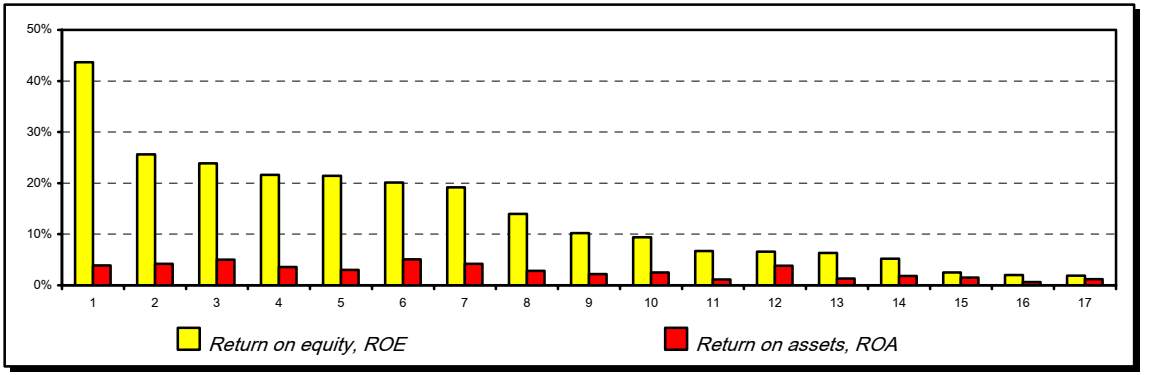
Profitability of the banking system

In the reporting year, retained earnings of the banking system amounted to AMD 12.0 bln. 17 banks reported profit, 4 banks reported loss. Undistributed profit of profitable banks was AMD 13.5 bln, while total loss of loss-making banks was AMD 1.5 bln.

Though the profitability indicators of the banking system have decreased in relation to the previous year, the banking system in 2005 however again generated quite high level of profitability. The profitability by assets (a ratio of undistributed profit to average annual amount of assets) was 3.0 percent; and by capital (a ratio of undistributed profit

to average annual amount of capital) was 15.3 percent. The same indicators in 2004[4] were 3.2 percent and 18.4 percent, respectively. In the reporting year net operational margin[5] of the banking system was 4.3 percent (4.5 percent in the previous year).

Chart 12. Profitability by 17 profit-making banks



The Herfindahl-Hirschman Concentration Index for 17 profit-making banks has fallen by 0.007 against the previous year and made up 0.12, thus denoting a slight lowering of concentration of the profit of profit-making banks in the system.

Structure of banking system expense and income

Retained earnings of the banking system in 2005 exceeded the previous year's profit of the system[6] by 16.5 percent (by AMD 1.7 bln), mostly determined by a considerable growth of interest income as a result of fast growing loans. In 2005, banks remained to be proactive in the lending market where an interbank competition has grown significantly. The growth of loans has not resulted in worsening of loan quality, which makes it evident that credit risk management has improved noticeably in the recent years.

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[4] For a more realistic picture, the profitability of the banking system in 2004 is presented using the indicators of 19 banks, without account of ArmCommunication Bank, since that bank have generated high profit to the expense of huge recoveries.

[5] Net operational margin is the ratio of net interest income and net non-interest income to average annual amount of total assets.

[6] For a more realistic picture, the expense and income structure of the banking system in 2004 is presented using the indicators of 19 banks (without account of ArmCommunication Bank).

The growth of interest income of the banking system has been attributable to 29.3 percent (AMD 6.0 bln) increase of interest income. The share of interest income on loans in total interest income has grown by 4.6 pp. and made up 80.6 percent.

In the structure of non-interest income, the income received from purchase and sale of foreign currency again increased this year, by 64.1 percent (by AMD 2.4 bln). Income on commission fees has increased in relation to 2004 by 28.8 percent (by AMD 2.2 bln), explained by a considerable growth of transfers.

The interest expense payable on term deposits, which holds 56.4 percent share in interest expense, has grown against the previous year by 21.2 percent (by AMD 1.0 bln).

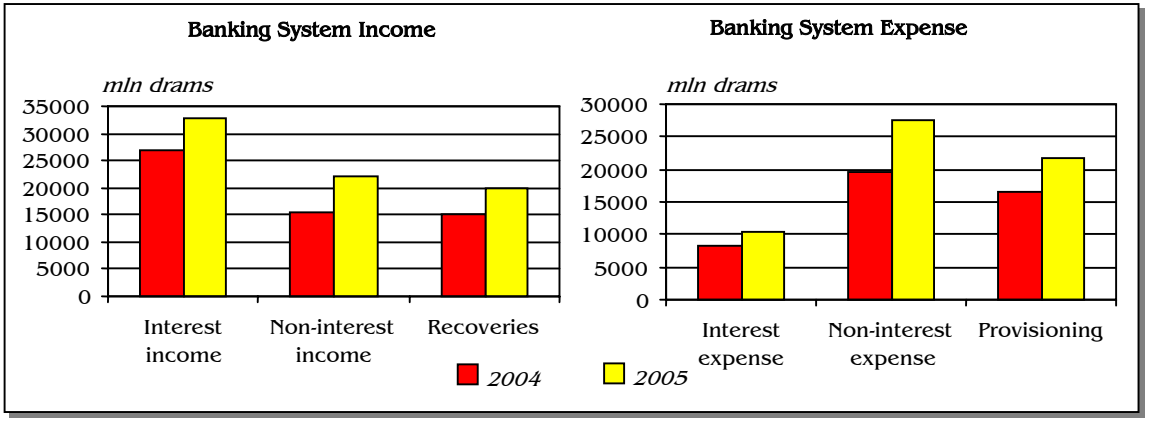
The interest expense 'Salary and Salary Equivalents', which holds 37.5 percent share in non-interest expense, has grown against the previous year by 34.7 percent (by AMD 2.7 bln), while the number of employees of the banking sector increased by 14 percent. This supports the indication that the average salary in the sector grew during the year, as it did in 2004, too.

In 2005, gross revenues increased against the previous year by 30.2 percent (by AMD 17.4 bln), gross expenditures by 34.0 percent (by AMD 15.1 bln).

In the structure of gross revenues, the interest income increased against the previous year by 21.9 percent, non-interest income by 43.5 percent, and recoveries from assets provisioning by 31.8 percent.

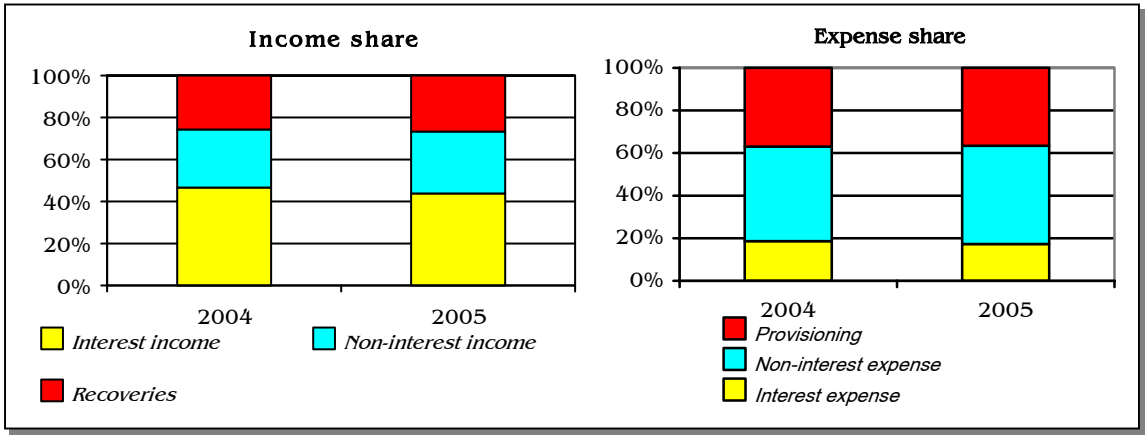
Interest expense increased against the previous year by 24.4 percent, non-interest expense by 39.2 percent, and assets provisioning by 32.6 percent.

Chart 13. Expense and income of the banking system



As a result of the above-said growth of income and expense, the weights of non-interest income and non-interest expense have somewhat increased.

Chart 14. Expense and income structure of the banking system



PAYMENT AND SETTLEMENT SYSTEM

In the reporting year, the value of non-cash payments in Armenia increased by 38.6 percent and amounted to AMD 4872 bln.

The non-cash payments have been implemented mainly via credit payment instruments, 99.7 percent of the value and 99.4 percent of the number (in which electronic payment instructions accounted for 56.3 percent of the value and 63.7 percent of the number of payment instruments). The value and number of payments implemented via debit instruments have made up, respectively, 0.3 percent and 0.6 percent of the total payments.

As of the end 2005, 18 commercial banks operating in Armenia have been engaged in issuing and servicing plastic cards, and 16 banks out of 18 have issued and serviced ArCa cards. In the reporting year, three more banks (Prometheus Bank, Cascade Bank, and BTA Invest Bank) joined the ArCa Unified Payment System.

The number of cards issued by the banking system in 2005 rose by 26.0 percent and made up 137.2 thousand. The number of ArCa cards grew by 18.0 percent; Visa international cards by 37.3 percent; and the MasterCard system cards by 96.5 percent. In service, ArCa cards account for 41.0 percent; Visa cards account for 46.0 percent; and MasterCard and other international cards in which HSBC debit cards are included account for 13.0 percent. As of the end of the year, there have been 55.7 thousand ArCa cards; 62.8 thousand Visa cards; 5.9 thousand MasterCard system cards; and 12.7 thousand other international cards. 15 banks have issued and serviced plastic cards.

In 2005, ArCa cards were used to perform 1.0 mln operations in number with about AMD 27.8 bln in value, up by 47.2 percent or AMD 8.9 bln compared to the previous year. Visa international cards were used to perform 692.1 thousand operations in number with AMD 39.6 bln in value. MasterCard system cards were used to perform 89.9 thousand operations in number with AMD 7.7 bln in value. The value of operations by Visa international cards has increased by 29.2 percent, while the value of operations by MasterCard system cards decreased by 15.9 percent, compared to the previous year.

In pursue of minimizing risks that emerge in performing the withdrawal of cash by plastic cards, the Central Bank has designed new requirements for installing and commissioning ATMs and put limitations on ATMs to dispense foreign currency. Interestingly, the usage of non-cash payments by cards in Armenia is poorly developed yet, as such operations by cards account for only 8.0 percent whereas cash withdrawals account for the rest 92 percent.

Starting August 2005, commercial banks have enabled their customers to effect via Internet card-to-card transfers the total value of which made up AMD 7.5 mln at the end of the year. As for the e-commerce, there have been about AMD 70 mln operations in value implemented through commercial outlets in the reporting period.

The total value of remittances from Armenia effected via Western Union, Money Gram, Anelik, Unistream, Bistraya Pochta and other systems has increased against the previous year by 12.1 percent and amounted to AMD 32.6 bln. The number of such remittances has also increased by 25.9 percent to make up 50.7 thousand.

The remittances to Armenia have increased as well by 28.6 percent in value (funds received amounted to AMD 244.2 bln) and by 34.3 percent in number (971.6 thousand receipts). In the reporting period, the remittances via Unistream prevailed among the transfer systems, constituting 39.0 percent of the total value and 29.9 percent of the total number. Transferors such as Western Union and Anelik came next, making up

16.8 percent and 15.5 percent of the total value and 19.9 percent and 23.6 percent of the total number, respectively. For remittances to Armenia, Money Gram accounted for about 2.2 percent in value and 2.7 percent in number, while Bistraya Pochta and other transferors accounted for 26.4 percent in value and 24.0 percent in number.

As of 2005, there have been 20 banks and the Central Bank in membership with S.W.I.F.T. Transfers via S.W.I.F.T. to Armenia over the year decreased against the previous year by 2.0 percent in value and 6.5 percent in number, while transfers from Armenia increased by 3.0 percent in value and 33.0 percent in number.

Commercial banks have made international transfers also via TELEX and FAX. The value of funds transferred abroad via these facilities has been approximately AMD 29.6 bln; the number – 1.7 thousand, while funds received from abroad have amounted approximately to AMD 21.4 bln and the number – 1.6 thousand.

Several banks in Armenia provide customers with distant services such as PC Banking, Internet-Banking, Telebanking – Mobile Phone, Home-Banking. These systems enable customers to obtain information about the balance of and statement to their accounts, and to manage these accounts, instructing the bank appropriately.

The value of payments effected by customers via these facilities in 2005 was AMD 321.8 bln; the number – 50.9 thousand. The value of such payments has increased 1.3 times compared to the previous year.

FINANCIAL RISKS OF THE BANKING SYSTEM

The evaluation and analysis of financial risks of the Armenian banking system is currently allowing to admit that these are manageable.

Credit risk

The managing of credit risk has always been a priority among financial risks. In recent years, credit risk has tended to reduce, and this tendency continued in 2005, too. In the reporting year, the share of classified loans and receivables (non-performing assets) in the structure of total loans and receivables has shrunk by 0.1 pp. and made up 1.6 percent. The size of non-performing assets has made up 5.0 percent (7.3 percent in the previous year) of the total regulatory capital. After deducting an AMD 0.7 bln worth special loss reserve fund from the amount of non-performing assets of AMD 4.2 bln, the rest of that amount of non-performing assets, lacking coverage, would make up 4.2 percent of the total regulatory capital.

A judgment of the results of banking supervision can be achieved by comparing the growth rate of banking system assets (loans, in particular) to the change in asset quality. The growth of assets and growth of loans in the last two years have averaged 25.0 percent and 39.0 percent, respectively. This, however, has not resulted in deterioration of quality of assets. As was noted, the share of non-performing assets is 1.6 percent the most part of which are as watched assets. As a result, the share of net provisioning in total assets has been a mere 0.3 percent, and despite a dynamic growth of loans, the degree of recoverability of assets is pretty high, 99.7 percent. These indicators are rather low in relation to the same indicators of banking systems of other countries, and are thus attesting a relatively low level of credit risk in the Armenian banking system. For comparison, a bank indicator 'provisioning / earning assets' has been 1.95 percent in eurozone countries and 0.88 percent in Armenia.

The indicator of maximum risk on a single borrower is on an acceptable level; as of December 31 2005, it made up 16.4 percent of the regulatory capital (the maximum is 20 percent). The maximum risk on major borrowers was 117 percent (the maximum is 500 percent); the maximum risk on a single bank related party was 3.0 percent (the maximum is 5.0 percent); and the maximum risk on all bank related parties was 7.4 percent (the maximum is 20.0 percent). The statistical data denote an improved effectiveness of management of credit risk by the banking system. The Credit Registry, which helps banks obtain information on credit history of a borrower, is a good support to the credit risk management.

Foreign currency risk

The exchange rate of Armenian dram vis-a-vis other currencies has again demonstrated big volatilities in the reporting year. In 2005, the annual appreciation of the AMD/USD exchange rate averaged 16.6 percent; at the end of the period it appreciated 7.9 percent.

In 2005, the banking system reported a total loss of AMD 395 mln, making up 0.5 percent of the regulatory capital (0.7 percent in the previous year), as a result of foreign currency revaluation because of the exchange rate fluctuations of the Armenian dram vis-a-vis other currencies. Owing to foreign currency revaluation, 13 banks reported loss and 8 banks reported profit. In the reporting year, the banking system generated profit of AMD 6.0 bln, up by 64.0 percent compared to 2004, as a result of foreign currency purchase and sale operations. As of the year-end, gross foreign open position for Group I Currencies of the banking system was 4.9 percent and group II open position was 1.0 percent under maximum required regulatory levels of 15.0 percent and 5.0 percent, respectively.

The VAR (Value at risk) methodology-based calculations show that the likely loss from re-assessment of foreign currency because of the dram exchange rate fluctuations in 2006 with 95 percent confidence level would not overstep an AMD 107.0 mln threshold. The extent of departure of such estimation from the actual level depends on how much would the open foreign currency positions change over 2006, as the calculations are based on the open foreign currency positions banks have presented as of December 31 2005. In consideration of curbing foreign currency risk, tighter ratios were introduced in 2005 to the regulatory framework providing that, starting October 1 2005, the ratio of group I foreign currency gross position to total capital should not exceed 15.0 percent of total capital, while open positions of individual currencies should not exceed 10.0 percent of total capital.

Liquidity risk

Though the growth rate of loan investment during the year has been faster than that of total assets, the liquidity risk of the banking system remains to be low, since the banking system still contains a considerable stock of high liquid assets worth AMD184.2 bln, comprising 42.0 percent of total assets. The indicator of total liquidity of the banking system dropped in 2005 by 2.9 pp. and made up 44.2 percent at the end of the year, while the indicator of current liquidity rose by 11.9 pp. and made up 110.5 percent at the end of the year. The total and current liquidity indicators are rather high in relation to the prudential requirements and do not contain a risk of emerging of a liquidity problem. Analyses show that by maturity groups the volumes of banking system assets would exceed liabilities in 2006, and this leaves a room to forecast that with other things being equal the banking system in 2006 would be free of any alternative losses attributable to the liquidity risk.

In view of the structure of the banking system liabilities, the degree of concentration of the liabilities in 2005 dropped. The share of major liabilities[7] in total liabilities has somewhat reduced and made up 27.1 percent.

Price risk

The price risk too, is currently quite low in the Armenian banking system. It is appropriate to mention that the investment by the banking system in relatively risky non-government securities has been a mere 1.0 percent of total capital, and the

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[7] That is the grand total of the funds which individually exceed the 5.0 percent limit of total liabilities of a bank, without considering interrelationship.

banking system will not incur any material losses because of fluctuations in securities prices. The volume of investment in non-government securities has been AMD 1.0 bln at the end of the year. In the event the prices of such securities drop and/or rise, say, by 10.0 percent, the system's loss and/or gain would be 0.1 percent of the regulatory capital.

Not steeply fluctuating prices of fixed assets too, would not bring about major losses. In case of a 10.0 percent drop and/or rise in market prices of fixed assets, the loss/gain of the banking system would be 3.0 percent of the regulatory capital. As of the end of the year, the size of fixed assets of the banking system has been AMD 25.0 bln, and the size of seized real estate has been estimated AMD 1.0 bln. The impact of real estate price-drop on the quality of loan portfolio has also been estimated: the stress-scenario calculations show that if the market prices of a real estate fall by 30.0 percent, the loss of the banking system would be 9.0 percent in the event of 50.0 percent non-recoveries of a vulnerable loan portfolio[8].

Interest rate risk

In the banking system, the interest rate risk is constrained, too. The period of maturity of assets and liabilities is not lengthy which allows a frequent revision of interest rates, looking to the changes in the market. Meantime, estimations made using the interest rate risk DURATION methodology show that the average weighted maturity gap is a small value: the positive value (about six months) demonstrates that proportional fluctuations of market interest rates would not draw a considerable impact on the economic value of capital of the banking system. Calculations further attest that in the event total market interest rates (of assets and liabilities) decline by 1.0 percent, the economic value of capital of the banking system would increase by AMD 780 mln.

Net interest income of the banking system in 2005 exceeded the previous year's indicator by 20.9 percent due mostly to the growth of highly profitable consumer and commercial loans. Though the interest rate risk in the banking system is well managed, it nonetheless is materially important, as interest income makes principal part of the banking system incomes (as of December 31 2005, interest income has accounted for 44.0 percent of gross revenues). And, where an interest margin reduces, net interest income of the banking system with other things being equal is expected to decline.

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[8] *A vulnerable loan portfolio involves grand total of loan balances the amounts of which exceed 30.0 percent devaluated values of the real estate pledged against such loans.*

OTHER FINANCIAL MARKET PARTICIPANTS IN 2005

Credit Organizations

In 1995, a license has been issued to Washington Capital CJSC, a universal credit organization. As of the end of year, there have been 10 credit organizations (with 2 branch offices) operating in Armenia, two of which are leasing companies, one is a credit union and seven are universal credit organizations.

Credit organizations have been demonstrating rapid development trends in the last two-three years. Credit organizations have outperformed the banking system this year and the year before in terms of faster growth rates of assets. Credit organizations are active in lending and leasing markets. Although the average market rates of loans provided are higher than those of provided by banks, the lending services credit organizations offer to a wider population are considered to be more affordable.

Total capital of credit organizations has increased by 34.5 percent owing to a newly opened credit organization and because three functioning credit organizations have paid in a total of AMD 1.1 bln for replenishment of statutory fund. At the end of the year, the capital amounted to AMD 4.4 bln or 4.6 percent of the capital of the banking system.

Liabilities have grown by 46.2 percent (by about AMD 1.1 bln) and amounted to AMD 3.5 bln. Funds borrowed from legal entities and individuals have amounted to AMD 1.7 bln. Resources obtained from banks and other financial organizations have amounted to AMD 1.2 bln.

Total asset of credit organizations have grown over the year by 39.5 percent (by AMD 2.2 bln) and totaled at year-end AMD 7.9 bln or 1.8 percent of assets of the banking system. In the structure of assets, loans to the economy and lease operations have increased by 102. 0 percent and 54.0 percent and made up AMD 4.8 bln and AMD 1.3 bln, respectively.

In 2005, undistributed profit of credit organizations was AMD 80.0 mln; profitability by assets was 1.0 percent and by capital 1.8 percent.

In 2005, Regulation 13 'Approving Registration and Licensing of Credit Organizations, Registry of Branch and Representation Offices, and Acquiring Participation in Statutory Funds; Manager Qualification, Regulation of Activity and Technical Adequacy Requirements' was re-edited. Some requirements to credit organizations have been loosened so as to enable funds doing micro lending business in Armenia to be licensed as a credit organization.

Softer location and technical adequacy requirements have been established for branch offices of credit organizations that carry out smaller operations.

Members of board of credit organizations will not be examined for qualification and professional integrity through interviews. The procedure of acquiring major participation in statutory fund of credit organization has been simplified for foreign prime-rated institutions.

Regulation 14 'Regulation of Credit Organization Activity; Prudential Standards for Credit Organization Activity' contains a provision that allows universal credit organizations to issue and allocate on their behalf securities at least 30 percent of which should be secured by organizations with primary rating (from Aaa1 to A-(A3)). This has been established in consideration of the lack of precedent for issuance of securities by credit organizations, the need to defend investor interests and the existing underdeveloped securities market. Depending on the future demand for, and performance of, such securities, and the ability (and history) of credit organizations to reimburse their liabilities, the requirement of prime security may be removed. The issuance of securities would enable credit organizations to enter into the securities market.

In 2005, Regulation 15 'Credit Organization Statement; Reporting and Release' was approved in a new edition. It was revised in order to make it comply with changes introduced to Regulation 14 at the end of 2004 and make the forms of reporting clearer. The 'Guidelines for Preparation of Reporting to CBA by Credit Organizations' has been adopted, too.

Insurance Market

As of December 31 2005, there have been 23 insurance and 7 brokerage companies licensed in Armenia. Two more insurance companies 'Goba' ltd. and 'Inorient' ltd. and one brokerage company 'FCIB' ltd. have been licensed over the year.

In 2005, capital of insurance companies increased by 58.4 percent (by AMD 1.6 bln) and amounted to AMD 4.4 bln at the end of the year.

The growth of capital has been mainly attributable to an AMD 1.8 bln increase of statutory fund.

Total profit of insurance companies over the year has been AMD 299.0 mln, demonstrating 98.8 percent increase in relation to the previous year's indicator.

Total liabilities of insurance companies over the year have grown by 53.4 percent (by AMD 1.9 bln) and amounted to AMD 5.5 bln at the end of the year.

The liabilities have grown primarily as a result of an AMD 1.8 bln increase in insurance reserves. Particularly, the accounts 'Loss Reserves and Other Technical Reserves' and 'Unearned Premium Reserve' have been added by AMD 1.2 bln and AMD 0.6 bln, respectively. The share of insurance reserves in total liabilities of insurance companies grew in 2005 by 14 pp., making up 67.7 percent at year-end. The accounts 'Settlements on Risks Assigned to Reinsurance' and 'Settlements with Creditors' each hold a big share in the structure of total liabilities, making up 17.0 percent and 10.7 percent, respectively.

Total assets of insurance companies have increased over the year by 55.6 percent (by AMD 3.5 bln) and amounted to AMD 9.9 bln at the end of the year.

In the assets structure, the items demonstrating marked growth are 'Share of Reinsurers in Loss Reserve' (by AMD1.0 bln); 'Short-Term Financial Investment' (by AMD 1.3 bln); and 'Deposit Accounts with Banks' (by AMD 0.6 bln). As well as items holding a big share in total assets of insurance companies include 'Share of Reinsurers in Insurance Reserves' (23.2 percent); 'Short-Term Financial Investment' (15.9 percent); 'Deposit Accounts with Banks' (11.1 percent); and 'Fixed Assets' (10.8 percent).

As of December 31 2005, performing contracts of insurance companies have numbered 23.5 thousand (29.5 thousand in the previous year). Interestingly, life insurance in the insurance market is almost non-existent, with life insurance contracts only numbering 45. The extent of premiums under performing contracts has totaled AMD 1.73 trn of which AMD 1.69 trn or 97.0 percent is the amount assigned to reinsurers.

In the reporting year, the extent of insurance premiums was AMD 4.9 bln and the amount of insurance compensation AMD 516 mln. In 2005, aviation insurance accounted for 28 percent of insurance premiums; vehicle/drivers' and passenger's insurance accounted for 20 percent; liability insurance for 16 percent, property insurance for 13 percent; and medical insurance for 8 percent. The vehicle/drivers' and passenger's insurance accounted for the largest insurance compensation (36 percent), followed by compensations for aviation (18 percent), liability (14 percent) and medical (13 percent) insurances.

In 2005, the loss ratio (insurance compensation / insurance premiums multiplied by 100 percent) was relatively higher in accident (33 percent); cargo (25 percent); vehicle (19 percent); and medical insurances (17 percent).

To improve the sub-legislative framework governing the insurance business, the Government of Armenia has adopted decisions as follows: 'Establishing chart of accounts for insurance company activities; user manual and forms of financial accounts and instruction to complete these'; 'Establishing prudential economic standards for

insurance companies; the creation and calculation as well as the form, preparation and reporting of these normative standards'; 'Establishing types of reserves and procedure of creation of such reserves'; 'Establishing rules determining requirements for reinsurance'; 'Establishing rules validating rates of insurance'; 'Approving the procedure for identifying archived documents especially valuable and unique; and creating and maintaining records of such documents and insurance copies'; 'Establishing the procedure for keeping records of insurance certificates and making quarterly reports to the state authorized entity'; and 'Approving the template of regulation of insurance agent activities, and the provisions and specificities contained therein'.

Securities Market

As of December 31 2005, there have been 18 firms engaged in doing business in the Armenian securities market. All these firms have been licensed for brokerage activities, five of which licensed also as trust managers and one licensed also as a depository.

In the reporting year, operations in the securities market were carried out using three types of instruments – treasury bills, shares and other securities. The securities market players are considering treasury bills as the main market instrument, accounting for nearly 98.8 percent in total operations whereas operations by shares accounted for about 1 percent, and the share of operations by other types of securities has not exceeded 0.2 percent.

In 2005, the volumes of operations executed under brokerage/dealership in the securities market totaled AMD 121.4 bln, in which operations by t-bills (including repo operations) made up AMD 119.9 bln; operations by other securities (corporate securities) made up AMD 0.2 bln; and operations by shares made up AMD 1.3 bln. The Armenian stock exchange has accounted for AMD 1.1 bln volume of shares turnover.

The medium-term t-bills have accounted for 50.3 percent of the treasury bills turnover; the long-terms t-bills accounted for 48.3 percent; and the short-term t-bills accounted for 1.5 percent.

On October 4 2005, the Armenian Parliament adopted RA Law on Changes and Supplements to the Law on the Securities Market Regulation, providing as follows:

1. Credit organizations are now allowed to perform broker (dealer), trust management and depository operations by securities issued or backed by the Republic of Armenia, communities and the Central Bank without a need to have the relevant license for specialized activities. The purpose of change is seeking similar requirements to credit organizations and banks in the securities market.

2. The Stock Exchange has been entitled to the function of clearing of transactions entered into while trading on exchange. The purpose of change is to minimize systemic and information risks that emerge in the exchange trade. It should be mentioned that the trade system already available at the stock exchange would allow the immediate clearing of transactions by securities once the law was adopted.

3. Terms and conditions for organizing foreign currency trade at the stock exchange and the scope of trade participants are being explicated. The amended article 105(2) of the applicable law provides that the stock exchange shall organize the trading of foreign currency solely pursuant to the license issued by the Central Bank. The supplemented part of article 106(2) provides that besides brokers and dealers, the right of direct participation in the currency trade at the stock exchange shall be granted to the Central Bank, commercial banks, credit organizations and currency dealers. The purpose of change is to foster the creation of the Armenian stock exchange market.

4. The Stock Exchange has further been entitled to arrange training courses and workshops on the securities market as well as to hold examinations for professional integrity. The purpose of change is to allow the Stock Exchange to perform that function, once RA Law on Securities Market Regulation article 58(2) delegates such a competence to the Stock Exchange.

Exchange Offices and Pawnshops

As of December 31 2005, there have been 375 exchange offices (including branches) licensed to carry out foreign currency purchase and sale operations in Armenia. During 2005, the licenses granted to 103 exchange offices operated revoked, 71 of which for violating the currency laws. In 2005, 135 exchange offices received licenses. The exchange offices this year reported growth of purchase and sale operations compared to the previous year. The total volume of US dollar purchase and sale operations increased in 2005 by 48.5 percent (by USD 168.7 mln), and the volume of Euro purchase and sale operations by 106 percent (by EUR 19.8 mln).

The 'Exchange Offices Inspection Manual' was prepared in 2005 in order to meet the requirements stipulated in RA Law on Currency Regulation and Currency Control and RA Law on Cash Register Machines and improve the quality of service rendered by exchange offices. To this end, relevant changes were made to Regulation 10 'Licensing and Regulation of Foreign Currency Purchase and Sale Operations'.

The 'Procedure for Providing of Documents verifying FX Purchase and Sale Operations to Customers by Specialized Parties' has been developed that established the uniform receipt for purchase and sale of foreign currency in Armenia.

As of the end 2005, there have been 61 pawnshops functional in Armenia. During the year licenses for pawnshop activities have been issued to 23 firms and business individuals. As of 31 2005, the total amount of cash funds, bank accounts of and loans granted by pawnshops has been AMD 2.0 bln, of which loans granted have totaled AMD 1.1 bln.

On December 8 2005, the Armenian Parliament adopted RA Law on Changes and Supplements to the Law on Pawnshops and Pawnbroking, whereby the changes and addenda pertain to the delegation of pawnbroking regulation and control functions to the Central Bank and to the relations arising out of such measures.

DEVELOPMENT PROSPECTS FOR SUPERVISION

In 2006, the Central Bank will embark on taking certain measures aimed at further ensuring the stability of the Armenian financial system. While in the context of development the Central Bank remains committed to realizing its objectives it will however spotlight creating necessary preconditions for consistent development of financial markets (banking, securities, insurance), establishing a proper consolidated supervision framework, cooperation of supervisory authorities, issues relating to the new Basle Accord as well as the input of principles of corporate governance at banks.

Introducing Corporate Governance Principles

The implementation of internationally accepted principles of corporate governance at banks is a high priority today, which is designed to clarify relationships arising among a company's board, executive management, shareholders, internal and external audits and other stakeholders at all hierarchies of the business. Corporate governance also covers a scope which sets the company's corporate targets and objectives and determines the mechanisms through which these objectives are accomplished and the results of activities controlled. The introduction of corporate governance principles is a strategic issue in the context of development of banking supervision. So, as a result of efforts and legislative amendments implemented in 2005, changes to RA Law on Banks and Banking will take effect starting January 1 2006. These changes i) help identify 'real' participants/owners of the bank; ii) lay down the principles for corporate governance directed to defending interests of bank owners, customers and other stakeholders; iii) clearly delineate scope of competence and liabilities of the board and executive management, and define relevant control mechanisms within the bank; and iv) make sure compliance to transparency requirements is in place.

In 2006, these changes will be reflected in regulatory acts of the Central Bank. In particular, certain changes and supplements is planned to make to the procedure 'Requisites for Implementation of Internal Control at Banks'. Further, the Central Bank will prepare a procedure 'Release/Delivery of Bank Information by Banks'.

According to Basle Principles, a supervisory authority shall be able to implement direct or indirect supervision over entities affiliated to the bank and over bank subsidiaries. This allows to broaden the scope of risks reviewed in the bank and respond them quickly in case of disclosure of unaccepted levels of such risks and to

prevent further possible losses. To this end, the amended law on banks and banking has laid down the principles of consolidated supervision which will help supervise the activities of bank affiliations and evaluate potential risks that could be transferred from such parties to the bank and disclose the 'real' owners of the bank.

The above-mentioned changes will be considered in sub-regulatory papers of the Central Bank, and as part of the consideration the Central Bank is planning making revision and supplements to the Regulation 1 'Registration and Licensing of Banks and Branch Offices of Foreign Banks; Registration of Branch Offices and Representations; Manager Qualification and Registration'.

Basle II Accord

The introduction of the new Basle Accord is very important in view of further effective development of the Armenian banking system, creation of a functional risk management system at banks and integration of the Armenian banks into the global financial markets.

By the end of 1990s the Basle I (the 1988 Basle Accord) had no longer been effective after having lived a ten-year period. It has been determined first and foremost by developing financial markets and instruments whereby new market instruments (for instance, securitization operations) were making risks easily transferable, avoiding real capital requirements. Studies launched in line with development of risk management systems were showing that the capital requirement on certain assets had sometimes been in excess of the economic capital needed for 'insuring' such risks or, conversely, it had underestimated the economic capital. Starting 1998, the Basle Committee invited active discussions seeking to design a new capital accord – the Basle II. This new Basle II Accord does not merely contain the capital requirement but rather focuses great attention on management, internal control and risk management standards which could be applicable not only to G-10 countries.

The Basle II consists of three comprehensive pillars:

1. *Minimum capital requirements;*
2. *Supervisory processes; and*
3. *Market discipline.*

The Minimum capital requirements pillar contains provisions stipulating that the calculations of capital adequacy of the bank should include methods for calculating minimum capital requirements not only on credit risks but also on operational and market risks. As for the calculation of capital requirements on credit risk, the current day's table of standards of risk weights is being replaced by either a new table of risk weights based on

ratings given to borrowers by independent rating agencies, or risk weights calculated just by banks. That is, in case of the second approach on credit risk, each bank should be able to calculate the minimum capital adequacy requirement of its own by using historical series and models.

According to Basle II, a bank may evaluate its customer's rating of its own and will itself determine the risk weights appropriate to the rating. The supervisory authority would only approve the rating systems or method to be applied by the bank. These new supervisory processes would require a steep enlargement of capacities of the central bank. In the meantime, the Accord would pay more attention to the issue of transparency of banks.

To this end, the Central Bank is planning to spend effort to study methodologies for market risk evaluation and attempt inclusion of market risks in the calculation of the capital adequacy standard. In 2006, the Central Bank will prepare arrangement of seminars for commercial banks on the topic of Basle II. There is also intention to create a workgroup in cooperation with commercial banks for introducing the Basle II Accord.

Unified Supervision Framework

Starting January 1 2006, the Central Bank will embark on implementing the regulation and supervision of the insurance and securities sectors.

Further development prospects for regulation and supervision have risen a need to redefine in 2006 the insurance and securities markets development policies by designing conceptual approaches for developing these two sectors in Armenia. These approaches need to be reflected in the changes to be made to the law on insurance and law on securities market regulation. Because these two laws are not presented to be easily perceivable, the legislative changes would consider a clearer and simpler reformulation. The above conceptual approaches will be used to create sub-legislative fields for regulating and supervising the insurance and securities markets.

Insurance sector. The regime of regulation and supervision of the insurance sector should be in tune with (adequate to) the risks that exist in the system. There is need to create an environment that would have mechanisms in place assuring that uncompetitive and insolvent insurers make a smooth and shock-free exit of the market, as risks increase. The goal of the insurance regulation and supervision framework is to defend the interest of beneficiaries. The framework includes the licensing, current supervision, ensuring accountability and transparency, defending consumer interest, and ensuring a coordinated exit of the market.

For integration to the world markets, there is need to make the entire regulation and supervision system comply with International Association of Insurance Standards, IAIS, and International Financial Reporting Standards, IFRS. A special focus will be placed on the creation of the framework for a market exit (bankruptcy, rehabilitation, and liquidation procedures). The compliance with IAIS should presume also the introducing of the corporate governance standards in the insurance sector.

Securities market. The regulatory framework governing the securities market is relatively more thorough regulated. However, in view of integrating to the global capital markets, it is important that the securities regulatory framework in Armenia be in full harmony with IOSCO standards. The latter would make sure that units playing improper business rules, performing in shadow and lacking a culture of corporate governance are not allowed onto the Armenian securities market, and that 'rules of the game' of the market are understandable and user-friendly to foreign participants and investors. So, complying the regulatory framework with IOSCO will be a priority in 2006.

Regulating supervisory processes. In parallel, there would be measures (trainings, exchange of experience, etc.) for improving supervisory capacities in the form of practicing experience and enhancing and conveying knowledge. Besides, there'd be initiatives designed to create a regulatory field to govern on-site and off-site supervision by the Central Bank, and measures making sure such processes are transparent, consistent and clear.

With corporate governance principles increasingly tackled by banks and the measures to combat the legalization of criminal proceeds and terrorism funding becoming widespread, it is highly important to learn the experience of utilization of these principles at banks and to review their compliance with the requirements. To this end, the 'On-Site Inspection Implementation Manual' will include a methodology to ensure an effective implementation of such inspections.

Cooperation between the supervisors and external auditors. The Basle Committee's core principles of effective banking supervision highlight the broadening of the scope of cooperation between the supervisors and external auditors. In this connection, changes have been made to the law on banks and banking, providing that in examining banks, the audit firms should in addition to preparing audit report carry out a review of accuracy of statements banks submit to the Central Bank.

In the event of identifying facts of material worsening of financial condition of the bank and disclosing weaknesses in internal systems (including the internal control system), the external auditor must immediately report these to the Central Bank.

In order to ensure the enforceability of the requirements of the law, there are plans to hold meetings with the Central Bank, external auditors and banks to address issues relating to the ways of future cooperation and possible enlargement of the scope of external audit activities.

Ensuring Transparent Punitive Measures

In order to improve the effectiveness of a preventive role of punitive measures in the Armenian banking system, the Central Bank is planning to publish in 2006 the penalties applied to banks and bank management to make sure that taking such measures is transparent. This will have a great impact on banks and the discipline of the bank staff, and make the market exercise an oversight of the supervisory authority through transparency and the concept of precedent.

System of financial stability

In pursuit of integration to the world markets and access to new financial instruments many countries in recent years have been increasingly attentive to the developments in the domestic financial system on the whole, in addition to reviewing individual components of the financial system. Under the current globalization, a balanced financial policy being conducted by one country may not have enough strengths to cope with financial imbalances suddenly transferred from partner countries. The overall financial system stability can be undermined by various risks ensuing from domestic and external economies. With the Armenian economy growing rapidly and an inflow of private transfers demonstrating unpredictability there arises a need to consider the developments of both domestic and external economies.

Creating a financial stability framework will be among strategic priorities of the Central Bank. Ensuring such a system would not be limited to the scope of supervisory objectives but would rather require in-depth analytical studies for disclosing potential risks that pose threat to the stability of financial system and deciding on remedies as and when such risks occur.

In 2006, the Central Bank will launch the preparation of the 'Financial Stability Evaluation Manual' pursuant to the 'Concept of Financial System Stability Framework'. The Manual will represent the entirety of processes of evaluation of the Armenian financial stability and the informational and research works designed for evaluation of financial stability to be carried out by the departments of the Central Bank. Efforts will also be spent to identify risks in individual sectors of the economy and evaluate their impact on the financial system.

APPENDIX

Commercial Banks Operating in Armenia and their branches

Commercial banks		Branches	
		31.12.2004	31.12.2005
1	Armsavingsbank	101	100
2	Ardshininvestbank	49	51
3	Armeconombank	27	39
4	Artsakhbank	11	12
5	Converse Bank	13	16
6	ACBA Agricultural Cooperative Bank of Armenia	10	12
7	Unibank	6	17
8	Anelik Bank	6	6
9	Areximbank	4	4
10	Inecobank	2	4
11	HSBC Bank Armenia	1	1
12	Prometey Bank	1	2
13	Armimpexbank	-	-
14	Armenian Development Bank	-	-
15	Arminvestbank	-	-
16	Mellat Bank	-	-
17	Cascade Bank	-	-
18	ITB International Trade bank	-	2
19	BTA Investbank	1	1
20	Ararat Bank	1	-
21	Armswissbank	-	-
Total		**233**	**267**

Survey Balance Sheet Indicators of Commercial Banks

thousands of drams

			31.12.03	31.12.04	Change 31.12.05-31.12.04	31.03.05	Change 31.03.05-31.12.04	30.06.05	Change 30.06.05-31.03.05
			1	2	3	4	5	6	7
Assets	Cash	D	4826950	6964968	44.3%	7412551	6.4%	8097704	9.2%
		FX	12551870	17745627	41.4%	21388620	20.5%	14954750	-30.1%
	Correspondent accounts with the CBA and other claims on the CBA	D	20600553	27686319	34.4%	30251498	9.3%	46460775	53.6%
		FX	0	0	-	0	-	0	-
	Correspondent accounts with banks and other claims on banks	D	885837	2740070	209.3%	1306641	-52.3%	2613953	100.1%
		FX	85347734	99469659	16.5%	78813635	-20.8%	77601941	-1.5%
	Claims on other financial institutions	D	2142768	2116767	-1.2%	3086503	45.8%	4290361	39.0%
		FX	4814776	4722095	-1.9%	4226426	-10.5%	3019852	-28.5%
	Government securities		31311092	36596314	16.9%	45331457	23.9%	62218284	37.3%
	Liabilities on securities purchased through repo agreements and on foreign currency purchased through currency swap	D	-2491066	-4236986	70.1%	-6273190	48.1%	-14014892	123.4%
		FX	0	0	-	0	-	0	-
	Repo agreements (except interbank repos)	D	0	0	-	0	-	0	-
		FX	0	0	-	0	-	0	-
	Loans to legal entities	D	24802945	27530658	11.0%	24405368	-11.4%	28645914	17.4%
		FX	37077945	51691888	39.4%	58184496	12.6%	59522413	2.3%
	Loans to individuals	D	5536724	10863202	96.2%	12375143	13.9%	16126885	30.3%
		FX	24364596	38544218	58.2%	41030077	6.4%	44490327	8.4%
	Loans to bank related parties and employees	D	1375962	1468646	6.7%	1328451	-9.5%	1972675	48.5%
		FX	2360374	2227656	-5.6%	3184329	42.9%	3088591	-3.0%
	Assets provisioning		-2996054	-3805466	27.0%	-3261673	-14.3%	-3241769	-0.6%
	Interest receivable		1585684	2112345	33.2%	2363989	11.9%	2444842	3.4%
	Fixed assets		15818497	21955413	38.8%	21620562	-1.5%	20852705	-3.6%
	Other securities		461429	3962181	758.7%	716645	-81.9%	668586	-6.7%
	Leasing, factoring (except interbank leasing and factoring)		4119383	4761969	15.6%	3311705	-30.5%	3478885	5.0%
	Other assets		7651633	8430001	10.2%	12504742	48.3%	10017945	-19.9%
	Total balance sheet assets		**282149632**	**363567544**	**28.9%**	**363820105**	**0.1%**	**393320212**	**8.1%**

				1	2	3	4	5	6	7
Liabilities	Correspondent accounts of banks		D	382245	286086	-25.2%	254301	-11.1%	766854	201.6%
			FX	2600224	5733448	120.5%	4048007	-29.4%	5472558	35.2%
	Other liabilities to banks (including the CBA)		D	9791288	16056501	64.0%	13452650	-16.2%	14802683	10.0%
			FX	11684488	13169228	12.7%	16584134	25.9%	18476728	11.4%
	Demand liabilities to legal entities		D	27260316	28561688	4.8%	31869702	11.6%	36357800	14.1%
			FX	34525739	52167290	51.1%	50214112	-3.7%	58890373	17.3%
	Demand liabilities to individuals		D	4680374	6490154	38.7%	6235981	-3.9%	6919859	11.0%
			FX	43940558	48357694	10.1%	42844436	-11.4%	40492304	-5.5%
	Term deposits of legal entities		D	6362295	9303891	46.2%	11911992	28.0%	11292403	-5.2%
			FX	16425099	28778271	75.2%	25745291	-10.5%	27535046	7.0%
	Term deposits of individuals		D	4137482	4847757	17.2%	5505389	13.6%	6731816	22.3%
			FX	45550489	48473761	6.4%	47276116	-2.5%	45169563	-4.5%
	Liabilities to the Government			11781222	13380620	13.6%	15282972	14.2%	17180195	12.4%
	Interest payable			1142657	1397495	22.3%	1513765	8.3%	1490199	-1.6%
	Other liabilities			11771844	21932021	86.3%	21032338	-4.1%	24898464	18.4%
	Total balance sheet liabilities			**232036320**	**298935905**	**28.8%**	**293771186**	**-1.7%**	**316476845**	**7.7%**
Capital	Actually paid-in statutory fund			36769005	40134956	9.2%	43768294	9.1%	50562881	15.5%
	General reserve			4242383	5161084	21.7%	5339924	3.5%	6449947	20.8%
	Repurchased own shares of bank			0	0	-	0	-	0	-
	Undistributed profit	Current period		6480851	17182041	165.1%	17931495	4.4%	5158251	-71,2%
		Previous period		614693	-2857405	-564.9%	-1275850	-55.3%	11005197	-962,6%
	Total balance sheet capital			**50113313**	**64631639**	**29.0%**	**70048919**	**8.4%**	**76843367**	**9.7%**
Off-balance sheet	Pledge received			207861354	304446478	46.5%	322270834	5.9%	342685743	6.3%
	o/w: government securities			5598668	4768657	-14.8%	4700040	-1.4%	2447828	-47.9%
	Guarantees received			28645711	50957543	77.9%	54513926	7.0%	62809615	15.2%
	Written off	Loans		9917368	9282606	-6.4%	9172625	-1.2%	8880624	-3.2%
		Receivables and other assets		3712817	3388264	-8.7%	4092571	20.8%	4241110	3.6%
		Interests		5363307	4258841	-20.6%	4062618	-4.6%	4024471	-0.9%
	Guarantees issued			4987041	5835763	17.0%	6225383	6.7%	8844009	42.1%
	Pledge provided	Total		835540	9561007	1044.3%	9188757	-3.9%	10031979	9.2%
		o/w: government securities		835540	1535702	83.8%	1282040	-16.5%	2330886	81.8%

Survey Balance Sheet Indicators of Commercial Banks

thousands of drams

			30.09.05	Change 30.09.05-30.06.05	31.12.05	Change 31.12.05-30.09.05	Annual 2005	Change 31.12.05-31.12.04	
			8	9	10	11	12	13	
Assets	Cash	D	10393164	28.3%	11193271	7.7%	11193271	4228303	60.7%
		FX	16807621	12.4%	15791693	-6.0%	15791693	-1953934	-11.0%
	Correspondent accounts with the CBA and other claims on the CBA	D	42536293	-8.4%	51006847	19.9%	51006847	23320528	84.2%
		FX	0	-	0	-	0	0	-
	Correspondent accounts with banks and other claims on banks	D	2152400	-17.7%	1433294	-33.4%	1433294	-1306776	-47.7%
		FX	76481176	-1.4%	67970937	-11.1%	67970937	-31498722	-31.7%
	Claims on other financial institutions	D	5855681	36.5%	5215286	-10.9%	5215286	3098519	146.4%
		FX	2807422	-7.0%	2585779	-7.9%	2585819	-2136276	-45.2%
	Government securities		68569662	10.2%	65563397	-4.4%	65576558	28980244	79.2%
	Liabilities on securities purchased through repo agreements and on foreign currency purchased through currency swap	D	-8547955	-39.0%	-6239541	-27.0%	-6239541	-2002555	47.3%
		FX	0	-	0	-	0	0	-
	Repo agreements (except interbank repos)	D	0	-	0	-	0	0	-
		FX	0	-	0	-	0	0	-
	Loans to legal entities	D	33904526	18.4%	40484971	19.4%	40484971	12954313	47.1%
		FX	58486382	-1.7%	63731078	9.0%	63731078	12039190	23.3%
	Loans to individuals	D	20096030	24.6%	23966654	19.3%	23966654	13103452	120.6%
		FX	45766341	2.9%	49823289	8.9%	49823289	11279071	29.3%
	Loans to bank related parties and employees	D	2059600	4.4%	2532112	22.9%	2532112	1063466	72.4%
		FX	3071478	-0.6%	3484976	13.5%	3484976	1257320	56.4%
	Assets provisioning		-3395876	4.8%	-3414264	0.5%	-3413727	391739	-10.3%
	Interest receivable		2530863	3.5%	2699311	6.7%	2700113	587768	27.8%
	Fixed assets		20920996	0.3%	25013999	19.6%	25013801	3058388	13.9%
	Other securities		790379	18.2%	999245	26.4%	999245	-2962936	-74.8%
	Leasing, factoring (except interbank leasing and factoring)		3544051	1.9%	3781838	6.7%	3781838	-980131	-20.6%
	Other assets		11696759	16.8%	13002634	11.2%	12827709	4397708	52.2%
	Total balance sheet assets		**416632150**	**5.9%**	**440834728**	**5.8%**	**440674145**	**77106601**	**21.2%**

				8	9	10	11	12	13	
Liabilities	Correspondent accounts of banks		D	502966	-34.4%	353082	-29.8%	353082	66996	23.4%
			FX	4748071	-13.2%	4621770	-2.7%	4621770	-1111678	-19.4%
	Other liabilities to banks (including the CBA)		D	16093597	8.7%	14212362	-11.7%	14212362	-1844139	-11.5%
			FX	19050073	3.1%	24172463	26.9%	24172463	11003235	83.6%
	Demand liabilities to legal entities		D	39870347	9.7%	50376539	26.4%	50376433	21814745	76.4%
			FX	51793665	-12.1%	42160840	-18.6%	42160840	-10006450	-19.2%
	Demand liabilities to individuals		D	10486205	51.5%	10277819	-2.0%	10277819	3787665	58.4%
			FX	41553702	2.6%	42300069	1.8%	42300069	-6057625	-12.5%
	Term deposits of legal entities		D	13058311	15.6%	14807606	13.4%	14807606	5503715	59.2%
			FX	37952966	37.8%	34344040	-9.5%	34344040	5565769	19.3%
	Term deposits of individuals		D	6336375	-5.9%	8646948	36.5%	8646948	3799191	78.4%
			FX	49411411	9.4%	58424772	18.2%	58424772	9951011	20.5%
	Liabilities to the Government			17191603	0.1%	16275264	-5.3%	16275264	2894644	21.6%
	Interest payable			1608302	7.9%	1888407	17.4%	1890445	492950	35.3%
	Other liabilities			21021344	-15.6%	22990936	9.4%	23049476	1117455	5.1%
	Total balance sheet liabilities			**330678938**	**4.5%**	**345852917**	**4.6%**	**345913389**	**46977484**	**15.7%**
Capital	Actually paid-in statutory fund			56116996	11.0%	60297882	7.5%	60297882	20162926	50.2%
	General reserve			6449947	0.0%	6449947	0.0%	6449947	1288863	25.0%
	Repurchased own shares of bank			0	-	0	-	0	0	-
	Undistributed profit	Current period		9347381	81.2%	12225675	30.8%	12004620	-5177421	-30,1%
		Previous period		10423633	-5.3%	9850677	-5.5%	9850677	12708082	-444,7%
	Total balance sheet capital			**85953212**	**11.9%**	**94981811**	**10.5%**	**94760756**	**30129117**	**46.6%**
Off-balance sheet	Pledge received			376709909	9.9%	416964496	10.7%	416964496	112518018	37.0%
	o/w: government securities			4152636	69.6%	3969832	-4.4%	3969832	-798825	-16.8%
	Guarantees received			66769368	6.3%	82770395	24.0%	82770395	31812852	62.4%
	Written off	Loans		8528530	-4.0%	9182312	7.7%	9182312	-100294	-1.1%
		Receivables and other assets		4313463	1.7%	4339260	0.6%	4339260	950996	28.1%
		Interests		3951129	-1.8%	3901036	-1.3%	3901036	-357805	-8.4%
	Guarantees issued			9705994	9.7%	8386373	-13.6%	8386373	2550610	43.7%
	Pledge provided	Total		10877801	8.4%	8986344	-17.4%	8986344	-574663	-6.0%
		o/w: government securities		3075455	31.9%	2184668	-29.0%	2184668	648966	42.3%

D - in Armenian drams (AMD) *FX – in foreign currency*

Survey Balance Sheet Indicators Structure of Commercial Banks

			31.12.03	31.12.04	Change 31.12.05-31.12.04	31.03.05	Change 31.03.05-31.12.04	30.06.05	Change 30.06.05-31.03.05
			1	2	3	4	5	6	7
Assets	Cash	D	1.7%	1.9%	0.2%	2.0%	0.1%	2.1%	0.0%
		FX	4.4%	4.9%	0.4%	5.9%	1.0%	3.8%	-2.1%
	Correspondent accounts with the CBA and other claims on the CBA	D	7.3%	7.6%	0.3%	8.3%	0.7%	11.8%	3.5%
		FX	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Correspondent accounts with banks and other claims on banks	D	0.3%	0.8%	0.4%	0.4%	-0.4%	0.7%	0.3%
		FX	30.2%	27.4%	-2.9%	21.7%	-5.7%	19.7%	-1.9%
	Claims on other financial institutions	D	0.8%	0.6%	-0.2%	0.8%	0.3%	1.1%	0.2%
		FX	1.7%	1.3%	-0.4%	1.2%	-0.1%	0.8%	-0.4%
	Government securities		11.1%	10.1%	-1.0%	12.5%	2.4%	15.8%	3.4%
	Liabilities on securities purchased through repo agreements and on foreign currency purchased through currency swap	D	-0.9%	-1.2%	-0.3%	-1.7%	-0.6%	-3.6%	-1.8%
		FX	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Repo agreements (except interbank repos)	D	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		FX	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Loans to legal entities	D	8.8%	7.6%	-1.2%	6.7%	-0.9%	7.3%	0.6%
		FX	13.1%	14.2%	1.1%	16.0%	1.8%	15.1%	-0.9%
	Loans to individuals	D	2.0%	3.0%	1.0%	3.4%	0.4%	4.1%	0.7%
		FX	8.6%	10.6%	2.0%	11.3%	0.7%	11.3%	0.0%
	Loans to bank related parties and employees	D	0.5%	0.4%	-0.1%	0.4%	0.0%	0.5%	0.1%
		FX	0.8%	0.6%	-0.2%	0.9%	0.3%	0.8%	-0.1%
	Assets provisioning		-1.1%	-1.0%	0.0%	-0.9%	0.2%	-0.8%	0.1%
	Interest receivable		0.6%	0.6%	0.0%	0.6%	0.1%	0.6%	0.0%
	Fixed assets		5.6%	6.0%	0.4%	5.9%	-0.1%	5.3%	-0.6%
	Other securities		0.2%	1.1%	0.9%	0.2%	-0.9%	0.2%	0.0%
	Leasing, factoring (except interbank leasing and factoring)		1.5%	1.3%	-0.2%	0.9%	-0.4%	0.9%	0.0%
	Other assets		2.7%	2.3%	-0.4%	3.4%	1.1%	2.5%	-0.9%
	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	Correspondent accounts of banks		D	0.2%	0.1%	-0.1%	0.1%	0.0%	0.2%	0.2%
			FX	1.1%	1.9%	0.8%	1.4%	-0.5%	1.7%	0.4%
	Other liabilities to banks (including the CBA)		D	4.2%	5.4%	1.2%	4.6%	-0.8%	4.7%	0.1%
			FX	5.0%	4.4%	-0.6%	5.6%	1.2%	5.8%	0.2%
	Demand liabilities to legal entities		D	11.7%	9.6%	-2.2%	10.8%	1.3%	11.5%	0.6%
			FX	14.9%	17.5%	2.6%	17.1%	-0.4%	18.6%	1.5%
	Demand liabilities to individuals		D	2.0%	2.2%	0.2%	2.1%	0.0%	2.2%	0.1%
			FX	18.9%	16.2%	-2.8%	14.6%	-1.6%	12.8%	-1.8%
	Term deposits of legal entities		D	2.7%	3.1%	0.4%	4.1%	0.9%	3.6%	-0.5%
			FX	7.1%	9.6%	2.5%	8.8%	-0.9%	8.7%	-0.1%
	Term deposits of individuals		D	1.8%	1.6%	-0.2%	1.9%	0.3%	2.1%	0.3%
			FX	19.6%	16.2%	-3.4%	16.1%	-0.1%	14.3%	-1.8%
	Liabilities to the Government			5.1%	4.5%	-0.6%	5.2%	0.7%	5.4%	0.2%
	Interest payable			0.5%	0.5%	0.0%	0.5%	0.0%	0.5%	0.0%
	Other liabilities			5.1%	7.3%	2.3%	7.2%	-0.2%	7.9%	0.7%
	Total balance sheet liabilities			**100.0%**	**100.0%**	**0.0%**	**100.0%**	**0.0%**	**100.0%**	**0.0%**
Capital	Actually paid-in statutory fund			73.4%	62.1%	-11.3%	62.5%	0.4%	65.8%	3.3%
	General reserve			8.5%	8.0%	-0.5%	7.6%	-0.4%	8.4%	0.8%
	Repurchased own shares of bank			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Undistributed profit (loss)	Current period		12.9%	26.6%	13.7%	25.6%	-1.0%	6.7%	-18,9%
		Previous period		1.2%	-4.4%	-5.6%	-1.8%	2.6%	14.3%	16,1%
	Total balance sheet capital			**100.0%**	**100.0%**	**0.0%**	**100.0%**	**0.0%**	**100.0%**	**0.0%**

Survey Balance Sheet Indicators of Commercial Banks

			30.09.05	Change 30.09.05-30.06.05	31.12.05	Change 31.12.05-30.09.05	Annual 2005	Change 31.12.05-31.12.04
			8	9	10	11	12	13
Assets	Cash	D	2.5%	0.4%	2.5%	0.0%	2.5%	0.6%
		FX	4.0%	0.2%	3.6%	-0.5%	3.6%	-1.3%
	Correspondent accounts with the CBA and other claims on the CBA	D	10.2%	-1.6%	11.6%	1.4%	11.6%	4.0%
		FX	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Correspondent accounts with banks and other claims on banks	D	0.5%	-0.1%	0.3%	-0.2%	0.3%	-0.4%
		FX	18.4%	-1.4%	15.4%	-2.9%	15.4%	-11.9%
	Claims on other financial institutions	D	1.4%	0.3%	1.2%	-0.2%	1.2%	0.6%
		FX	0.7%	-0.1%	0.6%	-0.1%	0.6%	-0.7%
	Government securities		16.5%	0.6%	14.9%	-1.6%	14.9%	4.8%
	Liabilities on securities purchased through repo agreements and on foreign currency purchased through currency swap	D	-2.1%	1.5%	-1.4%	0.6%	-1.4%	-0.3%
		FX	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Repo agreements (except interbank repos)	D	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		FX	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Loans to legal entities	D	8.1%	0.9%	9.2%	1.0%	9.2%	1.6%
		FX	14.0%	-1.1%	14.5%	0.4%	14.5%	0.2%
	Loans to individuals	D	4.8%	0.7%	5.4%	0.6%	5.4%	2.5%
		FX	11.0%	-0.3%	11.3%	0.3%	11.3%	0.7%
	Loans to bank related parties and employees	D	0.5%	0.0%	0.6%	0.1%	0.6%	0.2%
		FX	0.7%	0.0%	0.8%	0.1%	0.8%	0.2%
	Assets provisioning		-0.8%	0.0%	-0.8%	0.0%	-0.8%	0.3%
	Interest receivable		0.6%	0.0%	0.6%	0.0%	0.6%	0.0%
	Fixed assets		5.0%	-0.3%	5.7%	0.7%	5.7%	-0.4%
	Other securities		0.2%	0.0%	0.2%	0.0%	0.2%	-0.9%
	Leasing, factoring (except interbank leasing and factoring)		0.9%	0.0%	0.9%	0.0%	0.9%	-0.5%
	Other assets		2.8%	0.3%	2.9%	0.1%	2.9%	0.6%
	Total balance sheet assets		**100.0%**	**0.0%**	**100.0%**	**0.0%**	**100.0%**	**0.0%**

				8	9	10	11	12	13
Liabilities	Correspondent accounts of banks		D	0.2%	-0.1%	0.1%	-0.1%	0.1%	0.0%
			FX	1.4%	-0.3%	1.3%	-0.1%	1.3%	-0.6%
	Other liabilities to banks (including the CBA)		D	4.9%	0.2%	4.1%	-0.8%	4.1%	-1.3%
			FX	5.8%	-0.1%	7.0%	1.2%	7.0%	2.6%
	Demand liabilities to legal entities		D	12.1%	0.6%	14.6%	2.5%	14.6%	5.0%
			FX	15.7%	-2.9%	12.2%	-3.5%	12.2%	-5.3%
	Demand liabilities to individuals		D	3.2%	1.0%	3.0%	-0.2%	3.0%	0.8%
			FX	12.6%	-0.2%	12.2%	-0.3%	12.2%	-3.9%
	Term deposits of legal entities		D	3.9%	0.4%	4.3%	0.3%	4.3%	1.2%
			FX	11.5%	2.8%	9.9%	-1.5%	9.9%	0.3%
	Term deposits of individuals		D	1.9%	-0.2%	2.5%	0.6%	2.5%	0.9%
			FX	14.9%	0.7%	16.9%	2.0%	16.9%	0.7%
	Liabilities to the Government			5.2%	-0.2%	4.7%	-0.5%	4.7%	0.2%
	Interest payable			0.5%	0.0%	0.5%	0.1%	0.5%	0.1%
	Other liabilities			6.4%	-1.5%	6.6%	0.3%	6.7%	-0.7%
	Total balance sheet liabilities			**100.0%**	**0.0%**	**100.0%**	**0.0%**	**100.0%**	**0.0%**
Capital	Actually paid-in statutory fund			65.3%	-0.5%	63.5%	-1.8%	63.6%	1.5%
	General reserve			7.5%	-0.9%	6.8%	-0.7%	6.8%	-1.2%
	Repurchased own shares of bank			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Undistributed profit (loss)	Current period		10.9%	4.2%	12.9%	2.0%	12.7%	-13,9%
		Previous period		12.1%	-2.2%	10.4%	-1.8%	10.4%	14,8%
	Total balance sheet capital			**100.0%**	**0.0%**	**100.0%**	**0.0%**	**100.0%**	**0.0%**

D - in Armenian drams (AMD) *FX – in foreign currency*

Appendix 4

Change in Commercial Banks' Regulatory Capital Accounts

thousands of drams

	At the beginning of period	Change within the period	At the end of period
Total capital	58685927	23792010	82477937
Tier 1 capital	53298050	24024877	77322927
Statutory fund	40134956	20162926	60297882
Note: number of shares sold (pcs)	2566294	886158	3452452
General reserve	5161084	1288863	6449947
Undistributed profit	14055805	7799490	21855295
Amounts deducted from Tier 1 capital	6031395	3819542	9850937
Long-term subordinate loans	0	0	0
Repurchased own shares of bank	0	0	0
Intangible assets (except for assets set forth in Regulation 2)	204676	-71534	133142
Investments in statutory capital of other banks	1551159	-927190	623969
Tangible assets not in use	2515525	-220321	2295204
Amount exceeding the balance sheet value of tangible assets and the balance amount of fixed capital	1065490	5284537	6350027
Capital investments in bank's own and leased fixed assets	694545	-245950	448595
Tier 2 capital	8391016	-1976012	6415004
Revaluation reserve	4999623	1241160	6240783
Reserve generated from FX differences due to balance sheet consolidation	0	0	0
Other reserves	-9487	-116350	-125837
Long-term subordinate debt	3400880	-3100822	300058

Non-Residents' Participation in Statutory Fund of Commercial Banks

thousands of drams

	31.12.03	Change within the period	31.12.04	Change within the period	31.12.05
Statutory fund	36506421	3365952	39872373	18327454	58199827
o/w: non-residents	17065230	3923222	20988452	9768486	30756938
share of non-residents (%)	46.70%	5.90%	52.60%	0.25%	52.85%

Appendix 6

Commercial Banks - Income and Expense

thousands of drams

	31.12. 03	31.12. 04	31.12. 04*	Change 31.12. 04- 31.12.03	31. 03. 05	30. 06. 05	30. 09. 05	31.12. 05	Annual 31.12. 05	Change 31.12. 05- 31.12. 04*
	1	2	3	4	5	6	7	8	9	10
Interest received from correspondent accounts	261917	228767	228766	-12.66%	89663	242467	398015	525011	525011	129.5%
Interest received from funds allocated in the CBA	472784	541284	538876	14.49%	69795	75355	117948	133421	133421	-75.2%
Interest received from funds allocated in commercial banks and other financial institutions	601887	604191	604191	0.38%	136634	303511	484901	665163	665163	10.1%
Interest received from loans to economy	15956529	20529181	20528466	28.66%	5716487	12116999	18960741	26534128	26534128	29.3%
Interest received from overdraft	491091	317153	317153	-35.42%	52051	117713	154288	215901	215901	-31.9%
Interest received from credit cards	40717	140519	140519	245.11%	45337	100644	165229	248966	248966	77.2%
Interest received from T-bills	3583888	2961637	2961637	-17.36%	552614	1106402	1732466	2376868	2409268	-18.7%
Interest received from repo agreements	318642	159818	159599	-49.84%	27261	69212	120580	186282	186282	16.7%
Interest received from leasing	3645	0	0	-100.00%	0	0	3421	3421	3421	100.0%
Other interest income	694914	516692	1539227	-25.65%	451315	872867	1385519	2003765	2003730	30.2%
Total interest income	22426014	27022186	27018433	20.49%	7141156	15005170	23523108	32892926	32925291	21.9%
Interest paid on correspondent accounts	15173	49614	49614	226.99%	19612	41756	63183	90278	90278	82.0%
Interest paid on bank accounts and demand deposits	381196	485684	485684	27.41%	152486	333651	549067	699747	699747	44.1%
Interest paid on funds attracted from the CBA	636953	847003	847003	32.98%	231763	462132	692646	919824	919824	8.6%
Interest paid on liabilities on repo agreements	32736	42793	42793	30.72%	4819	18573	32678	46137	46137	7.8%
Interest paid on funds attracted from commercial banks and other financial institutions	343942	390362	390362	13.50%	143140	373022	619184	905678	905678	132.0%
Interest paid on term deposits	4512406	4788978	4788978	6.13%	1332533	2711410	4212658	5804482	5804482	21.2%
Interest paid on funds attracted from international financial organizations	303463	286272	286272	-5.66%	88120	175192	271592	409103	409103	42.9%
Interest paid on overdraft	1335	1059	1059	-20.67%	99	99	1895	2987	2987	182.1%
Interest expenses on deposit insurance	225297	523675	523675	132.44%	58625	113928	165105	224806	224806	-57.1%

Expenses for accrued and not collected interest on non-performing assets	557661	474246	474246	-14.96%	101368	247661	414375	559660	559660	18.0%
Other interest expenses	363138	27058	386057	-92.55%	156483	319140	474781	624174	626212	62.2%
Total interest expenses	**7373300**	**8275743**	**8275743**	**12.2%**	**2289048**	**4796564**	**7497164**	**10286876**	**10288914**	**24.3%**
Net interest income	***15052714***	***18746443***	***18742690***	***24.5%***	***4852108***	***10208606***	***16025944***	***22606050***	***22636376***	***20.8%***
Commissions received	8520639	7619674	7614112	-10.57%	1664402	3612707	5858843	9805315	9804722	28.8%
Income from guarantees, acceptance and L/C operations, trust management	347919	277609	277609	-20.21%	64528	159880	229863	309711	309812	11.6%
Net income from hedging derivatives	3530	-247	-247	-107.00%	0	0	0	0	0	-100.0%
Net income from factoring	68333	275912	275912	303.78%	84676	149988	226431	296543	296543	7.5%
Income from investments in other organizations	54425	638498	638498	1073.17 %	44997	196341	517529	631517	631517	-1.1%
Net income from sale of securities	236431	427445	426909	80.79%	41257	198719	275351	416073	471686	10.5%
Net income from FX purchase and sale	2501603	3693332	3677879	47.64%	1084566	2607066	4297252	6034801	6034803	64.1%
Positive (negative) exchange rate difference from FX revaluation	-513863	-428237	-811641	-16.66%	-14520	-168924	-305053	-394516	-394516	-51.4%
Net income from disposal of fixed assets	8884	91844	91328	933.81%	-22803	-102960	-104744	-113252	-113252	-224.0%
Net income from revaluation of fixed assets	5509	7819	7877	41.93%	-25846	-25846	-25846	-15684	-15684	-299.1%
Fines and penalties received	590799	410001	409826	-30.60%	89854	194742	296498	455699	455699	11.2%
Other non-interest income	1266558	1449305	2758581	14.43%	1023626	3970519	4794737	4640308	4566336	65.5%
Total non-interest income	**15090767**	**15284629**	**15366641**	**16.76%**	**4034737**	**10792233**	**16060863**	**22066517**	**22047666**	**43.5%**
Salary and salary-equivalents (other remuneration and financing of social requirements)	5886662	7710963	7650942	30.99%	2067019	4383102	6859728	10287417	10287417	34.5%
Business trip costs	337150	348477	347131	3.36%	72962	198421	279146	376697	376697	8.5%
Contribution to State Fund of Social Insurance of RA	684018	788023	780776	15.21%	213048	448792	709809	1047447	1047440	34.2%
Taxes, duties, other mandatory pays	805375	761323	757440	-5.47%	185471	368283	523755	785477	786989	3.9%
Depreciation	1826832	2375702	2338631	30.04%	702046	1417813	2158217	2919339	2919537	24.8%
Leasing charge for bank premises and other fixed assets	528567	658111	657580	24.51%	156251	333451	538036	758587	758621	15.4%
Advertisement and representative costs	842913	862835	862492	2.36%	204267	401391	607290	942661	943784	9.4%
Office and printing costs	352905	355707	354475	0.79%	97703	188464	293417	426788	426788	20.4%
Audit and consultation services costs	204322	247554	247554	21.16%	45378	98161	154689	214891	214891	-13.2%
Bank equipment maintenance costs	196811	215921	215759	9.71%	56652	111560	175432	256179	256329	18.8%
Transport costs	250893	270838	268083	7.95%	70712	141554	214189	304934	304952	13.8%
Communication costs	787587	952560	938230	20.95%	236171	496001	753642	1005569	1007226	7.4%
Fines and penalties paid	54194	28857	28857	-46.75%	3095	8358	24614	44978	45931	59.2%
Training costs	53314	41524	41449	-22.11%	11123	19221	33674	44547	44547	7.5%

Other non-interest expenses	3789868	1757843	4225448	-53.62%	934682	5433974	6443996	7914451	7997131	89.3%
Total non-interest expenses	**16601410**	**19971210**	**19714848**	**20.3%**	**5056577**	**14048545**	**19769631**	**27329960**	**27418278**	**39.1%**
Net non-interest income	***-3510645***	***-4686581***	***-4348207***	***33.5%***	***-1021840***	***-3256312***	***-3708768***	***-5263445***	***-5370612***	***23.5%***
Provisions to general reserve on loans and receivables loss	5165311	8112327	8097719	57.05%	2181888	4883450	7675033	10283403	10283393	27.0%
Provisions to special reserve on loans and receivables loss	11202553	16201558	8303935	44.62%	2553860	5386570	7849862	11309465	11309465	36.2%
Provisions to reserve on securities loss	21541	5064	5013	-76.49%	477	9154	9154	152303	152303	2938.2%
Total provisions	**16389405**	**24318949**	**16406667**	**48.38%**	**4736224**	**10279175**	**15534049**	**21745171**	**21745161**	**32.5%**
Recoveries from general reserve on loans and receivables loss	4635761	7387766	7383611	59.36%	2038926	4413309	7230157	9683165	9683691	31.2%
Recoveries from special reserve on loans and receivables loss	8489341	22716600	7598885	167.59%	2139606	5355396	7504564	10085957	10085957	32.7%
Recoveries from reserve on securities loss	28350	28905	27723	1.96%	0	189	8830	8830	8830	-68.1%
Total recoveries	**13153452**	**30133271**	**15010219**	**129.09%**	**4178532**	**9768894**	**14743551**	**19777952**	**19778478**	**31.8%**
Net provisions	***3235953***	***-5814322***	***1396448***	***-279.68%***	***557692***	***510280***	***790498***	***1967219***	***1966683***	***40.8%***
Pre-tax profit	**8306118**	**19874184**	**12998035**	**139.27%**	**3272576**	**6442013**	**11526677**	**15375388**	**15299082**	**17.7%**
Profit tax	1790459	2718137	2718137	51.81%	618235	1273287	2179295	3176347	3321097	22.2%
Net profit	**6515659**	**17156047**	**10279898**	**163.30%**	**2654341**	**5168726**	**9347382**	**12199041**	**11977985**	**16.5%**
Dividends accrued	2343	0	0	-100.00%	0	0	0	0	0	-
Undistributed profit	**6513316**	**17156047**	**10279898**	**163%**	**2654341**	**5168726**	**9347382**	**12199041**	**11977985**	**16.5%**

** Indicators do not include data on ArmCommunication Bank.*

Armenian Banking System – Return on Assets and Return on Equity

thousands of drams

	2003	2004*	2005
Return on Assets			
Banking system	2.70%	3.30%	3.01%
Minimum (on profitable banks)	0.04%	0.10%	0.60%
Maximum (on profitable banks)	11.50%	10.90%	5.10%
Return on Equity			
Banking system	14.40%	18.50%	15.25%
Minimum (on profitable banks)	0.20%	0.20%	1.90%
Maximum (on profitable banks)	46.00%	43.20%	20.10%

** Indicators do not include data on ArmCommunication Bank.*

Appendix 8

Loan Investments of Commercial Banks

thousands of drams

Indicators	2003					
	Up to 1 year		1 year and more		Total	
	D	FX	D	FX	D	FX
1. Total loans, deposits, factoring, leasing, repo agreements (2+3)	21565930	58618230	13900314	34955705	35466244	93573936
1.1 Term assets	20334348	57440512	13900314	31157223	34234662	88597736
o/w: loans	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
o/w: loans	385695	310777		2830000	385695	3140777
interbank loans, deposits, factoring, leasing, repo agreements						
1.3 Overdue assets	565086	863109			565086	863109
o/w: 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 Term 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 with residents by sectors, o/w:	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 products	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-building and electrical	206296	135236	61460	116979	267756	252215
other branches 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 (including mortgage)	2635256	12130873	1441538	7006390	4076794	19137263
3.9 Other sectors of economy	391052	819298	1158953	1159077	1550005	1978375

Loan Investments of Commercial Banks

thousands of drams

Indicators	2004					
	Up to 1 year		1 year and more		Total	
	D	FX	D	FX	D	FX
1. Total loans, deposits, factoring, leasing, repo agreements (2+3)	27254809	54609924	18780183	55066890	46034991	109676814
1.1 Term assets	24751274	53740209	18780183	51757785	43531456	105497994
o/w: loans	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
o/w: loans	474147	138102		2477784	474147	2615886
interbank loans, deposits, factoring, leasing, repo agreements	500000				500000	
1.3 Overdue assets	432285	730534		831321	432285	1561855
o/w: 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 Term 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 with residents by sectors, o/w:	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 products	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-building and electrical	111000	776620	21745	342963	132745	1119583
other branches 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 (including mortgage)	5014733	17051651	2503059	14748790	7517792	31800441
3.9 Other sectors of economy	900851	1193757	713530	1827265	1614381	3021022

Loan Investments of Commercial Banks

thousands of drams

Indicators	2005					
	Up to 1 year		1 year and more		Total	
	D	FX	D	FX	D	FX
1. Total loans, deposits, factoring, leasing, repo agreements (2+3)	35917636	54757853	39589441	77879518	75507077	132637370
1.1 Term assets	29910506	42341237	42961838	89268516	72872344	131609752
o/w: loans	654674	11538394	65646643	105972725	66301317	117511119
interbank loans, deposits, factoring, leasing, repo agreements	2386644	280539	-1731970	12338311	654674	12618850
1.2 Prolonged assets	500146	280448	1886498	42859	2386644	323307
o/w: loans	0	0	500146	323216	500146	323216
interbank loans, deposits, factoring, leasing, repo agreements	248089	704311	-248089	-704311	0	0
1.3 Overdue assets	204274	693628	43815	10683	248089	704311
o/w: loans	0	0	204274	693628	204274	693628
interbank loans, deposits, factoring, leasing, repo agreements	0	0	0	0	0	0
2. Loans, deposits, factoring, leasing, repo agreements with non-residents	162787	11227956	159934	8092417	322721	19320373
2.1 Term assets	0	112548	322512	19094035	322512	19206583
2.2 Prolonged assets	209	1242	-209	111306	0	112548
2.3 Overdue assets	0	0	209	1242	209	1242
3. Loans, deposits, factoring, leasing, repo agreements with residents by sectors, o/w:	9514568	6062510	65669788	107254487	75184356	113316997
3.1 Industry	8786	980372	17831072	20278441	17839858	21258813
mining	3632374	1306539	-3597345	320415	35029	1626954
energy	2039541	2047956	2816394	1759549	4855935	3807505
food products	221811	317057	6248937	8363824	6470748	8680881
light	1493330	146751	-877660	566113	615670	712864
chemical	898465	274535	609383	833376	1507848	1107911
building materials	30660	341269	1767811	811580	1798471	1152849
precious items	9163	225095	176623	345501	185786	570596
metallurgy	62345	113839	-29787	111256	32558	225095
machine-building and electrical	1118093	309097	-964298	539150	153795	848247
other branches of industry	1486244	2545298	697774	-19387	2184018	2525911
3.2 Agriculture	892361	1439902	3024988	5946867	3917349	7386769
3.3 Construction	729746	408101	2414155	4324268	3143901	4732369
3.4 Transport and communication	7609352	10353491	-5661765	-8649676	1947587	1703815
3.5 Trade	4590089	8758584	12445369	16370084	17035459	25128668
3.6 Public catering and other services	5706823	3399074	-1081778	587838	4625045	3986912
3.7 Financial sector	654674	2006006	5074149	1645692	5728823	3651698
3.8 Consumer loans (including mortgage)	930197	1128066	17910067	41982730	18840264	43110796
3.9 Other sectors of economy	266890	276951	1839179	2080206	2106070	2357157

D - in Armenian drams (AMD) *FX- in foreign currency*

Commercial Banks – Loans Investments by Sectors of Economy and Maturity

Indicators	2003					
	Up to 1 year		1 year and more		Total	
	D	FX	D	FX	D	FX
1. Total loans, deposits, factoring, leasing, repo agreements (2+3)	16.7%	45.4%	10.8%	27.1%	27.5%	72.5%
1.1 Term assets	15.8%	44.5%	10.8%	24.1%	26.5%	68.7%
o/w: loans	12.8%	27.0%	10.7%	22.6%	23.5%	49.6%
interbank loans, deposits, factoring, leasing, repo agreements	0.3%	16.6%	0.0%	1.0%	0.3%	17.6%
1.2 Prolonged assets	0.5%	0.2%	0.0%	2.9%	0.5%	3.2%
o/w: loans	0.3%	0.2%	0.0%	2.2%	0.3%	2.4%
interbank loans, deposits, factoring, leasing, repo agreements	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
1.3 Overdue assets	0.4%	0.7%	0.0%	0.0%	0.4%	0.7%
o/w: loans	0.4%	0.6%	0.0%	0.0%	0.4%	0.6%
interbank loans, deposits, factoring, leasing, repo agreements	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2. Loans, deposits, factoring, leasing, repo agreements with non-residents	0.5%	17.1%	1.5%	2.0%	2.0%	19.1%
2.1 Term assets	0.2%	17.0%	1.5%	2.0%	1.7%	19.0%
2.2 Prolonged assets	0.0%	0.1%	0.0%	0.0%	0.0%	0.1%
2.3 Overdue assets	0.3%	0.0%	0.0%	0.0%	0.3%	0.0%
3. Loans, deposits, factoring, leasing, repo agreements with residents by sectors, o/w:	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 products	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-building and electrical	0.2%	0.1%	0.0%	0.1%	0.2%	0.2%
other branches 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 (including mortgage)	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%

Commercial Banks – Loans Investments by Sectors of Economy and Maturity

Indicators	2004					
	Up to 1 year		1 year and more		Total	
	D	FX	D	FX	D	FX
1. Total loans, deposits, factoring, leasing, repo agreements (2+3)	17.5%	35.1%	12.1%	35.4%	29.6%	70.4%
1.1 Term assets	15.9%	34.5%	12.1%	33.2%	28.0%	67.8%
o/w: loans	13.1%	28.1%	12.0%	32.1%	25.1%	60.2%
interbank loans, deposits, factoring, leasing, repo agreements	0.9%	6.1%	0.0%	0.6%	0.9%	6.7%
1.2 Prolonged assets	1.3%	0.1%	0.0%	1.6%	1.3%	1.7%
o/w: loans	0.3%	0.1%	0.0%	1.6%	0.3%	1.7%
interbank loans, deposits, factoring, leasing, repo agreements	0.3%	0.0%	0.0%	0.0%	0.3%	0.0%
1.3 Overdue assets	0.3%	0.5%	0.0%	0.5%	0.3%	1.0%
o/w: loans	0.2%	0.4%	0.0%	0.0%	0.2%	0.4%
interbank loans, deposits, factoring, leasing, repo agreements	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2. Loans, deposits, factoring, leasing, repo agreements with non-residents	0.0%	6.4%	0.5%	3.3%	0.5%	9.7%
2.1 Term assets	0.0%	6.4%	0.5%	2.7%	0.5%	9.1%
2.2 Prolonged assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2.3 Overdue assets	0.0%	0.0%	0.0%	0.5%	0.0%	0.6%
3. Loans, deposits, factoring, leasing, repo agreements with residents by sectors, o/w:	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 products	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%	0.0%
machine-building and electrical	0.1%	0.5%	0.0%	0.2%	0.1%	0.7%
other branches 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%	0.0%	0.2%	2.6%	3.1%
3.8 Consumer loans (including mortgage)	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%

Commercial Banks – Loans Investments by Sectors of Economy and Maturity

Indicators	2005					
	Up to 1 year		1 year and more		Total	
	D	FX	D	FX	D	FX
1. Total loans, deposits, factoring, leasing, repo agreements (2+3)	17.26%	26.31%	19.02%	37.42%	36.28%	63.72%
1.1 Term assets	14.37%	20.34%	20.64%	42.89%	35.01%	63.23%
o/w: loans	0.31%	5.54%	31.54%	50.91%	31.85%	56.46%
interbank loans, deposits, factoring, leasing, repo agreements	1.15%	0.13%	-0.83%	5.93%	0.31%	6.06%
1.2 Prolonged assets	0.24%	0.13%	0.91%	0.02%	1.15%	0.16%
o/w: loans	0.00%	0.00%	0.24%	0.16%	0.24%	0.16%
interbank loans, deposits, factoring, leasing, repo agreements	0.12%	0.34%	-0.12%	-0.34%	0.00%	0.00%
1.3 Overdue assets	0.10%	0.33%	0.02%	0.01%	0.12%	0.34%
o/w: loans	0.00%	0.00%	0.10%	0.33%	0.10%	0.33%
interbank loans, deposits, factoring, leasing, repo agreements	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2. Loans, deposits, factoring, leasing, repo agreements with non-residents	0.08%	5.39%	0.08%	3.89%	0.16%	9.28%
2.1 Term assets	0.00%	0.05%	0.15%	9.17%	0.15%	9.23%
2.2 Prolonged assets	0.00%	0.00%	0.00%	0.05%	0.00%	0.05%
2.3 Overdue assets	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
3. Loans, deposits, factoring, leasing, repo agreements with residents by sectors, o/w:	4.57%	2.91%	31.55%	51.53%	36.12%	54.44%
3.1 Industry	0.00%	0.47%	8.57%	9.74%	8.57%	10.21%
mining	1.75%	0.63%	-1.73%	0.15%	0.02%	0.78%
energy	0.98%	0.98%	1.35%	0.85%	2.33%	1.83%
food products	0.11%	0.15%	3.00%	4.02%	3.11%	4.17%
light	0.72%	0.07%	-0.42%	0.27%	0.30%	0.34%
chemical	0.43%	0.13%	0.29%	0.40%	0.72%	0.53%
building materials	0.01%	0.16%	0.85%	0.39%	0.86%	0.55%
precious items	0.00%	0.11%	0.08%	0.17%	0.09%	0.27%
metallurgy	0.03%	0.05%	-0.01%	0.05%	0.02%	0.11%
machine-building and electrical	0.54%	0.15%	-0.46%	0.26%	0.07%	0.41%
other branches of industry	0.71%	1.22%	0.34%	-0.01%	1.05%	1.21%
3.2 Agriculture	0.43%	0.69%	1.45%	2.86%	1.88%	3.55%
3.3 Construction	0.35%	0.20%	1.16%	2.08%	1.51%	2.27%
3.4 Transport and communication	3.66%	4.97%	-2.72%	-4.16%	0.94%	0.82%
3.5 Trade	2.21%	4.21%	5.98%	7.86%	8.18%	12.07%
3.6 Public catering and other services	2.74%	1.63%	-0.52%	0.28%	2.22%	1.92%
3.7 Financial sector	0.31%	0.96%	2.44%	0.79%	2.75%	1.75%
3.8 Consumer loans (including mortgage)	0.45%	0.54%	8.60%	20.17%	9.05%	20.71%
3.9 Other sectors of economy	0.13%	0.13%	0.88%	1.00%	1.01%	1.13%

Allocation of Bank Loan Investments (%)

31.12.05	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
Allocation of loan investments by sectors of economy										
1. Industry	11.3	17.4	30.8	29.0	14.1	34.9	82.1	5.7	0.7	11.3
mining	0.0	0.0	0.0	6.0	0.0	0.5	0.0	0.0	0.0	0.1
energy	0.0	0.0	11.9	0.0	0.0	7.8	32.4	0.1	0.0	0.1
food products	4.1	14.6	6.6	11.1	6.0	19.8	17.5	3.7	0.0	5.8
light	0.9	0.0	0.2	1.1	1.8	0.0	0.0	0.1	0.0	1.6
chemical	0.1	0.3	5.8	4.7	0.8	0.0	32.3	0.2	0.0	0.1
building materials	3.0	0.0	0.2	0.0	0.4	0.4	0.0	0.4	0.0	2.1
precious metals	0.1	0.0	2.1	0.0	2.7	0.0	0.0	0.3	0.0	0.2
metallurgy	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.1
machine-building and electrical	0.0	0.0	0.8	0.4	0.0	0.2	0.0	0.7	0.0	1.3
other branches of industry	3.0	2.5	1.9	5.6	2.3	6.2	0.0	0.3	0.7	0.0
2. Agriculture	1.0	0.0	2.5	0.4	0.1	1.5	0.6	0.1	2.4	35.5
cattle breeding	0.0	0.0	0.1	0.1	0.0	0.3	0.6	0.0	2.4	26.0
plant growing	1.0	0.0	2.4	0.3	0.0	1.2	0.0	0.1	0.0	9.5
3. Construction	0.0	0.0	6.2	0.4	0.1	7.4	0.3	3.0	11.0	0.8
4. Transport and communication	7.2	6.2	1.4	0.2	5.1	2.7	2.3	0.4	0.0	1.7
5. Trade	36.8	18.6	26.8	31.6	24.7	19.8	13.2	28.5	0.6	23.3
wholesale	30.4	6.9	16.4	23.3	13.1	19.3	9.1	28.4	0.0	10.2
retail	6.3	11.7	10.4	8.3	11.6	0.5	4.0	0.1	0.6	13.1
6. Catering and other services	3.6	1.3	3.1	3.7	13.1	0.9	0.5	0.7	0.2	4.0
7. Financial sector	2.2	9.5	3.4	0.7	0.1	0.7	0.0	8.8	21.7	1.5
o/w: resident banks	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.5
8. Consumer loans	18.4	4.5	22.9	4.9	37.5	28.3	1.0	45.9	63.4	21.9
9. Mortgage lending	19.1	40.5	1.5	28.8	2.1	2.6	0.0	4.6	0.0	0.0
10. Other sectors of economy	0.4	1.9	1.4	0.3	3.1	1.1	0.0	2.2	0.1	0.0
Total by banks	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Allocation of Bank Loan Investments (%)

31.12.05	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15	Bank 16	Bank 17	Bank 18	Bank 19	Bank 20	Bank 21	Total by sectors
Allocation of loan investments by sectors of economy												
1. Industry	9.1	52.3	14.0	19.4	4.6	21.6	14.0	6.1	13.7	22.2	56.9	20.7
mining	0.0	0.0	0.0	0.0	0.0	0.1	0.6	1.3	0.0	0.0	18.0	0.9
energy	0.0	50.8	0.0	6.0	0.0	0.0	0.0	0.0	0.7	4.4	21.4	4.6
food products	3.8	0.0	7.3	8.3	2.2	4.2	9.0	3.4	9.1	7.1	14.7	8.0
light	0.0	0.0	0.2	1.0	0.0	1.9	0.0	1.2	0.5	0.7	2.7	0.7
chemical	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	1.4	0.0	0.0	1.4
building materials	5.3	0.0	0.0	0.7	0.0	0.0	1.8	0.0	1.8	6.5	0.0	1.6
precious metals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.4
metallurgy	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
machine-building and electrical	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	1.6	0.0	0.5
other branches of industry	0.0	0.0	6.5	3.2	2.3	15.0	2.5	0.0	0.2	1.9	0.0	2.5
2. Agriculture	0.0	0.0	0.5	0.0	0.0	1.5	13.5	0.0	4.0	1.2	0.0	6.0
cattle breeding	0.0	0.0	0.5	0.0	0.0	1.5	3.4	0.0	4.0	0.8	0.0	3.7
plant growing	0.0	0.0	0.0	0.0	0.0	0.0	10.1	0.0	0.0	0.4	0.0	2.3
3. Construction	0.0	0.0	10.7	1.0	15.9	0.3	1.5	0.2	9.6	6.4	18.0	4.2
4. Transport and communication	0.0	0.0	0.0	0.7	0.2	1.1	0.8	1.3	4.7	3.2	0.0	1.9
5. Trade	3.2	0.0	23.8	23.5	9.2	21.5	18.9	51.0	28.1	18.9	0.0	22.4
wholesale	3.2	0.0	21.0	12.9	9.0	14.2	4.0	50.2	15.4	14.4	0.0	14.7
retail	0.0	0.0	2.7	10.6	0.2	7.3	14.9	0.9	12.7	4.6	0.0	7.6
6. Catering and other services	0.0	0.0	2.0	6.3	0.4	7.5	8.4	0.3	5.1	5.7	13.3	4.6
7. Financial sector	47.1	47.7	4.0	6.8	0.0	4.5	8.3	5.2	2.9	3.2	7.2	5.0
o/w: resident banks	47.1	29.5	0.0	1.0	0.0	0.0	0.3	0.0	0.0	2.2	0.0	1.4
8. Consumer loans	9.9	0.0	10.1	30.0	60.7	19.5	25.8	26.6	20.9	37.9	0.0	27.0
9. Mortgage lending	29.8	0.0	11.0	7.3	0.0	11.5	3.2	0.0	10.9	0.7	3.7	5.9
10. Other sectors of economy	1.0	0.0	23.9	5.1	9.0	10.9	5.7	9.2	0.0	0.5	0.8	2.4
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	100.0

Allocation of Bank Loan Investments (%)

31.12.05	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	0.9	0.7	13.6	12.1	4.2	14.1	3.1	1.5	0.1	6.3
mining	0.0	0.0	0.0	59.0	0.0	4.6	0.0	0.0	0.0	1.9
energy	0.0	0.0	23.7	0.0	0.0	14.3	5.5	0.1	0.0	0.2
food products	0.8	1.4	7.5	11.9	4.7	20.6	1.7	2.5	0.0	8.3
light	2.1	0.0	2.7	13.9	16.0	0.0	0.0	0.6	0.0	25.6
chemical	0.1	0.2	38.2	29.4	3.5	0.0	18.3	0.8	0.0	1.1
building materials	3.0	0.0	1.2	0.0	1.6	2.0	0.0	1.5	0.0	15.6
precious metals	0.4	0.0	47.7	0.0	42.6	0.0	0.0	3.6	0.0	4.9
metallurgy	0.0	0.0	87.4	0.0	0.0	0.0	0.0	0.0	0.0	7.0
machine-building and electrical	0.0	0.0	14.2	7.0	0.0	2.9	0.0	7.5	0.0	27.6
other branches of industry	2.0	0.8	6.9	19.4	5.8	20.7	0.0	0.6	0.6	0.0
2. Agriculture	0.3	0.0	3.8	0.6	0.1	2.1	0.1	0.1	0.8	68.5
cattle breeding	0.0	0.0	0.4	0.2	0.1	0.7	0.1	0.0	1.3	80.7
plant growing	0.7	0.0	9.5	1.3	0.1	4.4	0.0	0.1	0.0	48.3
3. Construction	0.0	0.0	13.6	0.7	0.2	14.7	0.1	3.9	5.2	2.3
4. Transport and communication	6.0	2.5	6.8	1.0	16.5	11.8	0.9	1.3	0.0	10.1
5. Trade	2.7	0.6	11.0	12.2	6.9	7.4	0.5	6.9	0.1	12.0
wholesale	3.3	0.4	10.2	13.6	5.6	10.9	0.5	10.5	0.0	8.0
retail	1.3	1.2	12.5	9.4	9.5	0.6	0.4	0.0	0.1	19.8
6. Catering and other services	1.3	0.2	6.2	7.0	17.9	1.6	0.1	0.8	0.1	10.1
7. Financial sector	0.7	1.5	6.2	1.2	0.1	1.2	0.0	9.6	8.6	3.5
o/w: resident banks	0.0	0.0	0.0	4.2	0.0	0.0	0.0	0.0	0.0	3.8
8. Consumer loans	1.1	0.1	7.8	1.6	8.7	8.8	0.0	9.3	4.7	9.4
9. Mortgage lending	5.2	5.4	2.3	42.1	2.3	3.7	0.0	4.3	0.0	0.0
10. Other sectors of economy	0.3	0.6	5.3	1.0	8.2	4.0	0.0	5.1	0.1	0.0
Total by banks	1.6	0.8	9.2	8.6	6.2	8.4	0.8	5.4	2.0	11.6

Allocation of Bank Loan Investments (%)

31.12.05	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15	Bank 16	Bank 17	Bank 18	Bank 19	Bank 20	Bank 21	Total by sectors
Loans to sectors by banks												
1. Industry	0.2	5.9	1.0	7.4	0.7	1.5	5.0	0.3	3.8	14.1	3.6	100.0
mining	0.0	0.0	0.0	0.0	0.0	0.2	5.4	1.6	0.0	0.2	27.1	100.0
energy	0.0	26.0	0.0	10.4	0.0	0.0	0.0	0.0	0.9	12.6	6.2	100.0
food products	0.2	0.0	1.3	8.2	0.9	0.8	8.2	0.5	6.6	11.6	2.4	100.0
light	0.0	0.0	0.4	10.7	0.0	4.0	0.4	1.9	4.3	12.4	5.1	100.0
chemical	0.0	2.5	0.0	0.1	0.0	0.0	0.0	0.0	5.7	0.1	0.0	100.0
building materials	1.5	0.0	0.0	3.7	0.0	0.0	8.7	0.0	6.5	54.7	0.0	100.0
precious metals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.3	0.0	100.0
metallurgy	0.0	0.0	0.0	5.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0
machine-building and electrical	0.0	0.0	0.0	0.0	0.0	1.1	0.0	0.0	0.0	39.6	0.0	100.0
other branches of industry	0.0	0.0	3.7	10.2	2.9	8.8	7.3	0.0	0.5	10.0	0.0	100.0
2. Agriculture	0.0	0.0	0.1	0.0	0.0	0.4	16.6	0.0	3.9	2.7	0.0	100.0
cattle breeding	0.0	0.0	0.2	0.0	0.0	0.6	6.7	0.0	6.2	2.8	0.0	100.0
plant growing	0.0	0.0	0.0	0.0	0.0	0.0	33.0	0.0	0.0	2.5	0.0	100.0
3. Construction	0.0	0.0	3.7	2.0	11.7	0.1	2.6	0.1	13.2	20.3	5.7	100.0
4. Transport and communication	0.0	0.0	0.0	2.8	0.3	0.9	3.0	0.7	14.1	21.4	0.0	100.0
5. Trade	0.1	0.0	1.5	8.3	1.3	1.4	6.3	2.5	7.2	11.1	0.0	100.0
wholesale	0.1	0.0	2.1	6.9	1.9	1.4	2.0	3.8	6.0	12.8	0.0	100.0
retail	0.0	0.0	0.5	11.0	0.1	1.4	14.4	0.1	9.6	7.9	0.0	100.0
6. Catering and other services	0.0	0.0	0.6	11.0	0.2	2.4	13.5	0.1	6.4	16.4	3.9	100.0
7. Financial sector	4.3	22.5	1.1	10.8	0.0	1.3	12.3	1.2	3.4	8.4	1.9	100.0
o/w: resident banks	15.0	49.2	0.0	5.7	0.0	0.0	1.7	0.0	0.0	20.3	0.0	100.0
8. Consumer loans	0.2	0.0	0.5	8.8	6.9	1.1	7.1	1.1	4.5	18.5	0.0	100.0
9. Mortgage lending	2.3	0.0	2.7	9.8	0.0	2.9	4.0	0.0	10.7	1.6	0.8	100.0
10. Other sectors of economy	0.2	0.0	14.6	17.1	11.7	6.7	17.8	4.3	0.0	2.6	0.4	100.0
Total by banks	0.5	2.4	1.4	7.9	3.1	1.5	7.4	1.1	5.8	13.1	1.3	100.0

Non-Performing and Written-Off Loans and Receivables of Commercial Banks

thousands of drams

Indicators	2003				2004				2005			
	Non-performing assets		Off-balance sheet		Non-performing assets		Off-balance sheet		Non-performing assets		Off-balance sheet	
	D	FX	D	FX	D	FX	D	FX	D	FX	D	FX
Non-performing and off-balance sheet assets (total)	**3296309**	**3017724**	**2367213**	**8383639**	**1153634**	**3098191**	**4146844**	**8525540**	**1238420**	**2928606**	**4396615**	**9124958**
1. Residents' non-performing and off-balance sheet assets (total)	1982143	2839671	2286832	7855268	1152544	2218564	4032290	7645610	1237815	2735484	4285219	7810662
1.1 Industry	464670	675222	603497	1716375	187527	530234	868169	1228299	235732	263326	1000142	1323737
mining	13160	0	170087	0	0	0	0	0	0	0	0	0
energy	0	0	0	136955	0	0	4947	117559	0	0	202366	108932
food products	224190	286441	208903	542422	148861	67544	281033	433520	176028	222042	261274	263946
light	24700	284855	181941	336793	14407	2196	11789	172516	36495	1732	11313	531931
chemical	0	19618	170	184520	6000	38867	165747	143201	817	0	165747	22509
building materials	4000	0	0	6940	3171	91136	37080	5956	21764	17444	4666	21397
precious items	124350	4081	10102	514	0	160169	10102	18675	0	0	10102	15180
metallurgy	0	0	0	25927	0	0	0	0	0	0	0	0
machine-building and electrical	2000	39619	0	393936	87	0	313717	248736	0	21871	313717	172641
other branches of industry	72270	40608	32294	88368	15001	170322	43754	88136	628	238	30957	187201
1.2 Agriculture	24391	98895	39457	293482	44560	128799	31076	220328	51321	183143	56725	303789
1.3 Construction	286900	42763	130678	168674	217679	9558	203472	142239	308511	232686	294316	264529
1.4 Transport and communication	12673	40858	0	53596	359	31123	2315	50818	3971	6132	5144	45970
1.5 Trade	467541	467884	128210	1896669	217412	204651	209454	1944581	141947	598443	381782	1400566
1.6 Public catering and other services	762	269893	33569	63153	13007	113984	72968	119680	54549	222500	84941	334706
1.7 Financial sector	0	0	1510	16923	0	0	2348	647049	0	0	2648	599471
1.8 Consumer loans	260423	1173912	136417	1596549	372835	1063288	701089	1637456	395898	986546	333916	1751973
1.9 Other sectors of economy	464783	70244	1213494	2049847	99165	136927	1941398	1655160	45886	242708	2125605	1785922
2. Non-residents' non-performing and off-balance sheet assets (total)	1314166	178053	80381	528372	1090	879627	114554	879930	605	193122	111396	1314296

Accrued Allowances on Loans, Receivables and Off-Balance Sheet Items Containing Credit Risk

thousands of drams

Loans	Loan investments	Share	Allowances on loans granted	
			balance	%
	31.12.03			
1. Standard	116311522	95.10%	1163114	1.00%
2. Watched	4183038	3.40%	418301	10.00%
3. Sub-standard	869127	0.70%	173820	20.00%
4. Doubtful	918881	0.80%	459443	50.00%
Total	**122282567**	**100%**	**2214677**	**1.81%**

Loans	Loan investments	Share	Allowances on loans granted	
			balance	%
	31.12.04			
1. Standard	143958286	97.90%	1559821	1.08%
2. Watched	1544424	1.10%	154437	10.00%
3. Sub-standard	388502	0.30%	77701	20.00%
4. Doubtful	1123196	0.80%	561598	50.00%
Total	**147014408**	**100%**	**2353555**	**1.60%**

Loans	Loan investments	Share	Allowances on loans granted	
			balance	%
	31.12.05			
1. Standard	195184843	98.10%	2089996	1.08%
2. Watched	2872132	1.40%	287203	10.00%
3. Sub-standard	484727	0.20%	96948	20.00%
4. Doubtful	486170	0.20%	243086	50.00%
Total	**199027872**	**100%**	**2717233**	**1.37%**

Accrued Allowances on Loans, Receivables and Off-Balance Sheet Items Containing Credit Risk

thousands of drams

Receivables	Receivables	Share	Allowances on receivables	
			balance	%
	31.12.03			
1. Standard	70429076	99.40%	704303	1.00%
2. Watched	359879	0.50%	35988	10.00%
3. Sub-standard	62119	0.10%	12423	20.00%
4. Doubtful	17210	0.00%	8606	50.01%
Total	**70868284**	100%	761320	1.07%

Receivables	Receivables	Share	Allowances on receivables	
			balance	%
	31.12.04			
1. Standard	96445229	98.80%	964455	1.00%
2. Watched	284979	0.30%	28497	10.00%
3. Sub-standard	21649	0.00%	4329	19.99%
4. Doubtful	889077	0.90%	444539	50.00%
Total	**97640935**	**100%**	**1441820**	**1.48%**

Receivables	Receivables	Share	Allowances on receivables	
			balance	%
	31.12.05			
1. Standard	64274116	99.50%	642740	1.00%
2. Watched	289187	0.40%	28918	10.00%
3. Sub-standard	21465	0.00%	4293	19.99%
4. Doubtful	13346	0.00%	6673	50.00%
Total	**64598114**	**100%**	**682624**	**1.06%**

Accrued Allowances on Loans, Receivables and Off-Balance Sheet Items Containing Credit Risk

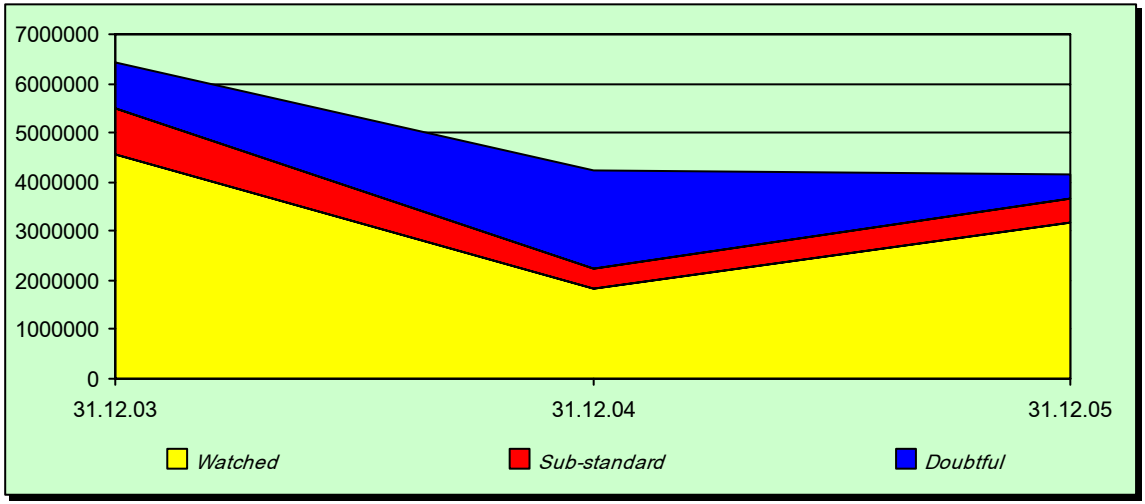
thousands of drams

Off-balance sheet items	Off-balance sheet items	Share	Allowances on off-balance sheet items	
			balance	%
	31.12.03			
1. Standard	16025363	97.50%	160281	1.00%
2. Watched	330672	2.00%	33067	10.00%
3. Sub-standard	27159	0.20%	5432	20.00%
4. Doubtful	48653	0.30%	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	98.90%	198141	1.00%
2. Watched	16781	0.10%	1678	10.00%
3. Sub-standard	493	0.00%	99	20.00%
4. Doubtful	5190	0.00%	2595	50.00%
Total	**20038615**	**100%**	**404688**	**2.02%**

Off-balance sheet items	Off-balance sheet items	Share	Allowances on off-balance sheet items	
			balance	%
	31.12.04			
1. Standard	27737632	98.80%	277371	1.00%
2. Watched	10456	0.00%	1045	10.00%
3. Sub-standard	1127	0.00%	225	20.00%
4. Doubtful	150	0.00%	75	50.00%
Total	**27797133**	**100%**	**326484**	**1.17%**

Dynamic of Non-Performing Loans and Receivables



Cash Flow of Commercial Banks

thousands of drams

Indicators	2004	2005				2005
		I Q	II Q	III Q	IV Q	
Net cash flow from operational activity	**31845176**	**-17007947**	**-170435**	**2992214**	**-6465149**	**-20651316**
Net cash flow before the change in operational assets and liabilities	***32590941***	**5805364**	**6002410**	**7520459**	**8188407**	**27516641**
Interest received on loans	***21072791***	**5691425**	**6382994**	**6970179**	**7855946**	**26900544**
Net commissions received	7586280	1702680	2114660	2470539	2715434	9003313
Net income from repo agreements	147833	25303	46461	76516	53824	202104
Net income from marketable securities	442491	11345	137882	225721	410290	785238
Net income from FX purchase and sale	3693331	1084563	1522506	1755723	1765506	6128298
Interest paid on accounts and deposits attracted	-5599095	-1396521	-1907712	-1747430	-1794676	-6846339
Income from leasing and factoring	755725	208699	176999	155119	193885	734702
Interest received on deposits allocated	1344947	380239	310112	390308	358884	1439543
Interest paid on loans attracted	-1390073	-530065	-397289	-559309	-417666	-1904329
Interest paid on financial activity	-37409	0	0	-128	-1134	-1262
Salary and salary-equivalent pays	-7598521	-2099113	-2327851	-2625332	-3297548	-10349844
Taxes paid	-2995255	-830228	-1990478	-775164	-1197705	-4793575
Collection of loans written-off	3221816	971478	629168	678443	940252	3219341
Collection of receivables written-off	8896869	30353	294878	24681	41678	391590
Income from investment activity	2964384	554281	569748	480167	560116	2164312
Dividends received	84827	925	440332	426	1321	443004
Net cash flow due to change in operational assets and liabilities	***-745764***	***-22813311***	***-6172845***	***-4528245***	***-14653556***	***-48167957***
Decrease (increase) in loan investments	***-42125806***	**-9530570**	**-15276594**	**-11477401**	**-21948637**	**-58233202**
Increase (decrease) in deposits attracted	49036853	881451	18751273	15312407	9851719	44796850
Decrease (increase) in securities held through repo agreements	-1918968	-2077021	-6134644	4236816	3357100	-617749
Increase (decrease) in securities sold through repo agreements	2757850	-2500770	808360	645372	-1806139	-2853177
Decrease (increase) in marketable securities	-3587569	-3856106	-4762985	-10231288	-4017393	-22867772
Decrease (increase) in factoring	-808857	1606154	-180899	-87662	-690082	647511
Decrease (increase) assets provided for leasing	11149	1580	2960	27741	0	32281
Net cash flow from other operational activity	-4110417	-7338029	619684	-2954230	599876	-9072699

o/w: on derivatives	-6224	0	0	0	0	0
o/w: on fines and penalties paid	292632	40725	82575	54271	97285	274856
Net cash flow from investment activity	**-3794810**	**-10859089**	**-7928226**	**-3049754**	**7804746**	**-14015823**
Decrease (increase) in securities help up to maturity	***-8948591***	***-2525655***	***-4945907***	***-1460439***	***2972364***	***-5959637***
Decrease (increase) in non-term securities	16297	-16400	0	-4805	-2030947	-2190066
Decrease (increase) in deposits with other banks	11488282	-6755860	-1237188	-701868	5887682	-2807234
Disposal (acquisition) of fixed assets and non-tangible assets	-4494878	-1542830	-184466	-840726	-612681	-3026289
Net cash flow from other investment activity	-1855920	-18344	-1560665	-41916	1588328	-32597
Net cash flow financial activity	**11551098**	**6861408**	**6906741**	**4161837**	**9031729**	**26961715**
Dividends paid	***-2302676***	**-20473**	**-1429038**	**-801803**	**-601841**	**-2853155**
Increase (decrease) in loans from the CBA	3000000	0	0	0	0	0
Increase (decrease) in loans from banks	2533321	2202602	1535741	1936620	5020412	10695375
Increase (decrease) in other borrowings	1689898	4936399	175656	497434	607304	6216793
Increase (decrease) in proceeds from leasing	118694	-6042	-14444	-6242	-6498	-33226
Increase (decrease) in securities issued by bank	2838614	-193970	199108	-3095071	192717	-2897216
Shareholders' investment in statutory fund	2242680	633338	6300748	5554115	4180886	16669087
Net cash flow from other financial activity	1430567	-690446	138970	76784	-361251	-835943
FX exchange impact on cash and cash equivalents	-2781264	-1229640	-744119	-47055	104856	-1915958
Net growth of cash flow	**36820200**	**-22235268**	**-1936039**	**4057242**	**10476182**	**-9621382**
Net cash and cash equivalents at the beginning of period	97680897	137386881	115151615	113075454	117132696	137386881
o/w: funds with limited use	1412721	2304804	940222	2525205	3035147	2304804
Impact of indicators of banks, removed from banking system during the year, on cash and cash equivalents of banking system	-25109					
Net cash and cash equivalents at the end of the year	134475988	115151613	113215576	117132696	127608878	121541538
o/w: funds with limited use	2304804	940222	2525205	3028741	3338293	3338293
Note						
1. Assets written-off to off-balance sheet during a quarter (year)	1366172	1683652	1200603	935590	1927919	5747764

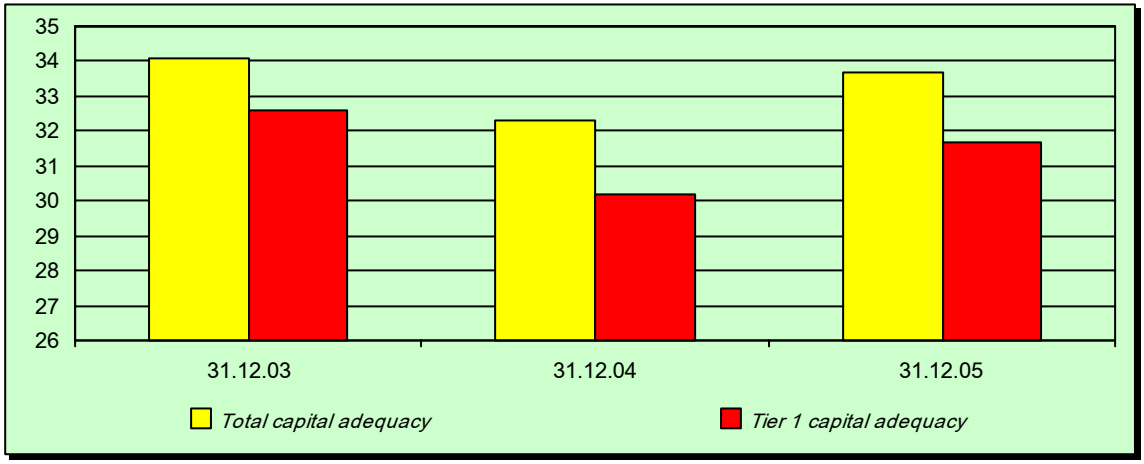
o/w:	loans	1311179	1012547	896493	848902	1785590	4543532
	receivables	54993	671105	304110	96116	147736	1219067
2. Repayment of assets written-off to off-balance sheet during a quarter (year)		1181041	1130529	950944	702330	982446	3766249
o/w:	loans	1128361	1066606	844819	680971	941369	3533766
	receivables	52679	63922	81088	21359	41737	208106
3. Interest written-off to off-balance sheet during a quarter (year)		103991	61934	146051	147825	187518	543327
4. Repayment of interest written-off to off-balance sheet during a quarter (year)		165594	40983	92290	55064	134670	323007

Appendix 15

Main Prudential Standards of Commercial banks

%

	31.12.03	31.12.04	31.03.05	31.06.05	30.09.05	31.12.05
Total capital adequacy	34.1	32.3	36.4	31.7	33.6	33.7
Tier 1 capital adequacy	32.6	30.2	33.7	29.6	31.9	31.7
Total liquidity	48.1	47.1	46.3	45.2	45.7	44.2
Current liquidity	101.4	98.7	107.9	106.1	109.9	110.5
Maximum risk on a single borrower	12.5	14.7	14.5	18.5	17.8	16.4
Maximum risk on major borrowers				106.4	120.2	117.3
Maximum risk on a bank related party	2.4	1.7	1.8	2.7	4.4	3
Maximum risk on all bank related parties	6.1	3.8	4.1	6.4	8.5	7.4



Appedix 16

Credit Organizations Operating in Armenia and their branches as of 31.12.2005

	Credit organizations	Branches	
		31.12.2004	31.12.2005
1	Arfin	-	-
2	Agroleasing	-	-
3	ACBA Leasing	-	-
4	Sef International	2	2
5	Express Credit Universal	-	-
6	Gladzor Universal	-	-
7	First Mortgage Company	-	-
8	Izmirlian-Eurasia	-	-
9	Cascade Credit	-	-
10	Washington Capital		-
Total		**2**	**2**

Survey Balance Sheet Indicators of Credit Organizations

thousands of drams

	Indicators		31.12.2004	31.03.2005	Change 31.03.05-31.12.04	30.06.2005	Change 30.06.05-31.03.05
Assets	Cash		57256	37351	-34.8%	59353	58.9%
	Claims on the CBA						
	Current accounts with banks		1141378	521526	-54.3%	335849	-35.6%
	Claims on banks and other financial organizations		510734	525785	2.9%	1164535	121.5%
	Government securities						
	Loans to legal entities		702302	708879	0.9%	1157516	63.3%
	Loans to individuals		1595211	1947839	22.1%	2152669	10.5%
	Loans to interrelated parties and employees		95332	96450	1.2%	88901	-7.8%
	Fixed assets		243626	235323	-3.4%	231283	-1.7%
	Leasing, factoring		856549	1077327	25.8%	1136348	5.5%
	Other securities					0	
	Other assets		531844	483396	-9.1%	396381	-18.0%
	Interest receivable		41184	55245	34.1%	50022	-9.5%
	Asset loss reserves		-132217	-139666	5.6%	-140711	0.7%
	Total assets		**5643200**	**5549455**	**-1.7%**	**6632146**	**19.5%**
Liabilities	Demand liabilities						
	Liabilities to banks and other financial organizations		788773	747195	-5.3%	1176182	
	Term liabilities to individuals		580919	273313	-53.0%	337107	23.3%
	Term liabilities to legal entities*		733301	787908	7.4%	803480	2.0%
	Interest payable		11745	26597	126.5%	16209	-39.1%
	Other liabilities		266282	312155	17.2%	684582	119.3%
	Total liabilities		**2381020**	**2147168**	**-9.8%**	**3017560**	**40.5%**
Capital	Paid-in statutory capital		3659071	3894682	6.4%	4118647	5.8%
	o/w: non-residents' participation		1947435	2183045	12.1%	2407011	10.3%
	General reserve		42558	43008	1.1%	44911	4.4%
	Repurchased capital by credit organizations		-473200	-473200	0.00%	-473200	0.0%
	Undistributed profit (loss)	Current period	152546	69288	-54.6%	-48754	-170,4%
		Previous period	-257644	-270339	4.9%	-165866	-38,6%
	Total balance sheet capital		**3262179**	**3402287**	**4.3%**	**3614586**	**6.2%**
	Note: total number of credit organizations		**9**	**9**		**10**	

** Includes also liabilities to the Government.*

Survey Balance Sheet Indicators of Credit Organizations

thousands of drams

	Indicators		30.09.2005	Change 30.09.05-30.06.05	31.12.2005	Change 31.12.05-30.09.05	Change 31.12.05-31.12.04
Assets	Cash		55265	-6.9%	57275	3.6%	0.0%
	Claims on the CBA						
	Current accounts with banks		662290	97.2%	301664	-54.5%	-73.6%
	Claims on banks and other financial organizations		989785	-15.0%	987757	-0.2%	93.4%
	Government securities						
	Loans to legal entities		1557520	34.6%	1975028	26.8%	181.2%
	Loans to individuals		2323736	7.9%	2757055	18.6%	72.8%
	Loans to affiliated parties and employees		74817	-15.8%	115714	54.7%	21.4%
	Fixed assets		232630	0.6%	233696	0.5%	-4.1%
	Leasing, factoring		1264952	11.3%	1351001	6.8%	57.7%
	Other securities		0				
	Other assets		298434	-24.7%	269072	-9.8%	-49.4%
	Interest receivable		35843	-28.3%	47920	33.7%	16.4%
	Asset loss reserves		-142307	1.1%	-223923	57.4%	69.4%
	Total assets		**7352965**	**10.9%**	**7872259**	**7.1%**	**39.5%**
Liabilities	Demand liabilities		1152281	-2.0%	1179498	2.4%	49.5%
	Liabilities to banks and other financial organizations		476275	41.3%	533451	12.0%	-8.2%
	Term liabilities to individuals		953206	18.6%	1216034	27.6%	65.8%
	Term liabilities to legal entities*		42712	163.5%	28244	-33.9%	140.5%
	Interest payable		556618	-18.7%	524274	-5.8%	96.9%
	Other liabilities		**3181092**	5.4%	**3481501**	9.4%	**46.2%**
	Total liabilities		1152281	-2.0%	1179498	2.4%	49.5%
Capital	Paid-in statutory capital		4621292	12.2%	4764592	3.1%	30.2%
	o/w: non-residents' participation		2909655	20.9%	2918655	0.3%	49.9%
	General reserve		44911	0.0%	44911	0.0%	5.5%
	Repurchased capital by credit organizations		-473200	0.0%	-473200	0.0%	0.0%
	Undistributed profit (loss)	Current period	5888	-112.1%	**80357**	1264.8%	-47,3%
		Previous period	-165866	0.0%	-165866	0.0%	-35,6%
	Total balance sheet capital		**4171873**	**15.4%**	**4390758**	**5.2%**	**34.6%**
	Note: total number of credit organizations		**10**		**10**		

** Includes also liabilities to the Government.*

Structure of Survey Balance Sheet indicators of Credit Organizations

	Indicators		31.12.2004	31.03.2005	Change 31.03.05-31.12.04	30.06.2005	Change 30.06.05-31.03.05
Assets	Cash		1.0%	0.7%	-0.3%	0.9%	1.2%
	Claims on the CBA						
	Current accounts with banks		20.2%	9.4%	-10.8%	5.1%	15.9%
	Claims on banks and other financial organizations		9.1%	9.5%	0.4%	17.6%	17.1%
	Government securities						
	Loans to legal entities		12.4%	12.8%	0.3%	17.5%	17.1%
	Loans to individuals		28.3%	35.1%	6.8%	32.5%	25.6%
	Loans to affiliated parties and employees		1.7%	1.7%	0.0%	1.3%	1.3%
	Fixed assets		4.3%	4.2%	-0.1%	3.5%	3.6%
	Leasing, factoring		15.2%	19.4%	4.2%	17.1%	12.9%
	Other securities						
	Other assets		9.4%	8.7%	-0.7%	6.0%	6.7%
	Interest receivable		0.7%	1.0%	0.3%	0.8%	0.5%
	Asset loss reserves		-2.3%	-2.5%	-0.2%	-2.1%	-1.9%
	Total assets		**100.0%**	**100.0%**		**100.0%**	**100.0%**
Liabilities	Demand liabilities						
	Liabilities to banks and other financial organizations		33.1%	34.8%	1.7%	39.0%	37.3%
	Term liabilities to individuals		24.4%	12.7%	-11.7%	11.2%	22.8%
	Term liabilities to legal entities*		30.8%	36.7%	5.9%	26.6%	20.7%
	Interest payable		0.5%	1.2%	0.7%	0.5%	-0.2%
	Other liabilities		11.2%	14.5%	3.4%	22.7%	19.3%
	Total liabilities		**100.0%**	**100.0%**		**100.0%**	**100.0%**
Capital	Paid-in statutory capital		112.2%	114.5%	2.3%	113.9%	111.6%
	o/w: non-residents' participation		59.7%	64.2%	4.5%	66.6%	62.1%
	General reserve		1.3%	1.3%	0.0%	1.2%	1.3%
	Repurchased capital by credit organizations		-14.5%	-13.9%	0.6%	-13.1%	-13.7%
	Undistributed profit (loss)	Current period	4.7%	2.0%	-2.6%	-1.3%	1,3%
		Previous period	-7.9%	-7.9%	0.0%	-4.6%	-4,5%
	Total balance sheet capital		**100.0%**	**100.0%**		**100.0%**	**100.0%**

** Includes also liabilities to the Government.*

Structure of Survey Balance Sheet indicators of Credit Organizations

	Indicators		30.09.2005	Change 30.09.05-30.06.05	31.12.2005	Change 31.12.05-30.09.05	Change 31.12.05-31.12.04
Assets	Cash		0.8%	-0.5%	0.7%	1.2%	-0.3%
	Claims on the CBA						
	Current accounts with banks		9.0%	-6.9%	3.8%	10.7%	-16.4%
	Claims on banks and other financial organizations		13.5%	-3.7%	12.5%	16.2%	3.5%
	Government securities						
	Loans to legal entities		21.2%	4.1%	25.1%	21.0%	12.6%
	Loans to individuals		31.6%	6.0%	35.0%	29.0%	6.8%
	Loans to affiliated parties and employees		1.0%	-0.3%	1.5%	1.7%	-0.2%
	Fixed assets		3.2%	-0.4%	3.0%	3.4%	-1.3%
	Leasing, factoring		17.2%	4.3%	17.2%	12.9%	2.0%
	Other securities						
	Other assets		4.1%	-2.6%	3.4%	6.0%	-6.0%
	Interest receivable		0.5%	0.0%	0.6%	0.6%	-0.1%
	Asset loss reserves		-1.9%	0.0%	-2.8%	-2.9%	-0.5%
	Total assets		**100.0%**		**100.0%**	**100.0%**	
Liabilities	Demand liabilities						
	Liabilities to banks and other financial organizations		36.2%	-1.1%	33.9%	35.0%	0.8%
	Term liabilities to individuals		15.0%	-7.9%	15.3%	23.2%	-9.1%
	Term liabilities to legal entities*		30.0%	9.2%	34.9%	25.7%	4.1%
	Interest payable		1.3%	1.6%	0.8%	-0.7%	0.3%
	Other liabilities		17.5%	-1.8%	15.1%	16.9%	3.9%
	Total liabilities		**100.0%**		**100.0%**	**100.0%**	
Capital	Paid-in statutory capital		110.8%	-0.9%	108.5%	109.4%	-3.7%
	o/w: non-residents' participation		69.7%	7.6%	66.5%	58.9%	6.8%
	General reserve		1.1%	-0.2%	1.0%	1.2%	-0.3%
	Repurchased capital by credit organizations		-11.3%	2.3%	-10.8%	-13.1%	3.7%
	Undistributed profit (loss)	Current period	0.1%	-1.1%	1.8%	3.0%	-2,8%
		Previous period	-4.0%	0.6%	-3.8%	-4.3%	4,1%
	Total balance sheet capital		**100.0%**		**100.0%**	**100.0%**	

** Includes also liabilities to the Government.*

Appendix 19

Credit Organizations – Income and Expense

thousands of drams

Indicators	31.12.04	31.03.05	30.06.05	30.09.05	31.12.05	Change 31.12.05-31.12.04
Interest income	597829	216337	463328	744921	1072878	475049
Interest expense	111339	37934	91784	165541	224719	113380
Net interest income	*486490*	*178403*	*371544*	*579380*	*848159*	*361669*
Non-interest income	127577	-43192	-46026	46366	178873	51296
Non-interest expense	614034	124505	290791	456693	661176	47142
Net non-interest income	*-486457*	*-167697*	*-336817*	*-410327*	*-482303*	*4154*
Loss provision	773000	202414	349064	533140	794585	21585
Recovery from loss reserve	961582	134408	265764	396886	620026	-341556
Net provision	*-188582*	*68006*	*83300*	*136254*	*174559*	*363141*
Gross income	1686988	307553	683066	1188173	1871777	184789
Gross expense	1498373	364853	731639	1155374	1680480	182107
Pre-tax profit	188615	-57300	-48573	32799	191297	2682
Net profit	155461	-57481	-48755	5887	80357	-75104
Undistributed profit	*155461*	*-57481*	*-48755*	*5887*	*80357*	*-75104*

Appendix 20

Loan Investments of Credit Organizations

thousands of drams

Sectors	31.12.04	31.03.05	30.06.05	30.09.05	31.12.05	Change 31.12.05-31.12.04
Industry	1025809	1064718	1371295	1741930	2146931	109.3%
Agriculture	400071	452375	536673	525025	504299	26.1%
Construction	97000	97000	112000	160864	194205	100.2%
Transport and communications	70444	118388	133140	142319	159290	126.1%
Trade	204310	265070	270017	325617	355902	74.2%
Financial sector	465348	529834	832629	988357	986374	112.0%
Consumer loans	1172954	1452849	1576291	1743550	2241785	91.1%
Other sectors	321610	364025	522104	566051	579800	80.3%
Total	**3757546**	**4344259**	**5354149**	**6193713**	**7168586**	**90.8%**

Appendix 21

Structure of Loan Investment of Credit Organizations by Sectors of Economy

Sectors	31.12.04	31.03.05	30.06.05	30.09.05	31.12.05	Change 31.12.05- 31.12.04
Industry	27.3%	24.5%	25.6%	28.1%	29.9%	2.6%
Agriculture	10.6%	10.4%	10.0%	8.5%	7.0%	-3.6%
Construction	2.6%	2.2%	2.1%	2.6%	2.7%	0.1%
Transport and communications	1.9%	2.7%	2.5%	2.3%	2.2%	0.3%
Trade	5.4%	6.1%	5.0%	5.3%	5.0%	-0.5%
Financial sector	12.4%	12.2%	15.6%	16.0%	13.8%	1.4%
Consumer loans	31.2%	33.4%	29.4%	28.2%	31.3%	0.1%
Other sectors	8.6%	8.4%	9.8%	9.1%	8.1%	-0.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	

Structure of Loan Investment of Credit Organizations by Risk Categories

Category	31.12.04	Share in total	31.03.05	Share in total	30.06.05	Share in total	30.09.05	Share in total	31.12.05	Share in total
Standard	4814781	89.2%	4933803	93.0%	5834651	91.5%	6493373	91.4%	6900450	89.9%
Watched	353216	6.5%	172336	3.2%	450681	7.1%	462794	6.5%	355805	4.6%
Sub-standard	216971	4.0%	92406	1.7%	26997	0.4%	137491	1.9%	294391	3.8%
Doubtful	10707	0.2%	109231	2.1%	63779	1.0%	7190	0.1%	120925	1.6%
Loss		x		x		x		x		x
Total	**5395675**	**100.0%**	**5307776**	**100.0%**	**6376108**	**100.0%**	**7100848**	**100.0%**	**7671571**	**100.0%**

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