
ARM SWISS BANK
Private & Investment Banking

2005
ANNUAL
REPORT



ARM SWISS BANK
Private & Investment Banking



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ANNUAL **1** REPORT

Our **vision** is to be a leading universal banking institution in Armenia combining the advantages of corporate, investment and private banking to generate superior results for our clients, partners and stakeholders.

Our **mission** is to contribute to our corporate and private clients' prosperity by providing them tailor-made high-quality solutions generally accepted in international banking practice and meeting their requirements.

Our business philosophy core **values** are:

Client Focus

Professionalism

Prudence

Partnership

Confidentiality

Integrity

*Private
Banking*

2005 for ArmSwissBank CJSC

ArmSwissBank closed joint stock company was founded in September 2004 by a Swiss businessman Vardan Sirmakes. Engagement of the first employees started since November 2004, and the banking activity began in March 2005.

2005 was a year of formation for the Bank and we succeeded in the following developments.

January	Formation of the core team Creation of work and technical infrastructures Elaboration of more than 50 internal acts regulating the Bank's activity
February	Receiving the License # 84 on banking activity from the Central Bank of Armenia
March	Joining the interbank CBANet network Joining the interbank electronic payments system of Armenia Execution of the first transaction with the Armenian government securities
April	Opening correspondent accounts with Commerzbank AG, Frankfurt am Main Opening correspondent accounts with Raiffeisen Zentralbank Osterreich, Vienna First client account opening
May	Opening depo accounts with Raiffeisen Zentralbank Opening correspondent accounts with UBS AG, Zurich Implementation of RZB Fast and UBS KeyLink systems for international payments
June	Membership to the Banks Union of Armenia Opening correspondent accounts with International Moscow Bank, Moscow
July	Installation of Bloomberg Installation of Reuters Wealth Manager
August	Foreign securities first purchase
September	Opening correspondent accounts with Rietumu Bank, Riga Obtaining a status of Armenian government securities dealer Membership to SWIFT
October	Launching a trading system for operations in the international financial markets Concluding the first repo agreement in the international financial market
November	Participation in Armenian Stock Exchange auctions Attraction of the first deposit
December	Installation and launching of the "Bank-Client" system

Investment Banking

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MESSAGE OF THE CHAIRMAN OF THE BOARD TO THE CLIENTS, PARTNERS AND GENERAL PUBLIC

Dear Ladies and Gentlemen,

We have the great honour to present to your kind attention the first public Annual Report of ArmSwissBank CJSC.

In this Report we presented the overview of the Bank, its mission and those values with which we are guided in our activities. The report reflects everything, that the Bank implemented and achieved during 2005.

ArmSwissBank was founded as a commercial bank combining corporate, investment and private banking services to ensure the best possible results for its stakeholders, including the shareholders, clients, partners and the staff.

Outlining its unique place in the market and exploiting the best international practice, the Bank aims to develop and promote investment and private banking services by continuously introducing and offering new instruments to the banking system of Armenia.

The last year was very decisive for the Bank. The year laid the foundation for the future success and development perspectives of the Bank. In 2005 the Bank was established as a Closed Joint Stock Company, and then on February 25, the Bank was granted a license on banking activity by the Central Bank of Armenia.

We entered the Armenian banking system with 3 billion AMD of paid-up statutory capital, competent and progressive team, having serious goals ahead.

In a very short period of time the Bank created an efficient organizational structure, management infrastructure, technical systems and engaged professional staff. The Bank works both in Armenian and international securities and foreign exchange markets, finances the Armenian economy, and offers new investment instruments to the market.

The Bank has already managed to form a comprehensive network of local and foreign correspondent banks, which ensures the efficiency and continuity of the activities implemented to date.

The Bank, to ensure the pursued goals and objectives to the best of its advantages, participates both in local and international information and payment systems, and provides services to its clients via "Bank-Client" online banking system. The Bank has already created its web site to provide comprehensive information on the Bank.

Generally accepted principles of technology reliability and security are employed in all information and payment systems of the Bank.

The success and achievements of the Bank in 2005 were possible thanks to our professional and experienced staff, along with a serious, integrated and regardful approach to the development of the Bank, and due diligence being exercised.

In the coming year we intend to keep our fast pace of work and consistently pursue all of our strategic goals and objectives to attain the best possible results for our stakeholders.

Hereby we wish to thank most kindly all our Clients and Partners for the confidence and support extended to the Bank.

With the best wishes for mutually beneficial cooperation.

I remain sincerely yours,

Chairman of the Board

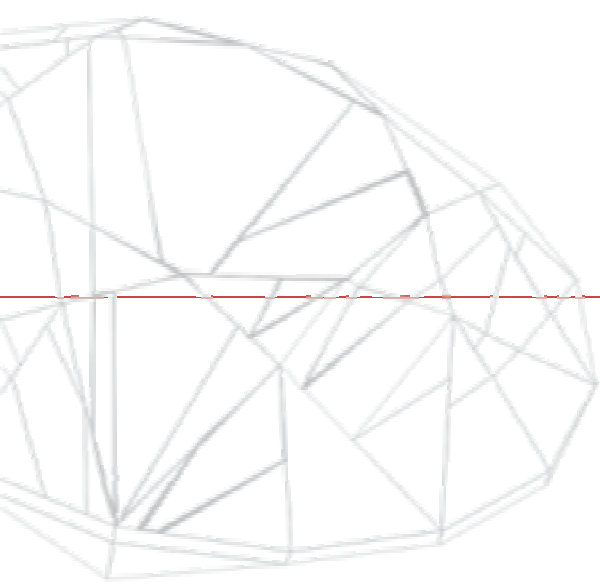


Vardan Sirmakes

CLIENT FOCUS

We are committed to building and developing stable,
long-lasting partnerships with our clients





PRIVATE BANKING AS A BUSINESS PHILOSOPHY

Adopting the business philosophy of private banking, the Bank refuses retail banking service, consistently adhering the fundamental principles of private banking and promoting its formation and development in Armenia.

Private banking is a new concept for the banking system of Armenia both for banks and clients. The concept of private banking is based on fostering the relationship between the client and the financial institution, which is characterized by the provision of "tailor-made", high-quality solutions to the client. To this end, private banking is not simply a high-quality service, but instead a business philosophy to meet the individual requirements of clients. It is a philosophy expressed in approaching the client's problems as your own and suggesting the optimal solutions possible.

Private banking target groups include high-net-worth individuals, institutions and corporations.

The main provisions of the business philosophy of the Bank are presented in the section "Clients and Partners - the Cornerstone of Activity".

MAIN DIRECTIONS OF THE BANK ACTIVITY

The Bank conducts its activity in two main directions: traditional banking and investment banking. During 2005, the first year of the Bank's operation, the Bank managed to introduce the majority of services typical to the main directions of its operations.

TRADITIONAL BANKING

With the application of banking technologies typical to private banks, the Bank offers to its clients universal banking services ranging from loans and deposits to payment services and trade finance.

Payment Services

Maintaining an account with the ArmSwissBank is the first step on the way of taking advantage of the services offered by the Bank. It allows the client to choose numerous solutions meeting payment, investment and financing needs.

Proceeding from the customer care policy and "Know Your Customer Rules", the Bank does not render services to walk-in customers (individuals not having an account with the Bank).

Through multi-currency accounts the Bank's clients may make payments and use the investment instruments.

Payments in Armenian drams

Being a participant to the CBANet interbank electronic payments system ArmSwissBank executes domestic transfers in AMD in the least time-consuming and the most cost-efficient way.

International payments

Aimed at securing reliable and successful international payments for its clients, in 2005 the Bank in a very short period of time managed to join the SWIFT international payments system as a member, established partner relations with a number of international financial institutions and opened correspondent accounts in main currencies (USD, EUR, CHF, GBP, RUR) with such reliable European banks as UBS AG, Commerzbank AG, Raiffeisen Zentralbank Osterreich AG, International Moscow Bank and Rietumu Banka.

Currency conversions

Using the network of correspondent banks, ArmSwissBank offers to its clients and partners competitive exchange rates in local and international markets, displaying individualized approach and exchange efficiency.

Deposits

During 2005 the Bank developed and offered to its clients a deposit program with wide investment capabilities meeting the requirements of clients' free resources allocation. This program allows receiving guaranteed return and choosing deposits by type of currency, maturity, frequency of interest payment. In particular, short-term deposits (starting from 7 days) are of interest to legal entities.

Financing

ArmSwissBank offers to its clients the following financing services - lending, trade financing, and providing guarantees to develop, expand and make their activity more competitive.

Lending

Competing in a rapidly developing business environment requires attraction of supplementary financial resources. ArmSwissBank provides loans to its clients to acquire fixed assets and finance capital needs.

The Bank gives preference to corporate clients having steady operating businesses, good reputation in the business environment and extensive expertise in their core field of activity, as well as expressing interest not only in traditional banking services, but also in investment solutions offered by the Bank.

The Bank provides loans to legal entities and entrepreneurs seeking to acquire or expand their businesses.

In accordance with its lending policy the Bank pays attention to the diversification of its loan portfolio, as a result of which during 2005 the Bank provided loans in the following industries:

- ☐ Energy;
- ☐ Mining;
- ☐ Manufacturing and food industries;
- ☐ Construction;
- ☐ Catering and other services.

The Bank will continue lending in the above mentioned spheres studying also the development tendencies in other sectors of economy. In the future the Bank aims to finance those sectors of the economy, which come up with end product consumed not only in local, but also in foreign markets.

In accordance with its strategic goals the Bank forms its portfolio from such loans, which could be then considered as alternative (credit-linked) investment instruments for foreign and domestic investors.

The Bank introduces new credit instruments, particularly provision of syndicated loans jointly with partner-banks, development and implementation of co-financing schemes and mechanisms together with investors.

Trade finance and guarantees

Owing to an experienced staff, a comprehensive network of partner-banks and trade finance technologies, ArmSwissBank is a reliable intermediary for its clients in international trade. In this sphere the letters of credit, documentary collections and guarantees offered by ArmSwissBank will help both buyers and sellers to reduce their risks in international trade operations.

INVESTMENT BANKING

Investment banking is one of the Bank's main strategic directions. Consequently the Bank's activities from the very day of its creation have been directed at forming and developing this strategic course. Prior to executing investment operations, appropriate technologies, investment decision-making mechanisms and investment activity related risk management systems have been designed, and preliminary agreements with the partners reached.

From the moment it obtained a banking activity license, the Bank started actively participating in local money market transactions, building up its own Armenian government securities portfolio. Thanks to this activity in 2005 the Bank became a government debt management dealer, hence getting an opportunity to directly participate in government securities primary allocation auctions.

The Bank is actively participating in all undertakings of Armenian financial market development. Therefore, when the Armenian stock exchange started trading foreign currencies in November, the Bank began partaking therein.

From the very beginning of its activity the Bank has operated also in interbank non-cash FOREX market trading in world major currencies, as well as using derivatives such as SWAPs. These operations intensified in September after joining the SWIFT international payments and settlement system.

Installing Bloomberg Professional and Reuters Wealth Manager information systems, the Bank started trading in USA, Eurozone and Russian Federation government securities. By the end of the year, the Bank held the leading position in the Armenian banking industry according to the volume of investments in foreign securities, accounting for nearly 40% of such type of investments of the Armenian commercial banks.

The Bank is actively operating both in local and international money-markets lending and borrowing short and mid-term liquidity. Aimed at increasing the level of asset and liability management, the Bank concluded master agreements with foreign partner-banks. Based on these agreements in 2005 the Bank started realizing repo and reverse repo transactions with foreign banks, along with making use of interbank loans and custody services, which increased the profitability of the bank operations in the international financial markets as well as improved the liquidity management of the Bank.

In the near future the Bank plans to offer to its clients a wide range of services related to investments in debt instruments and other securities both in the local and foreign markets, in particular individual securities portfolios, as well as collective investment schemes. The Bank will provide additional financing for the acquisition of foreign securities against a pledge of the acquired securities (margin trading). It is also planned to provide custody services to legal and physical entities. The Bank already has got an understanding with its partner-banks to render brokerage and custody services to its clients, which will be possible to realize after getting an appropriate permission to conduct professional activity in the securities market in accordance with Armenian legislation. To understand and meet the requirements of clients in the best possible way in the future, the Bank has already built up a diversified foreign securities portfolio.

The Bank pays special attention to the cooperation with other banks and non-bank financial institutions such as credit organizations, insurance and brokerage companies, as well as to the opportunities of acting as an intermediary for them, enabling to invest in different financial instruments both in Armenian and international financial markets. It is noteworthy that the Bank cooperates with all banks in Armenia, conducting wide range of financial operations.

The financial information related to the Bank's investment activity is presented in the "Financial Performance" section.

PROFESSIONALISM

Our team of professionals continuously enhances professionalism sharing knowledge and expertise to ensure outstanding performance



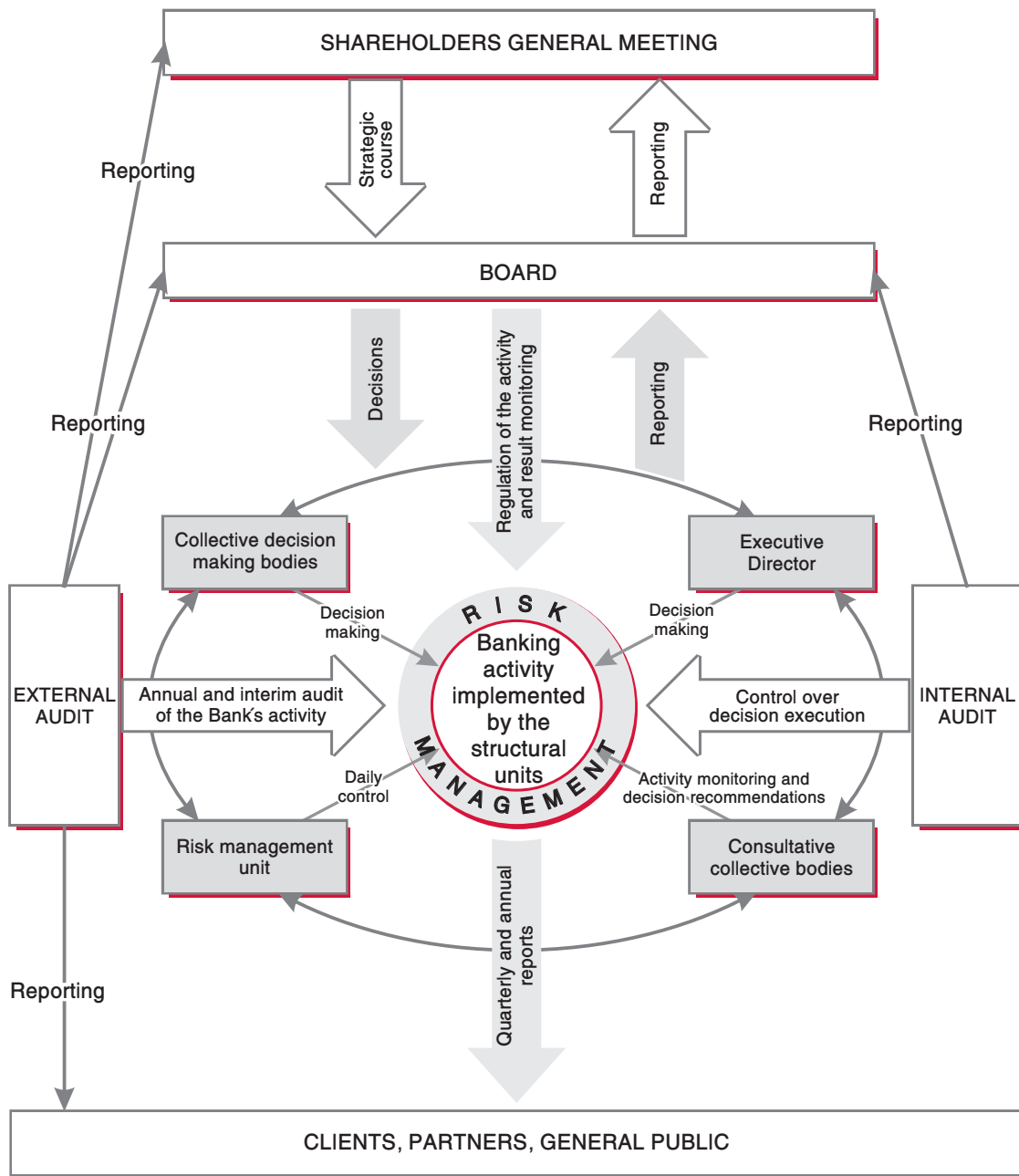


CORPORATE GOVERNANCE

From the moment of the Bank's inception, the Founder and the Board have emphasised the importance of a corporate governance in the Bank. The Bank built its corporate governance system on the generally accepted principles of 'checks and balances', which is expressed with the application of the following main provisions:

- ❑ *Clear segregation of authorities and responsibilities.* All the employees, managers and committees of the Bank have internal regulative documents which define their authorities and responsibilities.
- ❑ *Efficient cooperation between Shareholder, Board, Executive Management, Internal and External Auditors, which is stated in corporate code of conduct.* The recommendations made by the internal and external auditors of the Bank are thoroughly discussed to improve the management system.
- ❑ *Existence of a reliable internal control system, which ensures continuous monitoring of the risks.* The internal control system of the Bank has two levels: self-control and supervision. Each structural unit and employee, based on the assigned authorities and responsibilities, independently controls the correctness of the performed operations. Supervision over the correctness of the functions and correspondence to the regulating documents is exercised by the internal audit and risk management units of the Bank. The risk management unit exercises daily monitoring of risk bearing operations. At the same time, according to the annual audit plan approved by the Board, the internal audit unit examines various spheres of the Bank's activities. The system efficiency is ensured by existence of clear segregation and documentation of the authorities and responsibilities among the units, as well as by application of reconciliation procedures.
- ❑ *Collective nature of decision making in the most risk bearing spheres.* The following decision making and consultative bodies operate in the Bank: Asset and Liabilities Management Committee, Credit Committee, Investment Committee and Budget Committee.
- ❑ *"Four eyes" principle application to the execution of transactions and risk bearing operations.* At least two employees participate in banking operations (for above average risky operations even three). The above mentioned procedure is stated in the appropriate internal regulative documents.
- ❑ *Availability of reliable reporting and information system.* There is a reporting system at the Bank, aimed at providing the interested and authorized parties with comprehensive information to manage and mitigate risks, make decisions and exercise control.
- ❑ *Preserving corporate conduct values.* The Bank developed "Corporate Code of Conduct" approved by the Board, which defines the values guiding the Bank in the relationship with its clients, partners, state authorities and employees.
- ❑ *Availability of clearly formulated strategic program.* The Board approves the Bank's strategic program for each year, which defines short-term and long-term objectives, target financial indicators, expenses, revenues and actions.

The Bank's corporate governance system can be depicted as follows:



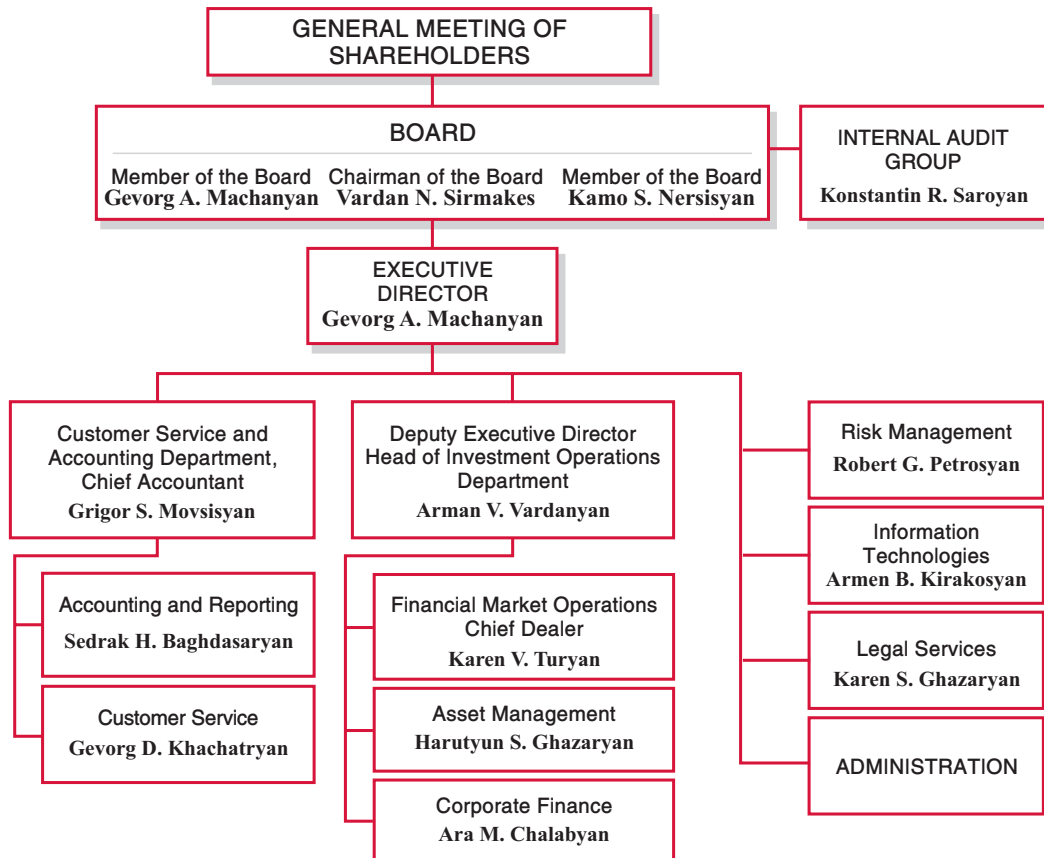
HUMAN RESOURCE MANAGEMENT

During 2005 the core and main part - the backbone of the Bank team has been formed. The key members of the staff have an extensive working experience in the financial-banking system of Armenia. The Bank's staff excels not only in its proficiency, but also in rich professional knowledge and personal integrity.

While implementing HR management policy the Bank is guided by the following principles, which are stated in the internal regulative documents approved by the Board:

- ☐ The Bank builds relations with its employees upon the principles of long-lasting cooperation and mutual respect, as well as implicit implementation of duties.
- ☐ The Bank does not accept any political, gender, national or other discriminations towards its employees during recruitment, remuneration and promotion.
- ☐ The Bank creates all necessary conditions to ensure professional growth and social well-fare for its employees.
- ☐ In line with the professional skills, knowledge and experience the Bank values the personal integrity of its employees.
- ☐ The Bank ensures interchangeability of staff.
- ☐ The Bank appreciates the work of each employee concerned.

The organizational structure of the Bank:



PRUDENCE

Through collective decision making we ensure our decision making efficiency by diversifying, controlling and anticipating risks





RISK MANAGEMENT

The Management of the Bank attaches great importance to the risk management and its ongoing efficient provision.

An effective system of credit, market, liquidity and operational risk management is developed and implemented in the Bank based on contemporary methods and technologies of the risk assessment and mitigation. In particular, a risk management unit has been created in the Bank, which exercises daily control over the Bank's operations examining risk bearing transactions and monitoring the internal prudential environment of the Bank. Moreover, Internal Audit Group operates in the Bank, to control the compliance of the Bank activities with the internal policies, procedures, regulations adopted by the Board and the Executive body in order to identify existing and possible risks. Risk management in the Bank is implemented not only by risk management and internal audit units, but also at all decision-making levels.

The Board. The Board sets the standards, limits, guidelines for lending and investment activities, borrower and partner selection criteria, pledge requirements, assets allocation directions in order to mitigate the credit and market risks of the Bank.

Collective decision making bodies. The mission of the Assets and Liabilities Management Committee is to manage liquidity risk. Within the framework of the standards and limitations defined by the Board of the Bank and the Central Bank of the Republic of Armenia, the Assets and Liabilities Management Committee sets stricter standards, which are mostly of a preventive nature. The Assets and Liabilities Management Committee also periodically monitors the implementation of the Bank's strategy. In accordance with the Credit Policy approved by the Board, the Credit Committee adopts internal procedures of lending activity and efficiently manages the credit risk by making decisions on granting loans within the scope of its authorities. The assessments of risks associated with the Bank's activities in the financial markets and development of appropriate investment solutions are within the competence of the Investment Committee. Elimination of conflicts of interest and risks of abuse in the process of goods and fixed assets acquisition is the responsibility of the Budget Commission, which approves considerable purchases of the Bank.

Executive Director. The Executive Director is in charge of the overall risks of the Bank, heading all the collective decision making bodies, if required creating working groups, organizing meetings and making decisions on the current activity of the Bank within the scope of his authorities.

Structural units. Each structural unit and employee of the Bank strictly follows the internal acts. In order to mitigate operational risks, all operations in the Bank are executed with participation of at least two employees ("four eyes" principle). There are internal regulative documents clearly segregating the authorities and responsibilities of the staff, as well as a 'cross-checking' reporting system.



PARTNERSHIP

We value sustainable and mutual cooperation with clients and partners for a win-win result delivery

CLIENTS AND PARTNERS - THE CORNERSTONE OF ACTIVITY

The Bank appreciates long-lasting cooperation with its clients and partners and builds its relations on mutually beneficial principles.

The relations of the Bank with its clients and partners are built on the principles of legality, bona fides, honesty, mutual trust and respect, priority of client interests and inviolability of liabilities.

During 2005 the Bank was underway to its formation and, therefore, did not set an objective to undertake active measures for client attraction.

In the field of customer care the Bank is guided by the Armenian legislation, the charter of the Bank, the internal acts and customer policy, as well as private banking philosophy, which is based on the following fundamental principles generally accepted and exercised in international practice:

- ☐ Guarantee of the confidentiality of the client's information;
- ☐ High-quality service;
- ☐ Formation of equitable relations between the Bank and the client;
- ☐ Application of appropriate policy, enabling the Bank to provide clients with personalized, "tailor made" services that meet individual client needs and is accepted in international banking practice;
- ☐ Building relationship with a client through a personal manager;
- ☐ Identifying client needs to offer efficient solutions;
- ☐ Application of a risk based asset management approach to ensure sustainable profitability of client assets.

The Bank's business philosophy, customer policy and "Know Your Customer Rules" imply that the Bank does not provide mass services typical to the retail banks, nor does it provides services to persons not having accounts with the Bank. The Bank strives to establish relations with the clients and partners meeting the following criteria:

- ☐ Corporate clients, who have stable medium and large-scale businesses;
- ☐ High-net-worth individuals, who seek efficient wealth management or wish to invest in various financial instruments;
- ☐ Bank and non-bank financial intermediaries.

Each employee of the Bank realizes and accepts the mission of the Bank and in their relations with clients and partners preserves the following provisions of the Bank's code of corporate conduct:

- ☐ The Bank's employee does his/her best to minimize possible risks for the clients and partners;
- ☐ The Bank's employee carefully studies the given assignments and gives timely responses to the comments addressed to the Bank;
- ☐ The Bank's employee does not disclose information on clients and partners, their transactions, accounts and investments, as well as other data unless disclosure of such information is required by the Armenian legislation;
- ☐ The Bank's employee does not have the right to conduct research and provide clients or partners with any recommendations on behalf of the Bank, unless it is related to his/her job responsibilities.

Since the Bank is not engaged in retail banking, its marketing policy is not directed to mass advertising; instead it considers individual and effective interaction with the target groups, applying the state-of-the-art and progressive technologies of "Direct marketing".

CONFIDENTIALITY

Managed in compliance with the legislation of the Republic of Armenia, and fully respecting the privacy of our clients in the best tradition of private banking, we preserve client information confidentiality



ARMSWISSBANK
Private & Investment Banking



INFORMATION TECHNOLOGIES

During 2005 the Bank worked consistently to design and build a state-of-the-art IT infrastructure, which enables the secure and continuous operation of every unit within the Bank, and ensures confidentiality, integrity and availability of information for our customers. The vision and concepts of IT infrastructure of the Bank are clearly stated in IT development strategy that has been approved by the Board.

Currently the IT infrastructure of the Bank includes the following main modules:

- ☐ Automated core banking system - GL (LSBANK 5.0)
- ☐ Payment and settlement systems (Bankmail, SWIFT)
- ☐ Information and trading systems (Bloomberg Professional, Reuters Wealth Manager)
- ☐ Web site
- ☐ "Bank-Client" on-line banking system
- ☐ Interbank telecommunication network of the Central Bank of Armenia (CBANet)
- ☐ Document Management System (Based on Lotus Domino)
- ☐ Information security assurance software/hardware and related procedures (firewall, anti-virus software, etc)

Taking into account the importance of IT, all necessary measures are undertaken to provide the security of the systems and mitigate risks.

In order to safeguard the systems from external threats, a "VeriSign 128 Bit SSL" certificate for "Bank-Client" system information encoding is applied. In addition, a DMZ environment was established for appropriate segments of the Bank. The system user's authorization, as well as physical access to various systems and servers is reasonably limited in order to reduce the security risks. Appropriate operational and organizational steps are taken to ensure the contingency of IT Infrastructure which includes:

- ☐ Creation of appropriate documentation for Disaster Recovery Planning including procedures on back-up, archiving, etc
- ☐ Regular training of users
- ☐ UPS facilities and alternative communication facilities

INTEGRITY

We preserve our reputation by strongly valuing trustworthiness
and ethics in our corporate conduct



FINANCIAL PERFORMANCE

Grant Thornton Amyot 

Member of Grant Thornton International
Chartered Accountants
Management, Tax & Legal Consultants

INDEPENDENT AUDITOR'S REPORT

To the shareholders of "ARMSWISSBANK" CJSC,

We have audited the accompanying balance sheet of "ARMSWISSBANK" CJSC (the "Bank") as at 31 December 2005, and the related statements of income, cash flow and changes in shareholders' equity for the year then ended. These financial statements set out on pages 26 to 52 are the responsibility of the Bank management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Yerevan

March 10, 2006

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Auditors and Chartered Accountants, registered at the State Register of Armenia, Certificate # 035877
Enterprise and Banking Audit Licenses # 021, 022 issued by the Ministry of Finance and Economy of Armenia

Statement of income

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

*For the 3 months period ended 31 December 2004
(in thousand of Armenian Drams)*

	Notes	2005 (audited)	2004 (audited)
Interest income	4	258,802	-
Interest expenses	4	(44,686)	-
Net interest income		214,116	-
Fees and commission income		2,141	-
Fees and commission expenses		(4,396)	(80)
Net fee and commission income		(2,255)	(80)
Gains less losses from foreign currency transactions and revaluation		(1,599)	315
Gains less losses from investment securities		7,476	-
Other operating income	5	71	84
Impairment losses	6	(25,924)	-
Other operating expenses	7	(206,253)	(10,798)
Loss before income tax		(14,368)	(10,479)
Income tax recovery	18	3,329	-
Loss for the year		(11,039)	(10,479)

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The accompanying notes on pages 30 to 50 form an integral part of these financial statements.

Balance sheet

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

	Notes	2005 (audited)	2004 (audited)
ASSETS			
Balances with the CBA	8	330,100	49,610
Amounts due from banks and other financial institutions	9	403,078	-
Loans and advances to customers	10	2,351,717	-
Investments available for sale	11	2,659,258	-
Property plant and equipment	12	47,101	40,655
Intangible assets	13	27,436	145
Deferred income tax asset	18	3,227	-
Other assets	14	10,175	19,440
Total assets		5,832,092	109,850
LIABILITIES AND EQUITY			
Amounts due to banks and other financial institutions	15	1,932,376	-
Amounts due to customers	16	911,911	-
Other liabilities		8,914	329
Total liabilities		2,853,201	329
Share capital	17	3,000,000	120,000
Accumulated loss		(21,518)	(10,479)
Other reserves		409	-
Total equity		2,978,891	109,521
Total liabilities and equity		5,832,092	109,850

The accompanying notes on pages 30 to 50 form an integral part of these financial statements.

The financial statements were approved on 10 March 2006 by the Board of the bank and signed by the Bank's Executive Director and the Chief Accountant.

Statement of changes in equity

For the year ended 31 December 2005
(In thousand of Armenian Drams)

For the 3 months period ended 31 December 2004
(in thousand of Armenian Drams)

	Share capital	Revaluation reserve of securities available for sale	Accumulated loss	Total
Balance as at 07.10.04	-	-	-	-
Issue of share capital	120,000	-	-	120,000
Loss for the year	-	-	(10,479)	(10,479)
Balance as at 31.12.04 (audited)	120,000	-	(10,479)	109,521
Increase in share capital	2,880,000	-	-	2,880,000
Loss for the year	-	-	(11,039)	(11,039)
Net profit from adjustment of fair value	-	511	-	511
Effect of deferred tax	-	(102)	-	(102)
Balance as at 31.12.05 (audited)	3,000,000	409	(21,518)	2,978,891

Statement of cash flow

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

For the 3 months period ended 31 December 2004
(in thousand of Armenian Drams)

	2005 (audited)	2004 (audited)
<u>Cash flows from operating activities</u>		
Interests received	229,406	-
Interests paid	(32,670)	-
Fees and commissions received, net	(2,255)	(80)
Salaries and similar cash payments to employees	(100,861)	(7,469)
<u>Net cash flow before changes in operating assets and liabilities</u>	93,620	(7,549)
<i>(Increase)/decrease in operating assets</i>		
Loans and deposits to banks	(315,445)	-
Loans to customers	(2,359,208)	-
Securities available for sale	(2,631,402)	-
<i>Increase/(decrease) in operating liabilities</i>		
Amounts due to banks and financial institutions	814,881	-
Amounts due to customers	911,787	-
Other	(81,197)	(21,506)
Net cash flow from operating activities	(3,566,964)	(29,055)
<u>Cash flows from investing activities</u>		
PPE purchase	(17,294)	(41,190)
Intangible assets purchase	(28,575)	(145)
Net cash flow from investing activities	(45,869)	(41,335)
<u>Cash flow from financing activities</u>		
Borrowings from banks and other financial institutions	1,109,381	-
Issue of share capital	2,880,000	120,000
Net cash flow from financing activities	3,989,381	120,000
Effect of exchange rate changes on cash and cash equivalents	(6,496)	-
Net increase in cash and cash equivalents	370,052	49,610
Cash and cash equivalents at the beginning of the year	49,610	-
Cash and cash equivalents at the end of the year (note 8)	419,662	49,610

NOTES

1. Principal activities

"ARMSWISSBANK" CJSC ("the Bank") was formed in 2004 as a Closed Joint Stock Company under the laws of Republic of Armenia ("RA"). The Bank was registered on October 7, 2004 under the license N84 granted by the Central Bank of Armenia ("CBA"). The Bank possesses banking license by the decision N74 A of the Board of the CBA dated 25.02.2005.

The Bank accepts deposits from the public and makes loans and provides banking services for its commercial and retail customer.

The Bank's main office is in Yerevan. The Bank's registered legal address is Yerevan, 13/2 Khanjyan Str., Republic of Armenia, 375010.

The average number of persons employed by the Bank during the year was 37 persons (2004: 12 persons).

2. Operating environment

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

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

3. Summary of significant accounting policies

Basis of preparation

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

Since the Bank was registered on October 7, 2004, the first published statements of the Bank and income statement of the Bank include the period from October 7, 2004 to December 31, 2004. Therefore, the opening balances are not reconcilable.

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

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

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

Income and expense recognition

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

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

Foreign currency translation and transactions

Foreign currency transactions are translated into AMD using the exchange rates defined by the CBA prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates defined by the CBA prevailing on the balance sheet date amounting to USD1= 450.19 AMD for 2005 (for 2004: USD1=485.84 AMD). Foreign exchange gains and losses resulting from settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement as a profit or loss from revaluation of foreign currency positions.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. The current income tax charge is calculated in accordance with the regulations of the Republic of Armenia. Deferred income tax, if any, is provided on temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that assets or liability for tax purposes.

Deferred income tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred income tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized. Deferred income tax assets and liabilities are offset when the Bank:

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

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

Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise balances with the CBA and placements with other banks (excluding those funds, withdraw ability of which is restricted).

Amounts due from banks and other financial institutions

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

Financial instruments

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

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

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

Financial assets at fair value through profit or loss

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

Available for sale

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

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

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

Loans and receivables

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

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

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

Held to maturity

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

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

Repurchase agreements

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

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

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

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

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

Leases

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

Allowance for impairment of financial assets

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

Assets carried at amortized cost

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

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

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

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

Assets carried at fair value

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

Intangible assets

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

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

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

Property, plant and equipment

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

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

	Useful life (years)	Rate (%)
Computers	4	25
Vehicles	5	20
Other fixed assets	5	20

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

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

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

Share capital and treasury stock

Ordinary shares are classified as equity. Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year, which are declared after balance sheet date, are disclosed in the subsequent events note.

Under certain circumstances and through the procedure established by the RA legislation the Bank may purchase its equity share capital, in which case consideration paid is deducted from total shareholders' equity as treasury stocks until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

Pensions

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

Provisions, contingent assets and liabilities

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

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

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

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

Comparatives

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

4. Interest income and expense

	2005	2004
Interest income		
Current accounts, loans and deposits in banks and other financial institutions	12,356	-
Loans and advances to customers	134,874	-
Investments	104,040	-
Repurchase agreements	7,532	-
	258,802	-
Interest expense		
Current accounts, loans and deposits from banks and other financial institutions	28,324	-
Customer's time deposits and current accounts	5,853	-
Repurchase agreements	10,509	-
	44,686	-

5. Other operating income

	2005	2004
Penalties received	68	84
Other income	3	-
	71	84

6. Allowance for impairment

	Notes	2005	2004
<i>Amount due from banks</i>			
Balance brought forward		-	-
Increase in provision		2,246	-
Balance carried forward	9	2,246	-
<i>Loans and advances to customer</i>			
Balance brought forward		-	-
Increase in provision		23,592	-
Balance carried forward	10	23,592	-
<i>Other assets</i>			
Balance brought forward		-	-
Increase in provision		86	-
Balance carried forward	14	86	-
Impairment losses		25,924	-

7. Other operating expense

	2005	2004
Personnel expenses	103,238	7,195
Social insurance payments	8,815	564
Depreciation and amortization	12,132	535
Communication	15,867	232
Business trip	5,322	-
Advertising and representation	1,880	120
Repair and maintenance of tangible assets	1,758	125
Office supply	1,020	291
Operating lease expenses	20,363	1,011
Consulting and professional services	8,267	-
Security	1,763	-
Taxes, other than income tax	6,529	682
Other expenses	19,299	43
	206,253	10,798

8. Cash and cash equivalents and balances with CBA

	2005	2004
Correspondent account with CBA	330,100	49,610
Placements with other banks (note 9)	89,562	-
Total cash and cash equivalents	419,662	49,610

Under Armenian banking regulations, the bank is required to maintain, in the form of deposits, certain cash reserves with the CBA which are computed as 8% (2004 as 6%) of certain Bank liabilities. The reserve for assets attracted in AMD is maintained in AMD, the reserve for assets in Euro currency is maintained in Euro currency and the assets in other currencies are reserved in USD. There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement are not met, the Bank could be subject to certain penalties. Interests were not extended in respect of mandatory reserves in 2005 (2004 at 3% per annum).

9. Amounts due from banks and other financial institutions

	2005	2004
<u>Current accounts</u>		
OECD banks	89,101	-
Non-OECD countries (excluding Armenia)	461	-
	<u>89,562</u>	-
<u>Inter-bank loans and deposits</u>		
Armenian banks:		
- repurchase agreements	180,657	-
OECD banks	135,105	-
	<u>315,762</u>	-
Allowance for impairment of amount due from banks (note 6)	(2,246)	-
	403,078	-

The Bank collaborates with foreign and Armenian banks in the international and local money-markets allocating deposits, interbank loans. Thus, in the reporting year the Bank allocated 41,1 million US dollars, 5,2 million Euros and 7590 million Armenian drams in total of interbank loans and deposits, as well as repurchase agreements for total amount of approximately 6 billion AMD.

10. Loans and advances to customers

The Bank has started providing commercial loans beginning from May of the reporting year. Altogether for the period of May-December an amount of approximately equivalent to 2,408 million AMD has been granted as loan.

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

	2005	2004
State owned enterprises	20,000	-
Privately held companies	1,913,362	-
Individuals	425,846	-
Accrued interest	16,101	-
	<u>2,375,309</u>	-
Allowance for impairment of loans and advances to customers (note	(23,592)	-
	<u>2,351,717</u>	-

As at 31.12.05 the loan portfolio consists of 17 loans, out of which the total amount of loans extended to 7 major borrowers makes up 90% of the loan portfolio. The maximum extent of risk on a single borrower makes up 15.43% (the maximum extent of risk on a single borrower is set by the CBA at 20%).

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

	2005	%	2004	%
Manufacturing	1,463,304	62	-	-
Construction	450,057	19	-	-
Service sector	333,000	14	-	-
Mortgage loans	92,847	4	-	-
Other	20,000	1	-	-
Accrued interest	16,101	-	-	-
	<u>2,375,309</u>	<u>100</u>	-	-

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

	2005	2004
Armenian residents	2,314,189	-
OECD region residents	45,019	-
Accrued interest	16,101	-
	<u>2,375,309</u>	-
Allowance for impairment of loans and advances to customers (note 6)	(23,592)	-
	<u>2,351,717</u>	-

11. Investments available-for-sale

RA Government securities	2005	2004
RA Government bonds	2,116,386	-
OECD countries Government bonds	395,690	-
Non-OECD countries Government bonds	119,807	-
Accrued interest	27,375	-
	2,659,258	-

Out of the RA Government bonds, the bonds with the fair value of AMD 249,861 thousand and AMD 949,888 thousand are correspondingly considered as sold and pledged by the repo contracts. Out of OECD countries Government bonds, the bonds with the fair value of 399,821 thousand AMD are considered as pledged bonds.

Irrespective of the fact that the Bank started its activity in the market of state bonds in May 2005, it managed to actively participate in the operations with the bonds issued by the Ministry of Finance and Economy and the Central Bank of the Republic of Armenia. It should be noted that in 2005 the Bank obtained from the Ministry of Finance and Economy a status of a dealer in the market of government (treasury) long-term coupon securities, medium-term partially paid-off coupon securities and short-term bonds, and a status of a dealer in the market of government bonds issued by the Central Bank of the Republic of Armenia. The aforementioned is a result of a dynamic activity of the Bank carried out in the secondary market of government bonds. Thus, during 2005, ArmSwissBank's trading volume of government securities amounted to approximately 25 billion AMD in terms of nominal value.

For the period concerned the Bank has started implementing transactions in the international financial markets. Considering its investment guidelines the Bank has made investments in USA, Eurozone and the Russian Federation government bonds. Thus, the total volume of transactions with bonds denominated in US dollar constituted 5,55 million USD, and in EURO 2,1 million EUR. The daily average portfolio volume made up 900 thousand US dollars.

The movement in investments may be summarized as follows:

	Available-for-sale
At January 1, 2005	-
Additions	15,915,104
Disposals (sale and redemption)	(13,256,357)
Gain from fair value changes	511
At December 31, 2005	2,659,258

12. Property, plant and equipment

	Computers and com. means	Vehicles	Other PPE	Total
Cost				
As of October 7, 2004	-	-	-	-
Additions	29,807	5,073	6,310	41,190
As of December 31, 2004	29,807	5,073	6,310	41,190
Additions	11,277	-	6,017	17,294
As of December 31, 2005	41,084	5,073	12,327	58,484
Accumulated depreciation				
As of October 7, 2004	-	-	-	-
Additions	352	103	80	535
As of December 31, 2004	352	103	80	535
Additions	7,987	1,014	1,847	10,848
As of December 31, 2005	8,339	1,117	1,927	11,383
Net book values:				
As of December 31, 2005	32,745	3,956	10,400	47,101
As of December 31, 2004	29,455	4,970	6,230	40,655

13. Intangible assets

	License	Software	Other	Total
Cost				
As of October 7, 2004	-	-	-	-
Additions	-	120	25	145
As of December 31, 2004	-	120	25	145
Additions	529	27,755	291	28,575
As of December 31, 2005	529	27,875	316	28,720
Accumulated Amortization				
As of December 31, 2004	-	-	-	-
Additions	216	1,049	19	1,284
As of December 31, 2005	216	1,049	19	1,284
Net book values:				
As of December 31, 2005	313	26,826	297	27,436
As of December 31, 2004	-	120	25	145

14. Other assets

	2005	2004
Prepayments and other debtors	3,815	14,783
Settlements with employees	161	66
Other assets	24	15
	4,000	14,864
Allowance for impairment of other assets (note 6)	(86)	-
	3,914	14,864
Amounts receivable	4,500	4,501
Intangible asset out of use	540	-
Advances to profit tax	1,171	-
Materials	50	75
	10,175	19,440

15. Amounts due to banks and other financial institutions

	2005	2004
<u>Current accounts</u>		
Armenian banks	415,415	-
<u>Inter-bank loans and deposits</u>		
Armenian banks:		
- loans and deposits	875,999	-
- repurchase agreements	255,516	-
OECD banks	385,446	-
	1,516,961	-
	1,932,376	-

The loans received from OECD countries banks include loan amounting to USD 847,337 from Raiffeisen Zentralbank (Austria) at annual interest rate of 5.08% and with the maturity date defined on 17.03.2006, secured by OECD countries Government bonds (see note 11).

In the reporting year the Bank attracted 11,4 million US dollars and 1298 million Armenian drams of interbank loans and deposits, as well as performed repo transactions for total amount of approximately 10 billion AMD.

16. Amounts due to customers

	2005	2004
<u>Corporate customers</u>		
- Current/settlement accounts	115,400	-
<u>Retail customers</u>		
- Current/demand accounts	6,797	-
- Term deposits	789,714	-
	796,511	-
	911,911	-

17. Share capital

As at 31 December 2005 the Bank's registered and paid-in share capital was KAMD 3,000,000. In accordance with the Bank's statutes, the share capital consists of 5,000 ordinary shares, all of which have a par value of AMD 600,000 each. The only shareholder of the Bank is Swiss businessman Vardan Sirmakes.

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

18. Income tax recovery

	2005	2004
Current tax	-	-
Deferred tax	(3,329)	-
	(3,329)	-

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

Numerical reconciliation between the tax recovery and accounting loss is provided below:

	2005	Effective tax rate (%)	2004	Effective tax rate (%)
Loss before taxation	(14,368)	-	(10,479)	-
Income tax at the rate of 20%	(2,874)	(20)	(2,096)	(20)
<i>Adjustments of income and expenses for tax purposes in respect of non temporary differences:</i>				
Foreign exchange (Gains)/negative	1,299	9.0	(63)	(0.6)
Non deductible expenses	380	2.7	24	0.2
Valuation of deferred tax asset	-	-	2,134	20.4
Recognition of valued deferred tax asset	(2,134)	(14.9)	-	-
Income tax recovery	(3,329)	23.2	-	-

Deferred tax calculation in respect of temporary differences:

	2005	2004
<i>Deferred tax assets</i>		
Accounts payable	846	63
Tax loss carry forward	2,628	2,071
	3,474	2,134
Valuation of deferred tax asset	-	(2,134)
	3,474	-
<i>Deferred tax liabilities</i>		
Revaluations of the securities available for sale	(102)	-
Adjustments of the reserves	(145)	-
	(247)	-
Deferred tax asset	3,227	-

As at 31.12.2004 the deferred tax assets at the amount of AMD 2,134 thousand were not recognized due to uncertainty of their realization.

Deferred tax calculation in respect of temporary differences:

	Balance as at 31.12.04	Recognized in statement of income	Recognized in equity	Balance as at 31.12.05
<i>Deferred tax assets</i>				
Accounts payable	-	846	-	846
Tax loss carry forward	-	2,628	-	2,628
	-	3,474	-	3,474
<i>Deferred tax liabilities</i>				
Revaluations of the securities available for sale	-	-	(102)	(102)
Adjustments of the reserve	-	(145)	-	(145)
	-	(145)	(102)	(247)
Deferred tax asset	-	3,329	(102)	3,227

19. Provisions, financial commitments and contingencies

19.1. Tax and legal matters

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

Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.

As at 31.12.05 there are no any legal actions and complaints taken against the Bank.

Therefore, the Bank has not made any respective provision related to tax and legal matters.

19.2. Undrawn loan commitments, guarantees and letters of credit

	2005	2004
Undrawn loan commitments	72,689	-

19.3. Commitments under operating leases

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

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

	2005	2004
Not later than 1 year	21,069	17,490
Later than 1 year and not later than 5 years	61,451	68,503
Later than 5 years	-	-
	82,520	85,993

20. Related party transactions

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

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

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

Loans and advances to customers	2005	2004
Balance at 1 January	-	-
Loans issued during the year	7,000	-
Loans repayment during the year	(585)	-
Balance at 31 December	6,415	-
Interest income	325	-

Amounts due to banks	2005	2004
Balance at 1 January	-	-
Amounts received during the year	2,183,187	-
Amounts paid during the year	(1,730,977)	-
Balance at 31 December	452,210	-
Interest expense	8,695	-

Amounts due to customers	2005	2004
Balance at 1 January	-	-
Amounts received during the year	731,615	-
Amounts paid during the year	-	-
Balance at 31 December	731,615	-
Interest expense	5,743	-

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

The loan was extended to the manager of the Bank's division.

Amounts due to other banks include a sum of time deposit of RA resident bank (45,019 thousand AMD) and correspondent account (407,191 thousand AMD).

Amount due to clients is a time deposit attracted from the Bank's shareholder's related party.

In 2005 the total remuneration of the Directors was AMD 47,969 thousand (2004: AMD 4,761 thousand).

21. Risk management policies

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

Credit risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to lending sectors and geographical segments (see note 10). Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

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

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

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

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

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

2005	RA	OECD	Non-OECD	Total
Assets				
Balances with the CBA	330,100	-	-	330,100
Due from banks and other fin. institutions	269,324	133,754	-	403,078
Loans and advances to customers	2,306,832	44,885	-	2,351,717
Investment securities	2,137,233	399,819	122,206	2,659,258
	5,043,489	578,458	122,206	5,744,153
Liabilities				
Amounts owed to banks and other fin. institutions	1,546,930	385,446	-	1,932,376
Amounts owed to customers	116,065	795,846	-	911,911
	1,662,995	1,181,292	-	2,844,287
Net position	3,380,494	(602,834)	122,206	2,899,866

2004	RA	OECD	Non-OECD	Total
Assets				
Balances with the CBA	49,610	-	-	49,610
Net position	49,610	-	-	49,610

Market risk

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

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

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

Currency risk

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

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

2005	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Balances with the CBA	66,577	263,523	-	330,100
Due from banks and other fin. institutions	180,657	222,421	-	403,078
Loans and advances to customers	1,245,789	1,105,928	-	2,351,717
Investment securities	2,137,233	522,025	-	2,659,258
	3,630,256	2,113,897	-	5,744,153
Liabilities				
Amounts owed to banks and other fin. institutions	665,513	1,266,863	-	1,932,376
Amounts owed to customers	88,121	823,790	-	911,911
	753,634	2,090,653	-	2,844,287
Net position	2,876,622	23,244	-	2,899,866

2004	Armenian Dram	Freely convertible currencies	Non-freely convertible currencies	Total
Assets				
Balances with the CBA	49,610	-	-	49,610
Net position	49,610	-	-	49,610

Liquidity risk

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

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

2005	Less than 1 month	1 - 3 months	3 - 6 months	6 months to 1 year	1-5 years	More than 5 years	Total
Assets							
Balances with the CBA	330,100	-	-	-	-	-	330,100
Due from banks	403,078	-	-	-	-	-	403,078
Loans to customers	64,249	121,395	171,389	221,950	1,772,734	-	2,351,717
Investment securities	262,182	91,558	76,171	219,176	519,340	1,490,831	2,659,258
	1,059,609	212,953	247,560	441,126	2,292,074	1,490,831	5,744,153
Liabilities							
Amounts owed to banks	717,656	1,214,720	-	-	-	-	1,932,376
Amounts owed to customers	185,348	-	-	-	726,563	-	911,911
	903,004	1,214,720	-	-	726,563	-	2,844,287
Net position	156,605	(1,001,767)	247,560	441,126	1,565,511	1,490,831	2,899,866
Accumulated gap	156,605	(845,162)	(597,602)	(156,476)	1,409,035	2,899,866	-

2004	Less than 1 month	1 - 3 months	3 - 6 months	6 months to 1 year	1-5 years	More than 5 years	Total
Assets							
Balances with the CBA	49,610	-	-	-	-	-	49,610
Net position	49,610	-	-	-	-	-	49,610
Accumulated gap	49,610	49,610	49,610	49,610	49,610	49,610	-

Interest rate risk

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

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

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

	2005		2004	
	Armenian Dram	Foreign currency	Armenian Dram	Foreign currency
Assets				
Balances with the CBA	1.75	-	-	-
Due from banks and other fin. institutions	3.71	3.31	-	-
Loans and advances to customers	14.5	13.6	-	-
Investment securities	6.1	4.7	-	-
Liabilities				
Amounts owed to banks and other fin. institutions	2.85	3.86	-	-
Amounts owed to customers	-	8	-	-

22. Fair value of financial assets and liabilities

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

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

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

Available-for-sale securities are carried at their fair value.

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

23. Capital adequacy

The Bank's total capital adequacy ratio of risk weighted assets, as at 31 December 2005 was 105.89 %. The Central Bank of Armenia requires banks to maintain a total capital adequacy ratio of 12% of risk-weighted assets.

The standard value of the Bank's total capital as at 31 December 2005 makes up AMD 2,978,891 thousand.

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

Bank Details

Full name:	"ARMSWISSBANK" CJSC
License:	The Bank acts on basis of License N84, granted by the Central Bank of Armenia
Tax Code:	02574955
Correspondent account number at Central Bank of Armenia:	103002102509
SWIFT code:	ARSJAM22
Reuters code:	ARSJ
Service hours:	9:30 - 17:00

Contacts

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URL:	www.armswissbank.am

Main clearing accounts for international payments as of 1.3.2006

Austria			
Vienna	Raiffeisen Zentralbank Osterreich AG	EUR	RZBA AT WW
		USD	
		Custody Acc	
Switzerland			
Zurich	UBS AG	CHF	UBSW CH ZH 80A
		EUR	
		USD	
Germany			
Frankfurt am Main	Commerzbank AG	EUR	COBA DE FF
		USD	
Russia			
Moscow	International Moscow Bank	RUB	IMBK RU MM
		EUR	
		USD	
		GBP	
		CHF	
Latvia			
Riga	Rietumu Banka	LVL	RTMBLV2X
		USD	
		EUR	
		RUB	
Armenia			
Yerevan	Central Bank of Armenia	EUR	CBRA AM 22
		USD	
		AMD	
		Custody Acc	

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