

Ardshininvestbank cjsc

**Financial statements for the ten month period ended
31 December 2003**

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Ardshininvestbank cjsc

6/2 V.Sargsyan Street,

Yerevan

Republic of Armenia

Board of Directors

- | | |
|--------------------|--------------------------------|
| Karen Safaryan | - Chairman of the Board |
| Khachatur Zaqaryan | - Deputy Chairman of the Board |
| Aleksey Chervoniy | - Member of the Board |
| Vjacheslav Borisov | - Member of the Board |
| Valery Tyukalov | - Member of the Board |

Statement of Directors' Responsibilities

The directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of Ardshinvestbank cjsc ("the Bank") and of the profit and loss of the Bank for that period. In preparing these financial statements, the directors are required to:

- state whether applicable accounting standards have been followed;
- select appropriate accounting policies and apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Bank will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy the financial position of the Bank and to enable them to ensure that the financial statements comply with International Financial Reporting Standards. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.



KPMG Armenia cjsc

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Independent Auditor's Report

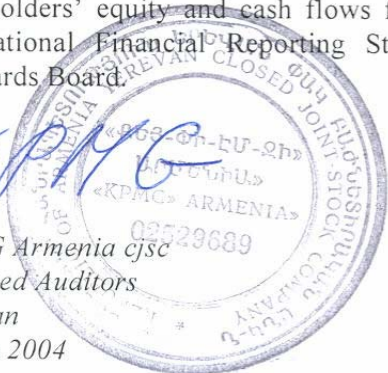
To the Board of Directors
Ardshininvestbank cjsc

We have audited the accompanying balance sheet of Ardshininvestbank cjsc (the "Bank") as of 31 December 2003 and the related statements of income, changes in shareholders' equity and cash flows for the ten month period then ended. These financial statements, as set out on pages 4 to 35, are the responsibility of the Bank's 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 as issued by the International Federation of Accountants. 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 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 present fairly, in all material respects, the financial position of the Bank as of 31 December 2003, and the results of its operations, changes in shareholders' equity and cash flows for the ten month period then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

KPMG Armenia cjsc
Licensed Auditors
Yerevan
1 June 2004



	Notes	2003 AMD '000
ASSETS		
Cash		2,250,820
Due from the Central Bank of Armenia	11	2,094,485
Placements with banks and other financial institutions	12	1,675,712
Amounts receivable under reverse repurchase agreements	13	205,730
Loans to customers	14	11,231,281
Investments	15	1,711,377
Other assets	16	567,808
Property and equipment	17	1,645,479
Intangible assets	18	81,508
Deferred tax asset	22	<u>6,012</u>
Total Assets		<u>21,470,212</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits and balances from banks and other financial institutions	19	1,997,309
Current accounts and deposits from customers	20	15,502,062
Other liabilities	21	<u>369,714</u>
Total Liabilities		<u>17,869,085</u>
Shareholders' Equity		
Share capital	23	2,946,250
Retained earnings		<u>654,877</u>
Total Shareholders' Equity		<u>3,601,127</u>
Total Liabilities and Shareholders' Equity		<u>21,470,212</u>
Commitments and Contingencies	25,26,27	

The balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements.

Ardshininvestbank cjsc
Statement of Cash Flows
for the ten month period ended 31 December 2003

	Note	2003 AMD '000
Cash flows from operating activities		
Interest and fee and commission receipts		1,676,321
Interest and fee and commission payments		(205,484)
Net receipts from foreign exchange		254,952
Other income		450,530
Other expenses		(74,766)
General and administrative expenses		(749,498)
		<u>1,352,055</u>
(Increase)/decrease in operating assets/liabilities		
Due from Central Bank of Armenia		(52,576)
Placements with banks and other financial institutions		(34,659)
Amounts receivable under reverse repurchase agreements		(205,000)
Loans to customers		(6,958,960)
Other assets		(37,890)
Deposits and balances from banks and other financial institutions		673,466
Current accounts and deposits from customers		6,549,757
Other liabilities		23,447
		<u>23,447</u>
Net cash provided from operating activities		<u>1,309,640</u>
Cash flows from investing activities		
Net purchases of investments		(570,957)
Acquisitions of operations, net of cash acquired	36	2,191,347
Net sales of property and equipment		130,142
		<u>130,142</u>
Cash flows from investing activities		<u>1,750,532</u>
Cash flows from financing activities		
Proceeds from issuance of share capital		<u>2,946,250</u>
Cash flows from financing activities		<u>2,946,250</u>
Net increase in cash and cash equivalents		6,006,422
Effect of changes in exchange rates on cash and cash equivalents		(61,601)
Cash and cash equivalents at the beginning of the period		<u>-</u>
Cash and cash equivalents at the end of the period	30	<u>5,944,821</u>

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

Ardshinvestbank cjsc
Statement of Changes in Shareholders' Equity
for the ten month period ended 31 December 2003

	Share capital AMD'000	Retained earnings AMD'000	Total AMD'000
Balance as at 1 January 2003	-	-	-
Shares issued	2,946,250	-	2,946,250
Net income for the period	-	654,877	654,877
Balance as at 31 December 2003	<u>2,946,250</u>	<u>654,877</u>	<u>3,601,127</u>

The statement of changes in shareholders' equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

a) Principal activities

Ardshininvestbank cjsc (the “Bank”) was established in the Republic of Armenia as a closed joint stock company and was granted its general banking license in March 2003. The principal activities of the Bank are deposit taking, lending and operations with securities, gold bullion and foreign exchange. The activities of the Bank are regulated by the Central Bank of Armenia (“the CBA”). The Bank conducts business throughout the Republic of Armenia from its head office and 61 branches. The majority of the Bank’s assets and liabilities are located in the Republic of Armenia. The average number of persons employed by the Bank during the year was 475.

Details of related party transactions are provided in note 29 to the financial statements.

b) Armenian business environment

The Republic of Armenia has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Republic of Armenia involve risks which do not typically exist in other markets. The accompanying financial statements reflect management’s assessment of the impact of the Armenian business environment on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment.

2 Basis of preparation

a) Statement of compliance

The Bank maintains its accounting records in accordance with the legislative requirements of the Republic of Armenia. The accompanying financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of International Financial Reporting Standards (“IFRS”), promulgated by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Reporting Interpretations Committee of the IASB.

b) Basis of measurement

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading and available for sale, 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 amortised cost or historical cost.

c) Measurement and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram (“AMD”). Management has determined the Bank’s measurement currency to be the AMD as it reflects the economic substance of the underlying events and circumstances of the Bank. The AMD is also the Bank’s presentation currency for the purposes of these financial statements. AMD is not a convertible currency outside the Republic of Armenia.

Financial information presented in AMD has been rounded to the nearest thousand.

d) Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Bank's assets, as well as the future operation of the Bank, may be significantly affected by the current and future economic environment (refer note 1 (b)). The accompanying financial statements do not include any adjustments should the Bank be unable to continue as a going concern.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

a) Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate measurement currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the measurement currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to AMD at the foreign exchange rate ruling at the date of the transaction.

b) Cash and cash equivalents

The Bank considers cash and nostro accounts with the CBA and correspondent banks to be cash and cash equivalents.

c) Financial instruments

(i) Classification

Trading instruments are those that the Bank principally holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated and effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Originated loans and receivables are loans and receivables created by the Bank providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers other than purchased loans.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity.

(ii) Recognition

The Bank recognises financial instruments held for trading and available-for-sale assets on the date it commits to purchase the assets.

Held-to-maturity assets and originated loans and receivables are recognised on the day they are transferred to or originated by the Bank.

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading and all available-for-sale instruments are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, where possible, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of all trading and available-for-sale securities are recognised in the income statement.

(vi) Derecognition

A financial asset is derecognised when the Bank loses control over contractual rights that comprise that assets. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the asset. The Bank uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

d) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase are retained within the trading or available-for-sale securities portfolios and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the term of the repurchase agreement.

Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the income statement over the term of the reverse repurchase agreement. The receivables due under reverse repurchase agreements have been shown net of provision for impairment.

e) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

f) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. The cost for self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Leased assets

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Operating leases, in terms of which the Bank does not assume substantially all the risks and rewards of ownership, are expensed.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use.

The estimated useful lives are as follows:

Buildings	20 years
Computer equipment	3 years
Fixtures and fittings	5 years
Leasehold improvements	10 years
Other assets	5 years
Motor vehicles	5 years

g) Intangible assets

(i) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortisation and impairment losses.

(ii) Intangible assets

Intangible assets, which are acquired by the Bank, are stated at cost less accumulated amortisation and impairment losses.

(iii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Goodwill	10 years
Computer software	10 years

h) Impairment

The carrying amounts of the Bank's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

(i) Calculation of recoverable amount

The recoverable amount of the Bank's investments in held-to-maturity securities and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. The recoverable amount of the Bank's trading investments and investments available-for-sale is their fair value.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i) Interest bearing borrowings

Interest-bearing borrowings are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

j) Share capital

(i) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

(ii) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the CBA and other Armenian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings as and when declared.

k) Taxation

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

l) Interest income

Interest income and expense is recognized in the income statement as it accrues, taking into account the effective yield of the asset/liability or an applicable floating rate. Interest income and expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

m) Fee and commission income

Fee and commission income is recognized when the corresponding service is provided.

n) Net securities trading income

Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading and available-for-sale securities.

4 Net interest income

	2003 AMD '000
Interest income	
Placements with banks and other financial institutions	21,750
Loans to customers	1,127,185
Amounts receivable under reverse repurchase agreements	11,276
Securities	103,598
	1,263,809
 Interest expense	
Deposits and balances from banks and other financial institutions	12,436
Amounts payable under repurchase agreements	2,271
Current accounts and deposits from customers	295,751
	310,458

5 Fee and commission income

	2003 AMD '000
Commission on encashment	300,338
Payments transactions	176,636
Guarantee fees	10,983
Other	36,678
	524,635

6 Net foreign exchange income

	2003 AMD '000
Gain on spot transactions	254,952
Loss from translation of financial assets and liabilities	(61,601)
	193,351

7 Other income

	2003 AMD'000
Recovery of loans written-off	300,895
Penalties received	146,697
Gain on disposal of property and equipment	41,467
Recovery of other assets written-off	100
Other	2,838
	491,997

8 Impairment losses

	2003 AMD '000
Net impairment losses	
Loans to customers (refer note 14)	129,168
Other assets (refer note 16)	105,792
Placements with banks and other financial institutions (refer note 12)	12,125
Off balance sheet items (refer note 21)	21,057
	268,142

9 General administrative expenses

	2003 AMD '000
Employee compensation	384,817
Professional services	102,636
Taxes other than income tax	77,375
Depreciation and amortisation	73,332
Lease expenses	57,846
Advertising and marketing	52,766
Communications and information services	43,795
Payroll related taxes	33,263
Security	29,887
Travel expenses	19,330
Repairs and maintenance	14,037
Office supplies	4,894
Other	18,872
	912,850

10 Income tax expense

	2003 AMD '000
<i>Current tax expense</i>	
Current year	213,276
	213,276
<i>Deferred tax expense</i>	
Origination of temporary differences	(6,012)
Reversal of temporary differences attributable to acquisitions	(3,147)
	(9,159)
Total income tax expense in the income statement	204,117

The Bank's applicable tax rate is 20%.

Reconciliation of effective tax rate:

	2003 AMD '000	%
Income before tax	<u>858,994</u>	
Income tax using the applicable tax rate	171,799	20.0
Non-deductible costs and non-taxable income	22,809	2.7
Change in unrecognised deferred tax assets	2,017	0.2
Effect of taxable income recognised on acquisition	<u>7,492</u>	<u>0.9</u>
	<u>204,117</u>	<u>23.8</u>

11 Due from the Central Bank of Armenia

	2003 AMD '000
Minimum reserve deposit	1,005,179
Nostro accounts	1,088,220
Accrued interest	<u>1,086</u>
	<u>2,094,485</u>

The minimum reserve deposit is a mandatory deposit calculated in accordance with regulations issued by the Central Bank of Armenia. Withdrawability of such deposit is not restricted, however, the Bank is subject to penalties for doing so and refrains from such transactions normally. Interest is earned on the amount of mandatory reserves placed with CBA at 3% p.a.

Included within Nostro accounts are AMD 52,576 thousand blocked by the Central Bank of Armenia against card accounts.

12 Placements with banks and other financial institutions

	2003 AMD '000
Nostro accounts	1,687,837
Provision for impairment	<u>(12,125)</u>
	<u>1,675,712</u>

As at 31 December 2003, placements with banks included an amount of AMD 34,659 thousand which was placed as security against the settlement of liabilities in respect of a documentary credit.

Concentration of placements with banks and other financial institutions

As at 31 December 2003, placements with two banks amounting to AMD 838,962 thousand and AMD 431,747 thousand individually comprised more than 10% of placements with banks and other financial institutions.

Analysis of movements in the provision for impairment

	2003 AMD '000
Balance at the beginning of the period	-
Net charge for the period	12,125
Balance at the end of the period	12,125

13 Amounts receivable under reverse repurchase agreements

	2003 AMD '000
Amounts receivable from banks and other financial institutions	205,000
Accrued interest	730
	205,730

Collateral security

Management's estimate of the value of securities held as a collateral against amounts receivable under reverse repurchase agreements approximates to the value of receivables under these agreements.

14 Loans to customers

Industry and geographical analysis of the loan portfolio

Loans and advances to customers are issued primarily to customers located within the Republic of Armenia and who operate in the following economic sectors:

	2003 AMD '000
Consumer loans	2,167,044
Commercial customers	
Trade	3,223,029
Food industry	2,169,731
Construction	1,325,306
Mining and metallurgy	390,859
Energy	309,796
Engineering	253,270
Service	227,960
Agriculture	162,478
Transportation and communication	134,138
Chemical	29,222
Other	899,253
	11,292,086
Accrued interest	91,073
Provision for impairment	(151,878)
	11,231,281

Significant credit exposures

As at 31 December 2003, loans with the total amount AMD 2,212,747 thousand were backed by guarantees given by one company, which in addition, as of that date had loans from the bank and payables to the bank with total amount of AMD 277,670 thousand and AMD 190,897 thousand (refer note 16) respectively.

Contractually overdue loans

Information in relation to contractually overdue loans as at 31 December 2003, is summarised as follows:

	2003 AMD '000
Gross contractually overdue loans	264,452
Provision for loan losses	(41,605)
Net contractually overdue loans recorded in the balance sheet	222,847

In the period ended 31 December 2003, interest totalling AMD 5,085 thousand was not recognised in the income statement in relation to contractually overdue loans.

Analysis of movements in the provision for loan impairment

	2003
	AMD '000
Balance at the beginning of the period	-
Balance originated on acquisition	32,201
Net charge for the period	129,168
Write-offs	(9,491)
Balance at the end of the period	151,878

Loan maturities

The maturity of the Bank's loan portfolio is presented in Note 33 which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to the short term nature of the credits issued by the Bank, it is likely that many of the Bank's loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

15 Investments

	2003
	AMD '000
Available for sale	
<i>Equity instruments - unlisted</i>	
“Arminkasatsia” cjsc	5,353
“Armenian Card” cjsc	7,594
Held-to-maturity	
<i>Debt instruments - unlisted</i>	
Government Treasury Bills	1,679,196
Accrued interest	19,234
	1,711,377

Investments without a determinable fair value

The Bank holds a 2.3% investment in “Armenian Card” cjsc, and 3.9% investment in “Arminkasatsia” cjsc, that are carried at their cost of AMD 7,594 thousand and AMD 5,353 thousand respectively. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value.

16 Other assets

	2003 AMD '000
Receivables	461,742
Prepayments	43,789
Materials and supplies	21,792
Other	46,944
Provision for impairment	(6,459)
	567,808

Concentration of other assets

As at 31 December 2003, the Bank had receivables from a company and an individual amounting to AMD 190,897 thousand (refer note 14), and AMD 73,190 thousand respectively. They individually comprised more than 10% of other assets.

AMD 196,756 thousand included in receivables represents receivables on settlements on customer transfers.

Analysis of movements in the provision for impairment

	2003 AMD '000
Balance at the beginning of the period	-
Net charge for the period	105,792
Write-offs	(99,333)
Balance at the end of the period	6,459

17 Property and equipment

	<u>Buildings</u>	<u>Computer equipment</u>	<u>Fixtures and fittings</u>	<u>Leasehold improvements</u>	<u>Other assets</u>	<u>Motor vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
Cost								
At 1 January 2003	-	-	-	-	-	-	-	-
Additions	1,471,350	204,234	106,109	56,860	56,274	51,771	6,170	1,952,768
Disposals	(234,560)	(519)	(92)	-	(138)	(520)	-	(235,829)
Transfer between categories	-	(33)	471	-	(548)	110	-	-
At 31 December 2003	<u>1,236,790</u>	<u>203,682</u>	<u>106,488</u>	<u>56,860</u>	<u>55,588</u>	<u>51,361</u>	<u>6,170</u>	<u>1,716,939</u>
Depreciation								
At 1 January 2003	-	-	-	-	-	-	-	-
Depreciation charge	22,632	21,215	12,706	3,365	7,707	4,623	-	72,248
Disposals	-	(486)	(86)	-	(138)	(78)	-	(788)
At 31 December 2003	<u>22,632</u>	<u>20,729</u>	<u>12,620</u>	<u>3,365</u>	<u>7,569</u>	<u>4,545</u>	<u>-</u>	<u>71,460</u>
Carrying value								
At 31 December 2003	<u>1,214,158</u>	<u>182,953</u>	<u>93,868</u>	<u>53,495</u>	<u>48,019</u>	<u>46,816</u>	<u>6,170</u>	<u>1,645,479</u>

The carrying value of temporarily idle property and equipment as at 31 December 2003 was AMD 571,800 thousand. The net selling price of these items is higher than their carrying amount.

18 Intangible assets

	<u>Goodwill</u>	<u>Computer software</u>	<u>Total</u>
Cost			
At 1 January 2003	-	-	-
Additions	76,251	6,341	82,592
Disposals	-	-	-
At 31 December 2003	<u>76,251</u>	<u>6,341</u>	<u>82,592</u>
Amortization			
At 1 January 2003	-	-	-
Amortisation charge	723	361	1,084
Disposals	-	-	-
At 31 December 2003	<u>723</u>	<u>361</u>	<u>1,084</u>
Carrying value			
At 31 December 2003	<u>75,528</u>	<u>5,980</u>	<u>81,508</u>

19 Deposits and balances from banks and other financial institutions

	<u>2003</u> <u>AMD '000</u>
Vostro accounts	445,434
Loans	1,522,540
Accrued interest	29,335
	<u>1,997,309</u>

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2003, deposits and balances from banks and other financial institutions which individually comprised more than 10% of deposits and balances from banks and other financial institutions comprised of AMD 1,201,643 thousand and AMD 350,207 thousand, representing loans from two World Bank Project Implementation Units.

20 Current accounts and deposits from customers

	2003 AMD '000
Current accounts and demand deposits	7,035,139
Term deposits	8,361,811
Accrued interest	105,112
	15,502,062

Blocked accounts

As of 31 December 2003, the Bank maintained customer deposit balances of AMD 157,562 thousand, which were blocked by the Bank as collateral against loans and undrawn credit lines granted by the Bank.

21 Other liabilities

	2003 AMD '000
Income taxes payable	213,276
Liabilities against letters of credit	34,660
Payables to suppliers	30,957
Payables to employees	29,230
Provision for off-balance sheet items	21,057
Other taxes payable	11,950
Other	28,584
	369,714

Analysis of movements in the provision for off balance sheet items

	2003 AMD '000
Balance at the beginning of the period	-
Net charge for the period	21,057
Balance at the end of the period	21,057

22 Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as of 31 December 2003. Temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

AMD '000	2003		
	Assets	Liabilities	Net
Investments	(2,017)	-	(2,017)
Other liabilities	(6,012)	-	(6,012)
Net deferred tax assets			(8,029)
Valuation allowance			2,017
Net tax assets			<u>6,012</u>

The rate of tax applicable for deferred taxes was 20%.

Movement in temporary differences during the year

AMD '000	1 January			31 December
	Error! No document variable supplied.	Recognised in income statement	Acquired/ Disposed of	Error! No document variable supplied.
Loans to customers	-	9,026	(9,026)	-
Other assets	-	(5,879)	5,879	-
Other liabilities	-	6,012	-	6,012
	<u>-</u>	<u>9,159</u>	<u>(3,147)</u>	<u>6,012</u>

23 Share capital and treasury shares

Issued capital

The authorised, issued and outstanding share capital comprises 50,000 ordinary shares. All shares have a par value of USD 100.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank which are determined according to legislation in the Republic of Armenia. In accordance with the legislation of the Republic of Armenia, as of the balance sheet date, reserves available for distribution amount to AMD 654,877 thousand.

24 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to credit exposures, liquidity and movements in interest rates and foreign exchange rates. These risks are managed in the following manner:

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank.

The Bank has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee which actively monitors the Bank's credit risk.

The Bank's credit policy is reviewed and approved by the Board of Directors.

Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

The Bank's interest rate policy is reviewed and approved by the Board of Directors.

See Note 32 "Average effective interest rates".

Liquidity risk

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

The Bank's liquidity policy is reviewed and approved by the Board of Directors.

See Note 33 "Maturity analysis".

Foreign exchange rate risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currencies risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The Bank's foreign currency policy is reviewed and approved by the Board of Directors.

See Note 34 "Currency analysis".

25 Commitments

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and overdrafts. At 31 December 2003 interest rates on loans subject to commitments range from 16% to 20%. Outstanding loan commitments have a commitment period that does not extend to beyond the normal underwriting and settlement period of one to three months.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to two years. Expirations are not concentrated in any period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2003 AMD '000
<i>Contracted amount</i>	
Loan commitments	800,832
Guarantees	620,395
	1,421,227

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

26 Operating leases

Leases as lessee

Non-cancelable operating lease rentals are payable as follows:

	2003 AMD '000
Less than one year	11,196
Between one and five years	38,887
More than five years	3,146
	53,229

The Bank leases a number of premises under operating lease. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

During the current period AMD 57,846 thousand was recognised as an expense in the income statement in respect of operating leases.

27 Contingencies

Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

Litigation

Bank management is unaware of any significant actual, pending or threatened claims against the Bank.

Taxation contingencies

The taxation system in the Republic of Armenia is relatively new and is characterised by numerous taxes and frequently changing legislation which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Republic of Armenia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

As at 31 December 2003, the bank has recovered input VAT with total amount of AMD 39,054 thousand following an instruction 02/577 dated 2 May 2003 on application of certain provisions of the RA Law on VAT issued by the State Tax Service. The application of the instruction may possibly be challenged by tax authorities of the Republic of Armenia due to different interpretation of the respective clause (clause 23) of the RA Law on VAT. This may result in additional tax payments being required. The potential amount of such payments is difficult to estimate but should not exceed AMD 83,867 thousand. However, Directors believe in correct application of relevant laws and consider the probability of arising of any significant contingencies remote.

28 Pension and post retirement benefits

Pensions are provided by the State through mandatory contributions by companies and employees. The Bank's cost for these contributions of AMD 50,847 thousand is included in staff costs (refer note 9).

The Bank does not have a separate pension scheme for its employees.

29 Related party transactions

Transactions with Directors and executive officers

Total remuneration to Directors and senior management included in employee compensation (refer note 9):

	2003 AMD '000
Directors	38,170
Senior management	42,324
	80,494

The outstanding balances and average interest rates as of 31 December 2003 with Directors and senior management are as follows:

	2003 AMD '000	Average Interest Rate
<i>Balance Sheet</i>		
Loans to directors and senior management	27,620	18.9%
Deposits from directors and senior management	34,356	7.1%

Amounts included in the income statement in relation to related party transactions with Directors and executive officers are as follows:

<i>Income statement</i>		
Interest income	1,651	
Interest expense	147	

Transactions with other related parties

The outstanding balances and the related average interest rates as of 31 December 2003 with other related parties are as follows:

	2003 AMD '000	Average Interest Rate
<i>Assets</i>		
Loans to other related parties	160,038	16.6%
<i>Liabilities</i>		
Deposits from other related parties	48,892	2.5%

Loans to other related parties include a loan of AMD 96,431 thousand to a Company which has a Director on the Board of Directors of the Bank, a loan of AMD 38,350 thousand to a Company whose 100% subsidiary individually owns 20% of the Bank's share capital, and a loan of AMD 25,257 thousand to a Company which is fully owned by another Company, for which the Member of the Board of Directors of the Bank has a significant shareholding.

Amounts included in the income statement in relation to shareholders and other related party transactions are as follows:

<i>Income statement</i>		
Interest income	11,397	
Interest expense	1,281	

In the period ended 31 December 2003 an amount of AMD 89,862 thousand was paid for professional services (refer note 9) to the Company, whose 100% subsidiary individually owns 20% of the Bank's voting shares.

30 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is composed of the following items:

	2003 AMD '000
Cash	2,250,820
Due from Central Bank of Armenia	2,040,823
Correspondent accounts:	
- nostro accounts	1,653,178
	<hr/> 5,944,821 <hr/>

31 Fair value of financial instruments

The Bank has performed an assessment of its financial instruments, as required by IAS 32 *Financial Instruments: Disclosure and Presentation*, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

Based on this assessment the Bank has concluded that due to the lack of liquidity and published "indicator interest rates" in the Armenian markets, and the fact that many of its transactions are of a very specialized nature, it is not possible to determine the fair value of the majority of its financial assets and financial liabilities.

The financial assets and financial liabilities that the Bank does believe it is able to estimate fair values for include cash, due from the Central Bank of Armenia, financial instruments held for trading and placements with banks and financial institutions and deposits and balances from banks and other financial institutions. The Bank estimates the fair value of these assets to be not materially different from their carrying values.

This estimate of fair value is intended to approximate the amount at which the above listed assets could be exchanged in a current transaction between willing parties. However given the uncertainties and the use of subjective judgement, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

32 Average effective interest rates

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2003 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value AMD '000	2003 Average Effective Interest Rate
Interest Bearing Assets		
<i>Due from Central Bank of Armenia</i>	2,094,485	1.44
<i>Placements with banks and other financial institutions</i>		
- AMD	101	-
- USD	1,379,226	-
- other currencies	296,385	-
<i>Reverse repurchase agreements</i>		
- AMD	205,730	10.00
<i>Loans to customers</i>		
- AMD	3,211,095	20.08
- USD	8,006,204	19.79
- other currencies	13,982	17.00
<i>Investments</i>		
- AMD	1,698,430	12.91
Interest Bearing Liabilities		
<i>Deposits and balances from banks and other financial institutions</i>		
- AMD	142,013	-
- USD	1,840,167	4.00
- other currencies	15,129	-
<i>Current accounts and deposits from customers</i>		
- AMD	6,467,312	2.09
- USD	8,369,049	5.39
- other currencies	665,701	3.71

33 Maturity analysis

The following table shows banking assets and liabilities by remaining contractual maturity dates as at 31 December 2003. Due to the fact that substantially all the financial instruments of by the Bank are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate reprising dates.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total
	AMD '000	AMD '000	AMD '000	AMD '000	AMD '000	AMD '000	AMD '000
Assets							
Cash	2,250,820	-	-	-	-	-	2,250,820
Due from the Central Bank of Armenia	2,094,485	-	-	-	-	-	2,094,485
Placements with banks and other financial institutions	1,641,400	34,312	-	-	-	-	1,675,712
Amounts receivable under reverse repurchase agreements	205,730	-	-	-	-	-	205,730
Loans to customers	918,466	1,919,098	7,558,725	834,803	189	-	11,231,281
Investments	39,463	623,534	736,591	298,842	-	12,947	1,711,377
Other assets	233,744	50,374	282,134	1,531	25	-	567,808
Property and equipment	-	-	-	-	-	1,645,479	1,645,479
Intangible assets	-	-	-	-	-	81,508	81,508
Deferred tax asset	-	-	-	-	-	6,012	6,012
Total assets	7,384,108	2,627,318	8,577,450	1,135,176	214	1,745,946	21,470,212
Liabilities							
Deposits and balances from banks and other financial institutions	464,162	10,607	-	-	1,522,540	-	1,997,309
Current accounts and deposits from customers	9,335,483	2,820,568	3,345,867	6	138	-	15,502,062
Other liabilities	93,136	42,245	213,276	-	-	21,057	369,714
Total liabilities	9,892,781	2,873,420	3,559,143	6	1,522,678	21,057	17,869,085
Net position as of 31 December 2003	(2,508,673)	(246,102)	5,018,307	1,135,170	(1,522,464)	1,724,889	3,601,127

34 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2003:

	AMD	USD	Other currencies	Total
	<u>AMD '000</u>	<u>AMD '000</u>	<u>AMD '000</u>	<u>AMD '000</u>
Assets				
Cash	1,120,954	955,808	174,058	2,250,820
Due from the Central Bank of Armenia	2,094,485	-	-	2,094,485
Placements with banks and other financial institutions	101	1,379,226	296,385	1,675,712
Amounts receivable under reverse repurchase agreements	205,730	-	-	205,730
Loans to customers	3,211,095	8,006,204	13,982	11,231,281
Investments	1,711,377	-	-	1,711,377
Other assets	176,525	389,899	1,384	567,808
Property and equipment	1,645,479	-	-	1,645,479
Intangible assets	81,508	-	-	81,508
Deferred tax asset	6,012	-	-	6,012
Total assets	<u>10,253,266</u>	<u>10,731,137</u>	<u>485,809</u>	<u>21,470,212</u>
Liabilities				
Deposits and balances from banks and other financial institutions	142,013	1,840,167	15,129	1,997,309
Current accounts and deposits from customers	6,467,312	8,369,049	665,701	15,502,062
Other liabilities	322,095	26,497	21,122	369,714
Total liabilities	<u>6,931,420</u>	<u>10,235,713</u>	<u>701,952</u>	<u>17,869,085</u>
Net position as of 31 December 2003	<u>3,321,846</u>	<u>495,424</u>	<u>(216,143)</u>	<u>3,601,127</u>

35 Concentration of assets and liabilities

The geographical concentration of assets and liabilities as at 31 December 2003 was as follows:

	Government of the Republic of Armenia AMD '000	Other Armenian Resident AMD '000	Non-Resident AMD '000	Total AMD '000
Assets				
Cash	1,120,954	-	1,129,866	2,250,820
Due from the Central Bank of Armenia	2,094,485	-	-	2,094,485
Placements with banks and other financial institutions	-	66,039	1,609,673	1,675,712
Amounts receivable under reverse repurchase agreements	-	205,730	-	205,730
Loans to customers	515,282	10,566,480	149,519	11,231,281
Investments	1,698,430	12,947	-	1,711,377
Other assets	3,186	370,530	194,092	567,808
Property and equipment	-	1,645,479	-	1,645,479
Intangible assets	-	81,508	-	81,508
Deferred tax asset	6,012	-	-	6,012
Total assets	5,438,349	12,948,713	3,083,150	21,470,212
Liabilities				
Deposits and balances from banks and other financial institutions	1,551,850	247,741	197,718	1,997,309
Current accounts and deposits from customers	3,696,859	10,519,365	1,285,838	15,502,062
Other liabilities	231,039	137,608	1,067	369,714
Total liabilities	5,479,748	10,904,714	1,484,623	17,869,085
Net position as of 31 December 2003	(41,399)	2,043,999	1,598,527	3,601,127

36 Acquisitions and disposals

During the period 2 April 2003 - 22 May 2003, the Bank acquired the operations of Ardshinbank ojsc.

The details of the assets and liabilities acquired and goodwill arising are as follows:

	2003 AMD '000
Cash and cash equivalents	584,050
Placements with banks and other financial institutions	1,128,322
Loans to customers	3,087,011
Investments	444,983
Property and equipment	1,807,642
Intangible assets	6,341
Other assets	634,427
Deposits and balances from banks and other financial institutions	(33,368)
Current accounts and deposits from customers	(7,565,801)
Other liabilities	(8,211)
Deferred tax liability	(9,587)
Goodwill	12,391
	<hr/>
Cost of acquisition	88,200
Less: Cash and cash equivalents in acquired operations	<hr/> 1,712,372
Cash flows on acquisition	<hr/> <hr/> 1,624,172

No acquisition provisions were created.

During the period 6 November 2003 - 11 December 2003, the Bank acquired the operations of Armagrobank ojsc.

The details of the assets and liabilities acquired and goodwill arising are as follows:

	2003 AMD '000
Cash and cash equivalents	519,593
Placements with banks and other financial institutions	117,882
Loans to customers	1,223,407
Investments	688,685
Other assets	43
Deferred tax assets	6,440
Deposits and balances from banks and other financial institutions	(1,261,140)
Current accounts and deposits from customers	(1,281,392)
Other liabilities	(7,078)
Goodwill	63,860
	<hr/>
Cost of acquisition	70,300
Less: Cash and cash equivalents in acquired operations	<hr/> 637,475
Cash flows on acquisition	<hr/> <hr/> 567,175

No acquisition provisions were created.