

**Closed Joint Stock Company  
“ARDSHININVESTBANK”**

**Independent Auditor’s Report**

**Financial Statements for the  
Year Ended 31 December 2004**

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## **Management of the Bank**

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

### **Council of the Bank**

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

### **Executive Body**

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

## **Statement of management responsibilities**

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

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

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

Yerevan

*8 February 2005*

Aram Andreasyan

**Chairman of the Board**

Manvel Sahakyan

**Chief Accountant**

## **Independent auditor's report**

To the shareholders of "Ardshininvestbank" CJSC

We have audited the accompanying balance sheet of "Ardshininvestbank" CJSC (the "Bank") as at 31 December 2004, and the related statements of income, cash flow and changes in shareholders' equity for the year then ended. These financial statements set out on pages 6 to 30 are the responsibility of the Bank management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of and for the year ended 31 December 2003 were audited by another auditor, whose report dated 01 June 2004 expressed an unqualified opinion with regard to those financial statements.

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, 2004, and of the results of its operations and its cash flows for the year then ended in accordance with the Accounting Standards of the Republic of Armenia.

Yerevan

08 February 2005

**Grant Thornton Amyot**

**Statement of income**

for the year ended 31 December 2004  
(in thousand of Armenian Drams)

	Notes	2004 (audited)	2003 (audited)
Interest income	4	3,334,670	1,263,809
Interest expenses	4	(884,382)	(310,458)
<b>Net interest income</b>		<b>2,450,288</b>	<b>953,351</b>
Fees and commission income	5	1,260,236	524,635
Fees and commission expenses		(14,385)	(29,473)
<b>Net fee and commission income</b>		<b>1,245,851</b>	<b>495,162</b>
Gains less losses from foreign currency transactions and revaluation		636,933	193,351
Gains less losses from investment securities		1,312	(12,482)
Other operating income	6	804,664	491,997
<b>Operating income</b>		<b>5,139,048</b>	<b>2,121,379</b>
Allowance for impairment	7	(154,070)	(268,142)
Other operating expenses	8	(2,703,142)	(994,243)
<b>Profit before income tax</b>		<b>2,281,836</b>	<b>858,994</b>
Income tax expense	20	(493,852)	(204,117)
<b>Profit for the year</b>		<b>1,787,984</b>	<b>654,877</b>

The accompanying notes on pages 10 to 30 form an integral part of these financial statements.

Notes to the financial statements

**Balance sheet**

As of 31 December 2004  
(in thousand of Armenian Drams)

	Notes	2004 (audited)	2003 (audited)
<b>ASSETS</b>			
Cash in hand and balances with the CBA	9	7,416,126	4,345,305
Amounts due from banks and other financial institutions	10	5,746,198	1,881,442
Loans and advances to customers	11	18,545,410	11,231,281
Investment securities:			
- available for sale	12.1	12,255	12,947
- held to maturity	12.2	2,576,495	1,698,430
Property plant and equipment	13	3,019,609	1,645,479
Intangible assets	14	99,433	81,508
Deferred income tax asset	20	15,872	6,012
Other assets	15	226,065	567,808
<b>Total assets</b>		<b>37,657,463</b>	<b>21,470,212</b>
<b>LIABILITIES AND EQUITY</b>			
Amounts due to banks and other financial institutions	16	1,650,435	445,459
Amounts due to customers	17	30,065,192	17,053,912
Current income tax liabilities		338,029	213,276
Other liabilities	18	214,696	156,438
<b>Total liabilities</b>		<b>32,268,352</b>	<b>17,869,085</b>
Share capital	19	2,946,250	2,946,250
General reserve		70,051	-
Retained earnings		2,372,810	654,877
<b>Total liabilities and equity</b>		<b>37,657,463</b>	<b>21,470,212</b>

The accompanying notes on pages 10 to 30 form an integral part of these financial statements.

The financial statements were approved on 8 February 2005 by the Board of the bank and signed by the Bank's Chairman of the Board and Chief Accountant.

**Aram Andreasyan**

*Chairman of the Board*

**Manvel Sahakyan**

*Chief Accountant*

Notes to the financial statements

**Statement of changes in equity**

for the year ended 31 December 2004  
(in thousand of Armenian Drams)

	<b>Share capital</b>	<b>General reserve</b>	<b>Retained earnings</b>	<b>Total</b>
<b>Balance as at 31.12.02</b>	-	-	-	-
Issuance of shares	2,946,250	-	-	2,946,250
Profit for the year	-	-	654,877	654,877
<b>Balance as at 31.12.03 (audited)</b>	<b>2,946,250</b>	<b>-</b>	<b>654,877</b>	<b>3,601,127</b>
Profit for the year	-	-	1,787,984	1,787,984
Distribution to reserve	-	70,051	(70,051)	-
<b>Balance as at 31.12.04 (audited)</b>	<b>2,946,250</b>	<b>70,051</b>	<b>2,372,810</b>	<b>5,389,111</b>

Notes to the financial statements

**Statement of cash flow**

for the year ended 31 December 2004  
(in thousand of Armenian Drams)

	<b>2004</b>	<b>2003</b>
	<b>(audited)</b>	<b>(audited)</b>
<b><u>Cash flows from operating activities</u></b>		
Interests received	2,984,463	1,151,686
Interests paid	(769,839)	(176,011)
Recoveries on assets previously written off	85,484	-
Net cash flow from foreign currency transactions	736,001	254,952
Fees and commissions received, net	1,245,851	495,162
Recovery of assets	630,951	-
Other income	310,384	450,530
Other expenses	(484,827)	(74,766)
Salaries and similar cash payments to employees	(1,039,765)	(749,498)
Income tax paid	(219,050)	-
<b><u>Net cash flow before changes in operating assets and liabilities</u></b>	<b>3,479,653</b>	<b>1,352,055</b>
<b><u>(Increase)/decrease in operating assets</u></b>		
Deposited means in the CBA	(98,986)	(52,576)
Repurchase agreements with banks	(345,000)	(205,000)
Loans and deposits to banks	34,659	(34,659)
Loans to customers	(7,445,790)	(6,958,960)
Other assets	(523,377)	(37,890)
<b><u>Increase/(decrease) in operating liabilities</u></b>		
Repurchase agreements with the CBA	999,441	-
Amounts due to banks and financial institutions	(162,980)	673,466
Amounts due to customers	12,947,685	6,549,757
Other liabilities	-	23,447
<b>Net cash flow from operating activities</b>	<b>8,885,305</b>	<b>1,309,640</b>
<b><u>Cash flows from investing activities</u></b>		
Investment securities (purchased)/ sold	(871,244)	(570,957)
PPE and intangible assets (purchased)/ sold	(1,617,888)	130,142
Transactions purchased	-	2,191,347
<b>Net cash flow from investing activities</b>	<b>(2,489,132)</b>	<b>1,750,532</b>
<b><u>Cash flow from financing activities</u></b>		
Borrowings from the CBA and other banks	270,210	-
Issue of share capital	-	2,946,250
<b>Net cash flow from financing activities</b>	<b>270,210</b>	<b>2,946,250</b>
Effect of exchange rate changes on cash and cash equivalents	(99,068)	(61,601)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>6,567,315</b>	<b>5,944,821</b>
Cash and cash equivalents at the beginning of the year	5,944,821	-
<b>Cash and cash equivalents at the end of the year (note 9)</b>	<b>12,512,136</b>	<b>5,944,821</b>

## **1. Principal activities**

"Ardshinvestbank" ("the Bank") was formed on March 2003 as a Closed Joint Stock Company under the laws of Republic of Armenia ("RA"). The Bank possesses general banking license N 83 from the Central Bank of Armenia ("CBA") granted on February 25, 2003.

Within the period from April 2, 2003 to May 22, 2003 the Bank has obtained transactions from "Ardshinvestbank" OJSC.

Within the period from November 6 to December 11, 2003 the Bank has obtained transactions from "Ardshinvestbank" OJSC.

The Bank accepts deposits from the public and makes loans, transfers payments in Armenia and abroad, exchange currencies and provides banking services for its commercial and retail customer.

The Bank's main office is in Yerevan and it has 49 branches indifferent areas of the Republic of Armenia. The Bank's registered legal address is Yerevan, 13 Grigor Lusavorichi Str. 13/1.

The average number of persons employed by the Bank during the year 2004 was 877 persons (2003: 475 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**

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. The financial statements are presented in thousands of AMD, which is not convertible outside Armenia.

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. 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= 485.84 AMD for 2004 (for 2003: USD1=566.00 AMD). Foreign exchange gains and losses resulting from settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement as a profit or loss from revaluation of foreign currency positions.

## **Taxation**

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

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

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

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

## **Cash and cash equivalents**

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

## **Treasury Bills and other fixed income securities**

The Bank classifies its treasury bills and other fixed income securities into three categories: held for trading, held to maturity and available for sale. The classification of investments between the categories is determined at acquisition based on the guidelines established by the Management.

- **Held for trading**

Securities are classified as held for trading if they are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are included in a portfolio in which a pattern of short-term profit exists. Held for trading securities are initially recognized at cost and subsequently re-measured at fair value based on available market prices. All related realized and unrealized gains and losses are included in the statement of income as a trading income.

- **Held to maturity**

Fixed income securities are classified as held to maturity if the Bank has both the positive intent and ability to hold these investments to maturity. Held to maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

- **Available for sale**

Investments in fixed income securities 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, are classified as available for sale.

Available for sale financial assets are initially stated at cost and subsequently re-measured at fair value based on available market prices or quotes. The result of revaluation of available for sale securities is recognized in equity as a fair value revaluation reserve. When the securities are disposed of the related accumulated fair value revaluation is included in the statement of income as profit/(loss) from trading with securities available for sale. If there is objective evidence that the value of an investment has been impaired the cumulative net loss that has been recognized directly in equity is charged to the statement of income and the asset is stated in the balance sheet at the recoverable amount calculated as discounted future cash flows using the current market interest rate for similar financial assets.

Where there is evidence of a recent actual pattern of short-term profit taking with available for sale financial assets, such assets are reclassified into trading category. Any previous gains or losses on such assets that have been recognized directly in equity as a fair value revaluation reserve will remain in equity until the respective financial asset has been sold or otherwise disposed of, at which time the corresponding gain or loss will be recognized in the statement of income.

**Shares and other non-fixed income securities**

Investments in listed shares held for trading purposes are recorded at their market value.

Unrealized profits or losses arising as a result of stating listed shares held for trading purposes at market value are respectively credited or charged to the statement of income as profit/(loss) from trading and revaluation of securities held for trading purposes.

Investments in shares available for sale are initially stated at cost and subsequently re-measured at fair value based on available market prices and quotes. Where the fair value is not available the investment in shares is stated in the balance sheet at cost less any allowance for impairment.

**Repurchase agreements**

Repurchase and reverse repurchase agreements are utilized by the Bank as an element of its treasury management and trading business. These agreements are accounted for as financing transactions.

## Notes to the financial statements

Securities sold under repurchase agreements are accounted for as trading or available-for-sale 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.

### **Loans and advances to customers**

Loans and advances are stated at cost less any allowance for impairment.

### **Allowance for impairment of financial assets**

General and specific allowances for impairment are established for correspondent accounts, deposits, accounts receivable, extended loans and other advances as well as for off-balance sheet accounts containing loan risk for the Bank.

The general allowance is carried to cover risks on standard assets, which although not specifically identified are inherent to the loan portfolio of any bank.

The specific allowance is made for doubtful assets based on identified risks in regard of assets.

Allowances are also made for the investments stated at their historical cost, taking into consideration the possible losses in the result of their constant 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.

The bad debts are written off against the special allowance for impairment. In case of recoveries of loans previously written off, the appropriate allowances are being recovered, and their volume is compulsory adjusted as at the last banking day of reporting month. The remainders available in the allowances are transferred to the income account.

### **Intangible assets**

#### ***- 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.

## Notes to the financial statements

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

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

### **- Goodwill**

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

### **Property, plant and equipment**

Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation. 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:

	<b>Useful life (years)</b>	<b>Rate (%)</b>
Buildings	20	5
Computers	1	100
Vehicles	5	20
Other fixed assets	5	20

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

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

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

### **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.

## Notes to the financial statements

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

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

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

### **Comparatives**

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

### **4. Interest income and expense**

#### **Interest income**

	<b>2004</b>	<b>2003</b>
Current accounts, loans and deposits in banks and other financial institutions	71,856	21,750
Loans and advances to customers	3,052,115	1,127,185
Investments	194,872	103,567
Repurchase agreements	15,446	11,276
Other interest income	381	31
	<b>3,334,670</b>	<b>1,263,809</b>

#### **Interest expense**

Current accounts, loans and deposits from banks and other financial institutions	14,899	12,436
Customer's time deposits and current accounts	864,331	295,751
Repurchase agreements	5,152	2,271
	<b>884,382</b>	<b>310,458</b>

### **5. Fees and commission income**

	<b>2004</b>	<b>2003</b>
Payment transfer fee	247,338	107,092
Commission fee on cash	793,312	300,338
Service fee for account maintenance of Municipal and State budgets	27,371	3,206
Transaction with payment cards	9,710	1,727
Other fees and commissions	182,505	112,272
	<b>1,260,236</b>	<b>524,635</b>

**6. Other operating income**

	<b>2004</b>	<b>2003</b>
Recovery of assets	630,951	300,995
Penalties received	21,373	112,004
Gain from disposal of PPE and intangible assets	69,003	41,463
Other income	83,337	37,535
	<b>804,664</b>	<b>491,997</b>

**7. Allowance for impairment**

	<b>Notes</b>	<b>2004</b>	<b>2003</b>
<b><u>Deposits and current accounts in banks</u></b>			
Balance brought forward		12,125	-
Increase in provision		40,706	12,125
Balance carried forward	9; 10	52,831	12,125
<b><u>Loans and advances to customer</u></b>			
Balance brought forward		151,878	-
Balance as a result of purchase		-	32,201
Increase in provision		124,497	129,168
Recovery of amounts previously written off		74,872	-
Written off during the year		(116,843)	(9,491)
Net result of revaluation		(197)	-
Balance carried forward	11	234,207	151,878
<b><u>Other assets</u></b>			
Balance brought forward		6,459	-
Increase/(decrease) in provision		(12,830)	105,792
Recovery of amounts previously written off		10,636	-
Written off during the year		(1,798)	(99,333)
Net result of revaluation		(20)	-
Balance carried forward	15	2,447	6,459
<b><u>Credit related commitments</u></b>			
Balance brought forward		21,057	-
Increase in provision		1,697	21,057
Net result of revaluation		19	-
Balance carried forward	21.2	22,773	21,057
<b>Total increase in allowance for impairment</b>		<b>154,070</b>	<b>268,142</b>

**8. Other operating expense**

	<b>2004</b>	<b>2003</b>
Personnel expenses	1,065,792	367,233
Social insurance payments	134,857	50,847
Depreciation and amortization	264,405	73,332
Communication	100,507	43,795
Business trip	21,575	19,330
Advertising and representation	115,052	52,766
Repair and maintenance of tangible assets	33,732	14,039
Office supply	15,942	4,894
Operating lease expenses	194,142	57,846
Consulting and professional services	188,622	13,584
Security	85,547	29,887
Taxes, other than income tax	163,670	77,375
Penalties paid	5,751	-
Other expenses	313,548	189,315
	<b>2,703,142</b>	<b>994,243</b>

**9. Cash and cash equivalents and balances with CBA**

Cash and cash equivalents as presented in the statement of cash flows include the following:

	<b>2004</b>	<b>2003</b>
Cash in hand	3,085,890	2,250,820
Other money market placements	34,514	-
Correspondent account with the CBA	3,143,168	2,040,823
Deposits with the CBA	1,000,000	-
<b>Included in cash and cash equivalents</b>	<b>7,263,572</b>	<b>4,291,643</b>
Allowance for impairment of other money market placements (note 7)	(345)	-
Deposited funds with the CBA	151,562	52,576
Accrued interest	1,337	1,086
<b>Total cash and balances with the CBA</b>	<b>7,416,126</b>	<b>4,345,305</b>
Cash and correspondent account with CBA	7,263,572	4,291,643
Placements with other banks (note 10)	5,248,564	1,653,178
<b>Total cash and cash equivalents</b>	<b>12,512,136</b>	<b>5,944,821</b>

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 6% of certain Bank liabilities. There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement are not met, the Bank could be subject to certain penalties. Interest is earned on the amount of mandatory reserves placed with CBA at 3% per annum.

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

**10. Amounts due from credit institutions**

	<b>2004</b>	<b>2003</b>
<b><u>Current accounts</u></b>		
Armenian banks	104,688	66,614
*OECD banks	4,920,672	1,499,891
Non-OECD countries (excluding Armenia)	223,204	86,673
	<u>5,248,564</u>	<u>1,653,178</u>
<b><u>Inter-bank loans and deposits</u></b>		
Armenian banks:		
- repurchase agreements	550,000	205,000
OECD banks	-	34,659
Accrued interests	120	730
	<u>550,120</u>	<u>240,389</u>
Allowance for impairment of deposits and current accounts in banks (note 7)	(52,486)	(12,125)
	<u><b>5,746,198</b></u>	<u><b>1,881,442</b></u>

\* Organization of Economic Cooperation and Development (OECD)

**11. Loans and advances to customers**

	<b>2004</b>	<b>2003</b>
Regular loans	18,379,859	10,838,679
Overdraft facilities	241,001	453,407
Accrued interests	158,757	91,073
	<u>18,779,617</u>	<u>11,383,159</u>
Allowance for impairment of loans and advances to customers (note 7)	(234,207)	(151,878)
	<u><b>18,545,410</b></u>	<u><b>11,231,281</b></u>

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

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

	<b>2004</b>	<b>2003</b>
Accrual basis	18,319,855	11,027,634
Non-accrual basis	301,005	264,452
Accrued interests	158,757	91,073
	<u>18,779,617</u>	<u>11,383,159</u>
Allowance for impairment of loans and advances to customers (note 7)	(234,207)	(151,878)
	<u><b>18,545,410</b></u>	<u><b>11,231,281</b></u>

Notes to the financial statements

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

	<b>2004</b>	<b>2003</b>
State owned enterprises	375,081	520,487
Privately held companies	9,431,061	7,803,242
Individuals	8,270,195	2,920,181
Other private individuals	544,523	48,176
Accrued interest	158,757	91,073
	18,779,617	11,383,159
Allowance for impairment of loans and advances to customers (note 7)	(234,207)	(151,878)
	<b>18,545,410</b>	<b>11,231,281</b>

The total amount of loans extended to 13 major borrowers makes up 40% of the Bank's loan portfolio.

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

	<b>2004</b>	%	<b>2003</b>	%
Manufacturing	4,279,046	23	4,053,211	36
Agriculture	281,278	2	162,478	1
Construction	332,975	2	871,840	8
Transport and communication	443,431	2	134,138	1
Trade	3,603,255	19	3,223,029	29
Consumer sector	7,660,947	41	2,167,044	19
Financial sector	1,012,349	6	227,960	2
Other sector	1,007,579	5	452,386	4
Accrued interest	158,757		91,073	
	<b>18,779,617</b>	<b>100</b>	<b>11,383,159</b>	<b>100</b>

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

	<b>2004</b>	<b>2003</b>
Armenian residents	18,615,065	11,142,046
Non-OECD region residents	5,795	150,040
Accrued interests	158,757	91,073
	18,779,617	11,383,159
Allowance for impairment of loans and advances to customers (note 7)	(234,207)	(151,878)
	<b>18,545,410</b>	<b>11,231,281</b>

**12. Investment securities**

Investment securities are classified as available-for-sale and held-to-maturity as follows:

**12.1 Securities available-for-sale:**

	<b>2004</b>	<b>2003</b>
<hr/>		
<b><u>Equity instruments</u></b>		
- Armenia	12,172	12,947
- OECD countries	83	-
	<hr/> <b>12,255</b> <hr/>	<hr/> <b>12,947</b> <hr/>

Investments in equity securities are not quoted on any exchange and have a limited market. There are no appropriate or workable methods of reasonably estimating their fair value and such investments are stated at cost less any allowance for diminution in value.

Principal investments in equity securities are made as follows:

<b>Name</b>	<b>Business profile</b>	<b>County of registration</b>	<b>Investment (KAMD)</b>	<b>Participation %</b>
“Armenian Card” CJSC	Issue and service of plastic cards	RA	6,743	2.3
“Armcollection” CJSC	Collection services	RA	5,429	3.9
S.W.I.F.T	Telecommunication services	Belgium	83	-
			<hr/> <b>12,255</b> <hr/>	

**12.2 Securities held-to-maturity:**

	<b>2004</b>	<b>2003</b>
<hr/>		
<b><u>RA Government securities</u></b>		
Nominal value	2,561,235	1,737,524
Premium	9,670	-
Discount	(18,730)	(58,328)
Accrued interest	24,320	19,234
	<hr/> <b>2,576,495</b> <hr/>	<hr/> <b>1,698,430</b> <hr/>

As at 31.12.04 the securities at the amount of 962,871 KAMD were pledged against the short-term loan received from the Central Bank of Armenia.

The movement in investments may be summarized as follows:

	<b>Available-for-sale</b>	<b>Held-to-maturity</b>	<b>Total</b>
<b>At January 1, 2004</b>	<hr/> <b>12,947</b> <hr/>	<hr/> <b>1,698,430</b> <hr/>	<hr/> <b>1,711,377</b> <hr/>
Additions	83	3,775,810	3,775,893
Disposals (sale and redemption)	(1,735)	(2,897,745)	(2,899,480)
Adjustment of impairment losses	960	-	960
<b>At December 31, 2004</b>	<hr/> <b>12,255</b> <hr/>	<hr/> <b>2,576,495</b> <hr/>	<hr/> <b>2,588,750</b> <hr/>

**13. Property, plant and equipment**

	Buildings	Computers and com. means	Vehicles	Other PPE	Construction in progress	Leasehold improvements	Total
<b><u>Cost</u></b>							
As of December 31, 2003	1,236,790	203,682	51,361	162,076	6,170	56,860	1,716,939
Additions	1,791,887	107,320	34,481	57,785	71,788	15,427	2,078,688
Disposals	(445,900)	(5,819)	(957)	(113)	-	-	(452,789)
Reclassification	35,426	-	-	9,076	(44,448)	(54)	-
As of December 31, 2004	2,618,203	305,183	84,885	228,824	33,510	72,233	3,342,838
<b><u>Accumulated depreciation</u></b>							
As of December 31, 2003	22,632	20,729	4,545	20,189	-	3,365	71,460
Additions	39,458	155,108	13,212	40,455	-	6,981	255,214
Disposals	(750)	(1,644)	(957)	(68)	-	(26)	(3,445)
As of December 31, 2004	61,340	174,193	16,800	60,576	-	10,320	323,229
<b><u>Net book values:</u></b>							
As of December 31, 2004	<b>2,556,863</b>	<b>130,990</b>	<b>68,085</b>	<b>168,248</b>	<b>33,510</b>	<b>61,913</b>	<b>3,019,609</b>
As of December 31, 2003	<b>1,214,158</b>	<b>182,953</b>	<b>46,816</b>	<b>141,887</b>	<b>6,170</b>	<b>53,495</b>	<b>1,645,479</b>

The Management of the Bank has performed a review the market values of private buildings as at 31 December 2004 and determined that it is not materially different from its carrying value as stated above.

The carrying value of fixed assets that are temporarily out of use as at 31 December 2004 amounted to 1,871, 983 KAMD, the net sales value of which exceeds their carrying value.

**14. Intangible assets**

	License	Software	Goodwill	Total
<b><u>Cost</u></b>				
As of December 31, 2003	-	6,341	76,251	82,592
Additions	27,008	108	-	27,116
As of December 31, 2004	27,008	6,449	76,251	109,708
<b><u>Accumulated Amortization</u></b>				
As December 31, 2003	-	361	723	1,084
Additions	943	623	7,625	9,191
As of December 31, 2004	943	984	8,348	10,275
<b><u>Net book values:</u></b>				
As of December 31, 2004	<b>26,065</b>	<b>5,465</b>	<b>67,903</b>	<b>99,433</b>
As of December 31, 2003	<b>-</b>	<b>5,980</b>	<b>75,528</b>	<b>81,508</b>

**15. Other assets**

	<b>2004</b>	<b>2003</b>
Prepayments and other debtors	68,767	82,316
Accounts receivable	58,604	461,742
Settlements with employees	-	58
Other assets	61,767	4,520
	189,138	548,636
Allowance for impairment of other assets (note 7)	(2,447)	(6,459)
Materials	35,535	21,792
Other assets	3,839	3,839
	<b>226,065</b>	<b>567,808</b>

**16. Amounts due to banks and other financial institutions**

	<b>2004</b>	<b>2003</b>
<b><u>Current accounts</u></b>		
Armenian banks	41,770	247,716
Non-OECD countries (excluding Armenia)	121,824	197,718
Accrued interest	-	25
	163,594	445,459
<b><u>Inter-bank loans and deposits</u></b>		
CBA:		
- repurchase agreements	999,441	-
Other Armenian banks:		
- loans and deposits	485,840	-
Accrued interests	1,560	-
	1,486,841	-
	<b>1,650,435</b>	<b>445,459</b>

**17. Amounts due to customers**

	<b>2004</b>	<b>2003</b>
<b><u>Government:</u></b>		
- Current/settlement accounts	38,814	-
- Term deposits	1,306,910	1,522,540
	1,345,724	1,522,540
<b><u>Corporate customers</u></b>		
- Current/settlement accounts	12,798,308	5,473,019
- Term deposits	7,929,869	2,515,769
	20,728,177	7,988,788
<b><u>Retail customers</u></b>		
- Current/demand accounts	1,080,281	1,562,120
- Term deposits	6,730,779	5,846,042
	7,811,060	7,408,162
Accrued interests	180,231	134,422
	<b>30,065,192</b>	<b>17,053,912</b>

As at December 31, 2004 included in the amounts payable to Government is AMD 1,306,910 thousand, which was attracted under the World Bank project on "Enterprise Development" (2003: AMD 1,552,540 thousand). Interest expenses accrued in respect of those funds make up AMD 29,700 thousand (2003: AMD 29,310 thousand).

## 18. Other liabilities

	<b>2004</b>	<b>2003</b>
Accounts payable	77,585	55,347
Amounts payable to employees	53,339	29,230
Allowance for impairment of credit related commitments (note 21.2)	22,773	21,057
Other liabilities	60,999	50,804
	<b>214,696</b>	<b>156,438</b>

## 19. Share capital

As at 31 December 2004 the Bank's registered and paid-in share capital was KAMD 2,946,250. In accordance with the Bank's statutes, the share capital consists of 50,000 ordinary shares, all of which have a par value of USD 100 each.

The respective shareholdings as at 31 December 2004 and 2003 may be specified as follows:

	Paid-in share capital	% of total paid-in capital
"Rasko Armenia" CJSC	2,357,000	80
"Center of business investments" OJSC	589,250	20
	<b>2,946,250</b>	<b>100</b>

As at 31 December 2004, the Bank did not possess any of its own shares.

## 20. Income tax expense

	<b>2004</b>	<b>2003</b>
Current tax	503,712	213,276
Deferred tax	(9,860)	(9,159)
	<b>493,852</b>	<b>204,117</b>

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2003: 20%). Differences between ASRA 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%.

## Notes to the financial statements

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

	<b>2004</b>	<b>2003</b>
<b>Profit before taxation</b>	2,281,836	858,994
Income tax at the rate of 20%	456,367	171,799
<i>Adjustments of income and expenses for tax purposes in respect of non temporary differences:</i>		
Income which is exempt from taxation	(316)	7,492
Foreign exchange gains (negative)	19,814	12,320
Non deductible expenses	29,750	10,489
Change in valuation allowance against tax asset	(11,763)	2,017
<b>Income tax expense</b>	<b>493,852</b>	<b>204,117</b>

Deferred tax calculation in respect of temporary differences:

	Balance as at 31.12.03	Recognized in statement of income	Recognize d in equity	Balance as at 31.12.04
<i>Deferred tax assets</i>				
Adjustments of expenses	6,012	9,860	-	15,872
<b>Total deferred tax asset</b>	<b>6,012</b>	<b>9,860</b>	<b>-</b>	<b>15,872</b>
<i>Deferred tax liabilities</i>				
	-	-	-	
<b>Net deferred tax asset/liability</b>	<b>6,012</b>	<b>9,860</b>	<b>-</b>	<b>15,872</b>

## **21. Provisions, financial commitments and contingencies**

### **21.1 Tax and legal matters**

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

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

As at 31.12.04 there are no any legal actions and complaints taken against the Bank.

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

### **21.2 Undrawn loan commitments, guarantees and letters of credit**

	<b>2004</b>	<b>2003</b>
Undrawn loan commitments	1,290,555	458,605
Guarantees	1,057,926	45,034
	2,348,481	503,639
Allowance for impairment of credit related commitment (note 7)	(22,773)	(21,057)
	<b>2,325,708</b>	<b>482,582</b>

### 21.3 Commitments under operating leases

In the normal course of business the bank enters into other lease agreements for office equipment, central office and branch facilities.

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

	in thousand AMD	
	Amounts payable in USD	Amounts payable in AMD
Not later than 1 year	59,636	13,037
Later than 1 year and not later than 5 years	178,054	29,630
Later than 5 years	24,171	1,221
	<b>261,861</b>	<b>43,888</b>

### 22. Related party transactions

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

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

As at 31 December 2004 and 2003, the bank had the following balances outstanding with related parties:

<b>Loans and advances to customers</b>	<b>2004</b>	<b>2003</b>
Balance at 1 January	202,707	-
Loans issued during the year	1,342,777	848,639
Loans repayment during the year	(1,082,057)	(645,932)
Balance at 31 December	<b>463,427</b>	<b>202,707</b>
<b>Interest income</b>	<b>36,750</b>	<b>32,669</b>

The allowance of impairment in respect of loans given to related parties makes up AMD 4,634 thousand as at December 31, 2004 (2003: AMD 2,027 thousand).

<b>Amounts due to customers</b>	<b>2004</b>	<b>2003</b>
Balance at 1 January	135,947	-
Amounts paid during the year	16,288,473	7,386,517
Amounts received during the year	(15,994,814)	(7,250,570)
Balance at 31 December	<b>429,606</b>	<b>135,947</b>
<b>Interest income</b>	<b>10,865</b>	<b>2,703</b>

<b>Purchase, sale of assets</b>	<b>2004</b>	<b>2003</b>
Purchase of building	1,774,360	-
Sale of buildings	475,778	-
<b>Other expenses</b>		
Consulting and other services	215,690	106,862
Lease payments	6,243	-

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

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

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

In 2004 the Bank has acquired real estate from individual considered the Banks' shareholder, where the Bank's Head Office conducts its activity starting from January 2005.

In 2004 the Bank has sold real estate not available for further use to the persons considered as Bank's shareholder related parties.

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

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

In 2004 the total remuneration of the Directors was AMD 450,399 thousand (2003: AMD 185,750 thousand).

### **23. Risk management policies**

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

#### ***Credit risk***

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

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

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

## Notes to the financial statements

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:

	2004			
	RA	OECD	Non-OECD	Total
<b>Assets</b>				
Cash and due from the CBA	7,416,126	-	-	7,416,126
Due from banks and other fin. institutions	653,761	4,871,443	220,994	5,746,198
Loans and advances to customers	18,539,628	-	5,782	18,545,410
Investment securities	2,588,667	83	-	2,588,750
	29,198,182	4,871,526	226,776	34,296,484
<b>Liabilities</b>				
Amounts owed to banks and other fin. institutions	1,528,611	-	121,824	1,650,435
Amounts owed to customers	30,065,192	-	-	30,065,192
	31,593,803	-	121,824	31,715,627
<b>Net position</b>	<b>(2,395,621)</b>	<b>4,871,526</b>	<b>104,952</b>	<b>2,580,857</b>
	2003			
	RA	OECD	Non-OECD	Total
<b>Assets</b>				
Cash and due from the CBA	4,345,305	-	-	4,345,305
Due from banks and other fin. institutions	271,769	1,523,858	85,815	1,881,442
Loans and advances to customers	11,081,762	-	149,519	11,231,281
Investment securities	1,711,377	-	-	1,711,377
	17,410,213	1,523,858	235,334	19,169,405
<b>Liabilities</b>				
Amounts owed to banks and other fin. institutions	247,741	-	197,718	445,459
Amounts owed to customers	5,248,709	10,519,365	1,285,838	17,053,912
	5,496,450	10,519,365	1,483,556	17,499,371
<b>Net position</b>	<b>11,913,763</b>	<b>(8,995,507)</b>	<b>(1,248,222)</b>	<b>1,670,034</b>

### **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.

## Notes to the financial statements

### *Currency risk*

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

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

	<b>2004</b>			
	<b>Armenian Dram</b>	<b>Freely convertible currencies</b>	<b>Non-freely convertible currencies</b>	<b>Total</b>
<b>Assets</b>				
Cash and due from the CBA	5,997,106	1,283,367	135,653	7,416,126
Due from banks and other fin. institutions	550,215	5,033,325	162,658	5,746,198
Loans and advances to customers	5,239,434	13,305,976	-	18,545,410
Investment securities	2,588,750	-	-	2,588,750
	<b>14,375,505</b>	<b>19,622,668</b>	<b>298,311</b>	<b>34,296,484</b>
<b>Liabilities</b>				
Amounts owed to banks and othe fin. institutions	1,000,485	649,947	3	1,650,435
Amounts owed to customers	10,895,697	18,972,129	197,366	30,065,192
	<b>11,896,182</b>	<b>19,622,076</b>	<b>197,369</b>	<b>31,715,627</b>
<b>Net position</b>	<b>2,479,323</b>	<b>592</b>	<b>100,942</b>	<b>2,580,857</b>
<b>2003</b>				
	<b>Armenian Dram</b>	<b>Freely convertible currencies</b>	<b>Non-freely convertible currencies</b>	<b>Total</b>
<b>Assets</b>				
Cash and due from the CBA	3,215,439	955,808	174,058	4,345,305
Due from banks and other fin. institutions	205,831	1,379,226	296,385	1,881,442
Loans and advances to customers	3,211,095	8,006,204	13,982	11,231,281
Investment securities	1,711,377	-	-	1,711,377
	<b>8,343,742</b>	<b>10,341,238</b>	<b>484,425</b>	<b>19,169,405</b>
<b>Liabilities</b>				
Amounts owed to banks and other fin. institutions	142,013	288,317	15,129	445,459
Amounts owed to customers	6,467,312	9,920,899	665,701	17,053,912
	<b>6,609,325</b>	<b>10,209,216</b>	<b>680,830</b>	<b>17,499,371</b>
<b>Net position</b>	<b>1,734,417</b>	<b>132,022</b>	<b>(196,405)</b>	<b>1,670,034</b>

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

### *Liquidity risk*

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

Notes to the financial statements

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.

2004									
	Less than 1 month	1 - 3 months	3 - 6 months	6 months to 1 year	1-5 years	More than 5 years	No maturity	Overdue	Total
<b>Assets</b>									
Cash and due from the CBA	7,416,126	-	-	-	-	-	-	-	7,416,126
Due from banks	5,746,198	-	-	-	-	-	-	-	5,746,198
Loans to customers	1,749,915	4,214,755	3,062,343	6,813,105	2,655,377	-	-	49,915	18,545,410
Investment securities	1,107,541	128,991	49,106	461,508	808,104	21,245	12,255	-	2,588,750
	16,019,780	4,343,746	3,111,449	7,274,613	3,463,481	21,245	12,255	49,915	34,296,484
<b>Liabilities</b>									
Amounts owed to banks	1,650,435	-	-	-	-	-	-	-	1,650,435
Amounts owed to customers	16,516,190	7,115,184	3,788,868	1,265,898	1,058,231	320,821	-	-	30,065,192
	18,166,625	7,115,184	3,788,868	1,265,898	1,058,231	320,821	-	-	31,715,627
<b>Net position</b>	<b>(2,146,845)</b>	<b>(2,771,438)</b>	<b>(677,419)</b>	<b>6,008,715</b>	<b>2,405,250</b>	<b>(299,576)</b>	<b>12,255</b>	<b>49,915</b>	<b>2,580,857</b>
<b>Accumulated gap</b>	<b>(2,146,845)</b>	<b>(4,918,283)</b>	<b>(5,595,702)</b>	<b>413,013</b>	<b>2,818,263</b>	<b>2,518,687</b>	<b>2,530,942</b>	<b>2,580,857</b>	

2003									
	Less than 1 month	1 - 3 months	3 - 6 months	6 months to 1 year	1-5 years	More than 5 years	No maturity	Overdue	Total
<b>Assets</b>									
Cash and due from the CBA	4,345,305	-	-	-	-	-	-	-	4,345,305
Due from banks	1,847,130	34,312	-	-	-	-	-	-	1,881,442
Loans to customers	918,466	1,919,098	4,120,912	3,437,813	834,803	189	-	-	11,231,281
Investment securities	39,463	623,534	459,612	276,979	298,842	-	12,947	-	1,711,377
	7,150,364	2,576,944	4,580,524	3,714,792	1,133,645	189	12,947	-	19,169,405
<b>Liabilities</b>									
Amounts owed to banks	434,852	10,607	-	-	-	-	-	-	445,459
Amounts owed to customers	9,364,793	2,820,568	2,243,740	1,102,127	6	1,522,678	-	-	17,053,912
	9,799,645	2,831,175	2,243,740	1,102,127	6	1,522,678	-	-	17,499,371
<b>Net position</b>	<b>(2,649,281)</b>	<b>(254,231)</b>	<b>2,336,784</b>	<b>2,612,665</b>	<b>1,133,639</b>	<b>(1,522,489)</b>	<b>12,947</b>	<b>-</b>	<b>1,670,034</b>
<b>Accumulated gap</b>	<b>(2,649,281)</b>	<b>(2,903,512)</b>	<b>(566,728)</b>	<b>2,045,937</b>	<b>3,179,576</b>	<b>1,657,087</b>	<b>1,670,034</b>	<b>1,670,034</b>	

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

**Interest rate risk**

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

## Notes to the financial statements

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

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

	2004		2003	
	Armenian Dram	Foreign currency	Armenian Dram	Foreign currency
<b><u>Assets</u></b>				
Due from the CBA	1	-	3	-
Due from banks and other fin. institutions	4	-	10	-
Loans and advances to customers	18.1	20.3	20.1	19.9
Investment securities	7.5	-	12.5	-
<b><u>Liabilities</u></b>				
Amounts owed to banks and other fin. institutions	3.8	4	-	-
Amounts owed to customers	7.1	6.1	8.4	6.6

### **24. Capital adequacy**

The Bank's total capital adequacy ratio of risk weighted assets, as at 31 December 2004 was 21.7 %, which exceeds the minimum ratio of 8% recommended by the Basle Accord.

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 2004 makes up AMD 5,150,690 thousand.

Effective July 1, 2005 the Central Bank of RA defines the minimum value of the total capital amounting to USD 5,000,000 equivalent in AMD.

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