

**Independent auditor's report**

To the shareholders of "Areximbank" CJSC

We have audited the accompanying balance sheet of "Areximbank" 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 32 are the responsibility of the Bank management. Our responsibility is to express an opinion on these financial statements based on our audit. In our auditor's report dated 23 January 2004 we expressed unqualified opinion on the financial statements of the Bank as of December 31, 2003.

We conduct 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 International Financial Reporting Standards.

Yerevan  
21 January 2005

*Grant Thornton Amyot*

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## Statement of income

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

	Notes	2004 (audited)	2003 (audited)
Interest income	4	585,474	458,492
Interest expenses	4	(271,362)	(245,571)
<b>Net interest income</b>		<b>314,112</b>	<b>212,921</b>
Fees and commission income	5	481,603	432,503
Fees and commission expenses		(45,433)	(64,755)
<b>Net fee and commission income</b>		<b>436,170</b>	<b>367,748</b>
Net gain from currency transaction and translation		(20,609)	21,713
Other operating income	6	56,857	31,513
<b>Operating income</b>		<b>786,530</b>	<b>633,895</b>
Allowance for impairment	7	69,236	(104,362)
Other operating expenses	8	(756,791)	(678,307)
<b>Profit/(loss) before income tax</b>		<b>98,975</b>	<b>(148,774)</b>
Income tax (expense)/income	20	(31,627)	2,137
<b>Profit/(loss) for the year</b>		<b>67,348</b>	<b>(146,637)</b>

The accompanying notes on pages 10 to 32 form an integral part of these 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	2,157,515	1,292,411
Amounts due from credit institutions	10	2,625,189	2,558,250
Loans and advances to customers	11	3,370,827	2,436,091
Investment securities:	12		
- available for sale		-	219,877
- held to maturity		192,653	108,236
Property plant and equipment	13	1,951,116	939,355
Intangible assets	14	248,012	101,526
Deferred income tax asset	20	-	2,899
Other assets	15	198,520	312,742
<b>Total assets</b>		<b>10,743,832</b>	<b>7,971,387</b>
<b>LIABILITIES AND EQUITY</b>			
Amounts due to credit institutions	16	438,748	283,365
Amounts due to customers	17	7,065,598	5,770,427
Other liabilities	18	59,392	41,590
Current income tax liabilities		21,975	-
Deferred income tax liabilities	20	143,116	-
<b>Total liabilities</b>		<b>7,728,829</b>	<b>6,095,382</b>
Share capital	19	2,497,247	2,013,327
General reserve		5,828	5,828
Revaluation reserve		587,730	-
Accumulated deficit		(75,802)	(143,150)
<b>Total liabilities and equity</b>		<b>10,743,832</b>	<b>7,971,387</b>

The accompanying notes on pages 10 to 32 form an integral part of these financial statements.

The financial statements were approved on 21 January 2005 by the Board of the bank and signed by the Bank's General Director and Chief Accountant



A. JULHAKYAN

Chief Accountant

### Statement of changes in equity

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

	Share capital	General reserve	Revaluation reserve of PPE	Retained earnings (Accumulated deficit)	Total
Balance as at 31.12.02 (audited)	2,013,327	5,828	-	3,487	2,022,642
Loss for the year	-	-	-	(146,637)	(146,637)
Balance as at 31.12.03 (audited)	2,013,327	5,828	-	(143,150)	1,876,005
Issue of share capital	483,920	-	-	-	483,920
Profit for the year	-	-	-	67,348	67,348
Increase in revaluation reserve of PPE	-	-	734,662	-	734,662
Effect of deferred tax	-	-	(146,932)	-	(146,932)
Balance as at 31.12.04 (audited)	2,497,247	5,828	587,730	(75,802)	3,015,003

**Statement of cash flow**

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

	2004 (audited)	2003 (audited)
<b><u>Cash flows from operating activities</u></b>		
Interests received	550,470	409,122
Interests paid	(235,960)	(256,447)
Recoveries on assets previously written off	277,368	33,297
Fees and commissions received, net	438,634	374,005
Salaries and similar cash payments to employees	(257,435)	(225,352)
Income tax paid	(5,611)	(2,489)
<b><u>Net cash flow before changes in operating assets and liabilities</u></b>	<b>767,466</b>	<b>332,136</b>
<b><u>(Increase)/decrease in operating assets</u></b>		
Loans and deposits to banks	(20,284)	(28,300)
Loans to customers	(1,277,706)	(306,519)
AFS and trading securities (increase)/decrease	198,942	158,004
Other assets	111,233	(209,585)
<b><u>Increase/(decrease) in operating liabilities</u></b>		
Amounts due to banks and financial institutions	(28,869)	-
Amounts due to customers	1,228,635	1,850,989
Other liabilities	6,125	-
Cash outflows from other activities	(256,867)	(137,879)
<b>Net cash flow from operating activities</b>	<b>728,675</b>	<b>1,658,846</b>
<b><u>Cash flows from investing activities</u></b>		
Investment securities (purchased)/sold	(87,621)	32,555
Property and equipment purchased	(335,279)	(522,006)
Property and equipment sold	10,556	5,879
Intangible assets purchased	(168,573)	(25,105)
Cash outflows from other investing activities	-	(49,200)
<b>Net cash flow from investing activities</b>	<b>(580,917)</b>	<b>(557,877)</b>
<b><u>Cash flow from financing activities</u></b>		
Borrowings from other banks	-	186,205
Issue of share capital	483,920	-
Cash inflows from other financing activities	9,544	-
<b>Net cash flow from financing activities</b>	<b>493,464</b>	<b>186,205</b>
Effect of exchange rate changes on cash and cash equivalents	(122,370)	(25,033)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>518,852</b>	<b>1,262,141</b>
Cash and cash equivalents at the beginning of the year	3,843,659	2,581,518
<b>Cash and cash equivalents at the end of the year (note 9)</b>	<b>4,362,511</b>	<b>3,843,659</b>