

Income Statement

For the year ended December 31, 2003
In thousand AMD

	Notes	2003 (audited)	2002 (audited)
Interest income	4	480,655	472,868
Interest expenses	4	(245,571)	(216,136)
Net interest income		235,084	256,732
Commissions and incomes in the form of other fees	5	432,503	318,202
Commissions and expenses in the form of other fees		(64,755)	(58,937)
Net commissions and other fees		367,748	259,265
Net income from FX operations, exchange		21,713	45,614
Other operational income	6	31,513	16,115
Operational income		656,058	577,726
Provisions for loan loss reserves/recoveries	7	(126,525)	(85,483)
Other operational expenses	8	(678,307)	(474,878)
Profit/(loss) before taxes		(148,774)	17,365
Profit tax expenses/income	20	2,137	(3,038)
Net profit/(loss) for the year		(146,637)	14,327

Balance sheet

As of December 31, 2003
In thousand AMD

	Notes	2003 (audited)	2002 (audited)
ASSETS			
Cash and balances with RA Central Bank	9	1,291,776	554,330
Due from banks and other financial organizations	10	2,554,372	2,006,916
RA government bonds held for trading		-	148,587
Loans and advances extended to customers	11	2,410,077	2,501,534
Investments in securities	12		
- available for sale		219,877	209,131
- held to maturity		107,959	-
Fixed assets	13	939,355	489,114
Intangible assets	14	101,526	90,582
Other assets	15	346,445	196,753
Total assets		7,971,387	6,196,947
LIABILITIES AND EQUITY			
Liabilities to banks and other financial organizations	16	282,803	226,857
Liabilities to customers	17	5,762,090	3,918,423
Interest payable and other liabilities	18	50,489	29,025
Total liabilities		6,095,382	4,174,305
Share capital	19	2,013,327	2,013,327
General reserve		5,828	5,828
Accumulated profit/(losses)		(143,150)	3,487
Total equity and liabilities		7,971,387	6,196,947

Statement of Changes in Equity

For the year ended December 31, 2003
In thousand AMD

	Share capital	General reserve	Accumulated profit/(losses)	Total
Balance as at December 31, 2001 (audited)	2,013,327	5,669	(10,161)	2,008,835
Net profit for the reporting year	-	-	14,327	14,327
Reserve provisioning	-	159	(159)	-
Restated reserves	-	-	(520)	(520)
Balance as at December 31, 2002 (audited)	2,013,327	5,828	3,487	2,022,642
Net losses for the reporting year	-	-	(146,637)	(146,637)
Balance as at December 31, 2003 (audited)	2,013,327	5,828	(143,150)	1,876,005

Cash Flow Statement

For the year ended December 31, 2003
In thousand AMD

	Notes	2003 (audited)	2002 (audited)
<u>Cash flows from operating activities</u>			
Profit/(losses) before taxation		(148,774)	17,365
Adjustments for:			
- loan loss provisions	7	104,362	64,623
- correspondent accounts write-offs through reserves	7	(68)	(4)
- Depreciation and amortization		72,869	51,828
- Gains/(losses) from sale of fixed assets		7,178	423
- Interest income and amounts receivable		30,133	1,830
- Interest expenses and amounts payable		23,879	253
(Paid)/refunded income tax		(2,489)	519
<u>Operational income before changes in operational assets and liabilities</u>		87,090	136,837
<u>(Increase)/decrease in operating assets</u>			
Loans and deposits with banks		(28,300)	-
Securities held for trade		148,587	-
Loans extended to customers		22,939	(863,468)
Other assets		(209,585)	(68,886)
<u>Increase/(decrease) in operating liabilities</u>			
Deposits from banks and financial organizations		(136,259)	(9,838)
Customers' deposits		1,843,667	1,198,268
Other liabilities		1,742	2,383
Net cash flows from operating activities		1,729,881	395,296
<u>Cash flows from investing activities</u>			
Investment securities' (purchase)/sale		(118,713)	68,794
Purchase of fixed assets	13	(522,006)	(375,093)
Sale of fixed assets		5,879	-
Purchase of intangible assets	14	(25,105)	(69,460)
Net cash flows from investing activities		(659,945)	(375,759)
<u>Cash flows from financing activities</u>			
Interbank loans and deposits		192,205	(84,271)
Net cash flows from financing activities		192,205	(84,271)
Net increase/(decrease) in cash and cash equivalents		1,262,141	(64,734)
Cash and cash equivalents at the beginning of the period		2,581,518	2,646,252
Cash and cash equivalents at the end of the period	9	3,843,659	2,581,518

Notes to Financial Statements

1. Main Activities

AREXIMBANK (hereinafter, the Bank) as the legal successor of the *Rossiyski- Credit-Armenia Bank* CSJC (registered on June 3, 1998), operates as a closed joint-stock company under the legislation of the Republic of Armenia (hereinafter, RA). The Bank is registered by the RA Central Bank (hereinafter, RA CB) under license #80. The Bank's main activities include loan extension and acceptance of deposits, remittances within and outside the RA territory, currency translation, as well as rendering of other banking services to legal entities and individuals.

The Bank's Head Office is based in Yerevan, while its four branches are located in Yerevan and Gyumri. The Bank's legal address is: 12 M.Mkrtchyan street, Yerevan – 375001, Republic of Armenia.

2. Business Environment

On-going political and economic changes are characteristic features of Armenia. As a developing market, Armenia lacks perfect business environment and relevant infrastructure, which is usually available in countries with free market economy. Hence, business activities in Armenia involve certain risks which are not inherent in developed countries.

Such risks and their consequences may affect the future activities of the Bank. The presented financial statements have not been adjusted due to some consequences associated with the mentioned uncertainties. Such adjustments, if any, will be reflected in the Bank's financial statements for the period when such adjustments appear and be duly assessed.

3. Accounting Policy

Preparation and Presentation of Financial Statements

The Bank's financial statements are prepared in accordance with normative acts provided for in the RA banking legislation, which regulates the activities of commercial banks in Armenia. The financial statements comply with the International Financial Reporting Standards (hereinafter, IFRS), except for certain requirements of ASRA #39 "Financial instruments: recognition and measurement", since the RA Central Bank has not allowed the integral application of the standard by commercial banks of Armenia. According to the assessment by the Bank management, the above mentioned fact does not entail any significant differences in the Bank's financial statements.

The Bank runs its accounting records in Armenian drams (hereinafter, AMD) and in order to present them to regulating bodies, the Bank prepares its financial statements in accordance with the requirements of the RA legislation. The financial statements are presented in Armenian drams, in thousand units. The Armenian dram outside the RA territory is not freely convertible.

The financial statements are prepared at their historical value.

The preparation of financial statements according to IFRS implies that managers are required to make such assessments and assumptions, which may have certain effect on assets and liabilities, as well as the presented and disclosed amounts of contingent assets and liabilities as at the date of the financial statements, and the amounts of incomes and expenses for the reporting period. While such assumptions are based on best understandings of current events and transactions by the managers, actual results may differ from these assessments.

Recognition of Incomes and Expenses

Interest incomes and expenses are recognized under the accrual basis of accounting. For non-performing loans and advances, when the collection of principal and interest becomes doubtful, interest income is not recognized.

Incomes and expenses in the form of commissions and other fees, as well as other main income and expense items are reflected in the Income Statement when the transactions related to them have been actually implemented.

Foreign Exchange Transactions

Foreign exchange transactions are recorded in Armenian drams at the exchange rate set by the RA Central Bank as at the transaction date. The assets and liabilities denominated in foreign currency are translated to Armenian drams with application of the settlement rate set by the RA Central Bank as at the balance sheet date, which at December 31, 2003 equaled AMD 566 = USD 1 (compared to AMD 584.89 = USD 1 in 2002). The gains and losses arisen from foreign exchange transactions, as well as conversion of assets and liabilities denominated in foreign currency to Armenian drams, are recognized in Net Income from FX Transactions and Conversion item of the Income Statement.

Income Tax and Other Taxes

Income tax is computed pursuant to the requirements of the RA legislation. Deferred taxes, if any, arise from temporary differences between the carrying amount of an asset or liability and its taxation base. The taxation base of an asset or liability is an amount, which is attributed to the asset or liability for taxation purposes. Provisions related to the deferred tax liabilities arisen as a result of temporary differences (if any) are made at their full amount. Deferred assets are recognized to the extent the sale of these assets is probable. Deferred tax assets and liabilities related to income tax are offset, if the Bank:

- Has a legally recognized right to offset amounts of current tax assets and liabilities;
- Intends to implement the settlement either on the net basis or sell the asset and simultaneously repay the liabilities;
- The deferred tax asset and deferred tax liabilities relate to the income tax, which is collected by the same tax authorities in each future period, during which it is expected that significant amounts of tax liabilities will be repaid or assets will be refunded.

Banks operating in the RA territory during their current activities pay other taxes as well. These taxes are incorporated in the Notes to the Income Statement under “Other

operating expenses” item.

Cash and Cash Equivalents

Cash and cash equivalents of cash flow statement consist of cash, funds with the RA Central Bank and current accounts in other banks.

Due from Banks and Other Financial Organizations

During its ordinary activities the Bank uses current and deposit accounts opened with other banks for various periods. Amounts due from credit organizations are presented at their historical cost less loan loss provisions.

Recognition of Financial Instruments

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

During the initial recognition, financial assets and liabilities are measured at their historical cost, which is the fair value of consideration given or received against it, plus or minus any expenses associated with the transaction. The accounting policy related to the further re-measurements of the mentioned items is described in relevant notes.

Treasury Bonds and Other Securities with Fixed Yield

Treasury bonds and other securities with fixed yield are classified by the Bank as per three categories: held for trading, held to maturity and available for sale. Such classification is performed at the time of acquisition, on the basis of assessment set by the Bank’s management.

- Securities held for trading

Securities are classified as held for trading, if they were acquired for the purpose of generating a profit from short-term fluctuations in price or dealer’s margin or they are part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking. Securities held for trading during their initial recognition are accounted for at their historical cost value, based on the current market prices. All relevant realized and non-realized gains and losses are recorded in the Income statement under the item “Gains from held for trading securities”.

- Securities held to maturity

Securities with fixed maturity are classified as held to maturity when the Bank has the positive intent and ability to hold the investments to maturity. Investments held to maturity are accounted for at their amortized value, with application of effective interest method minus provisions for loss reserves.

- Securities available for sale

The investments in securities with fixed yield are classified as available for sale when the Bank has a positive intent and ability to hold them for an uncertain period and

which can be sold based on the sales requirements or changes in interest and exchange rates, as well as values of capital instruments.

During the initial recognition, financial assets available for sale are accounted for at their historical cost and subsequently are re-measured at fair value, based on the current market prices. The realized and non-realized profit and loss arisen from changes in fair value of available for sale securities is attributed to the equity as fair value re-valuation reserve. When securities are sold, adjustments related to their fair value are recognized as profit or loss from securities classified as available for sale in the Income statement. If there is objective evidence of impairment of investment amount, the accumulated net loss immediately recognized in equity is deducted from the equity and recognized in the Income statement for the reporting period, while the asset is accounted for at its reimbursable amount, which is future cash flow discounted at current market interest rate used for similar financial instruments.

If there is evidence of actual patterns of generating profit within a short period of time in relation to financial assets classified as available for sale, these assets are de-classified as held for trading. The amounts of profit and loss directly attributed to equity fair value revaluation reserve in relation to such assets remain in the equity until the disposal of the financial assets, when the profit or loss arisen from the latter, is recognized in the Income statement for the reporting period.

Shares and Securities without Fixed Yield

During the initial recognition of investments in shares classified as available for sale, the latter are accounted for at historical cost and subsequently re-measured at fair value, based on the current market prices. In cases the fair value cannot be reliably measured, investments in shares are accounted for at their cost less provisions for loss reserves.

Repurchase Agreements

Repurchase agreements are used by the Bank during commercial activities and daily management of Bank's cash flows. Repo agreements are accounted for as financial transactions.

Securities sold under repo agreement are accounted for as securities held for trading or available for sale, while the funds generated under these agreements are recorded as liabilities to other banks or liabilities to customers.

The amounts given for securities acquired under repo agreements are recorded as due from other banks or loans and advances extended to customers.

Acquired securities are not recognized in the financial statements prior to their disposal to a third party. In this case the liability related to the return of the mentioned securities is recognized at fair value as a liability held for trading.

The income or expenses arisen as a result of acquisition and sale of securities is interest income or expense which is accrued during the validity of the relevant repo agreement.

Loans and Advances Extended to Customers

On the balance sheet, loans and other borrowings are accounted for at their historical cost less the provisions for loan loss reserves.

Lease

Under operational lease, rentals are recognized as expenses on a straight-line basis, in the Income statement, during the lease term.

Loss Reserves

At the expense of provisions, the Bank forms general and special reserves for losses, which may be incurred in relation to correspondent accounts, invested deposits, accounts receivable, extended loans and other advances, as well as off-balance sheet items involving credit risk for the Bank.

General reserve is formed at the expense of provisions related to standard assets, given the probability of occurrence of future but still non-identified losses of assets, which is the case for a loan portfolio of any bank.

A special reserve is formed at the expense of provisions for bad assets, given the probability of occurrence of identified losses of assets.

Reserves are also formed for investments accounted for at their historical cost, given the probability of possible losses due to their lengthy impairment.

Loans are classified as non-performing when the collection of principal and interest becomes doubtful. Contractual interest incomes related to non-performing loans and advances is not recognized in the financial statements. Non-performing loans are re-classified as performing ones when there is a firm belief regarding the collection of outstanding principal and interest amounts during a reasonable period.

Bad loan write-offs are implemented at the expense of the special reserve. In the case of recovery of previously written-off amounts, the relevant reserves are recovered, which total amount is adjusted as at the last banking day of the reporting month and extra balances available in the reserves are directed to the incomes.

Intangible Assets

Intangible assets are presented as the difference between historical cost and accumulated depreciation. When the carrying amount of the asset is bigger than its estimated recoverable amount, it is immediately reduced to the recoverable amount.

Intangible assets represent software and licenses accounted for at historical cost during their initial recognition, they are amortized under straight-line method during their useful life, which does not exceed 10 years.

Expenses which add to or reduce the efficiency and operation of software compared to their normative indicators, are recognized as capital expenses and added to the historical cost of the software. These expenses are amortized under straight-line

method during the remaining useful life of the relevant asset.

Fixed Assets

Fixed assets are reported as a difference between historical cost and accumulated depreciation. When the carrying amount of an asset is bigger than its estimated recoverable amount, it is immediately decreased to the recoverable amount.

Depreciation is computed under straight-line method during the useful life of the asset, with application of the following annual rates:

	Useful life (years)	Interest rate (%)
Buildings	20	5
Computers	6	16.67
Vehicles	15	6.67
Other fixed assets	5-10	6.67 -10

Capital expenditures related to leased fixed assets are capitalized and amortized under straight-line method during the remaining term of the lease agreement. Assets related to unfinished construction are not amortized.

Expenditures related to repairs and maintenance of fixed assets are recognized in income statement as an expense at the time they are incurred. Capital renovation expenditures are added to the carrying amount of the asset, when it is likely that due to them future economic gains will flow to the organization at a more significant extent than that expected at the initial valuation of regulatory indicators of the asset. The depreciation of these expenditures is accrued during the remaining useful time of the relevant asset.

The outcome of the sale of fixed asset is defined as a difference between net revenues from sale of asset and its carrying amount and is accounted for in the income statement under operating incomes.

In cases of sale of fixed assets accounted for at re-valuation cost, the amount attributed to a relevant class of fixed asset revaluation reserve is moved to retained profit.

Provisions to Retirement Fund

Besides a certain percentage of employees' earnings transferred by the Bank to the state retirement fund, no other retirement fund is formed. Costs associated with contributions to the fund are reflected in the income statement for the period to which they relate.

Provisions, Contingent Assets and Contingent Liabilities

Contingent liabilities are not recognized in the financial statements; rather, they are disclosed in the notes. Though, contingent liabilities are not disclosed in cases when the possibility of outflow of funds embodying economic benefits is insignificant.

Contingent assets are not recognized in financial statements; they are disclosed in

cases when an inflow of economic benefits is probable.

A provision is recognized when the Bank has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and it is possible to reliably estimate the amount of the obligation.

The procedure of creation of possible loss reserves for off-balance sheet items involving credit risk complies with the procedure of formation of reserves for losses on loans and advances granted to customers, which is described in the Reserves for Possible Losses” chapter.

Comparative Information

If needed, comparative data have been adjusted in order to ensure their comparability with current year.

4. Interest Income and Interest Expenses

Interest Incomes

	2003	2002
Current accounts, loans and deposits with banks and other financial organizations	44,649	51,448
Loans and advances extended to customers	422,325	388,141
Investments	13,603	26,340
Repo agreements	78	6,939
	<u>480,655</u>	<u>472,868</u>

Interest Expenses

	2003	2002
Current accounts, loans and deposits from banks and other financial organizations	10,058	26,494
Customers’ term deposits and current accounts	227,728	189,402
Repo agreements	-	240
Other interest expenses	7,785	-
	<u>245,571</u>	<u>216,136</u>

5. Fee and Commission Income

	2003	2002
Payment card transactions	59,104	14,586
Other fee and commission incomes	373,399	303,616
	<u>432,503</u>	<u>318,202</u>

6. Other Operating Income

	2003	2002
Penalties received	24,801	13,124
Loss from disposal of fixed assets	(7,178)	(423)

Other income	13,890	3,414
	<u>31,513</u>	<u>16,115</u>

7. Reserves for Possible Losses

	Notes	2003	2002
<u>In relation to deposits and correspondent accounts placed with banks</u>			
Starting balance		20,272	21,351
Reserve provisions/(reimbursement)		5,607	(1,075)
Use of reserves		(68)	(4)
Ending balance	9, 10	<u>25,811</u>	<u>20,272</u>
<u>In relation to loans, advances extended to customers and factoring transactions</u>			
Starting balance		70,470	38,598
Reserve provisions		68,518	62,758
Recovery of previously written off amounts		435,981	26,074
Use of reserves		(516,119)	(56,960)
Ending balance	11	<u>58,850</u>	<u>70,470</u>
<u>In relation to securities</u>			
Starting balance		2	2
Reserve provisions		8	-
Use of reserves		(10)	-
Ending balance	12.2	<u>-</u>	<u>2</u>
<u>In relation to other assets</u>			
Starting balance		1,260	792
Reserve provisions		30,586	468
Recovery of previously written off amounts		3,937	-
Use of reserves		(34,696)	-
Ending balance	15	<u>1,087</u>	<u>1,260</u>
<u>In relation to off-balance sheet items</u>			
Starting balance		2,472	-
Reserve provisions/(reimbursement)		(357)	2,472
Ending balance	18	<u>2,115</u>	<u>2,472</u>
Reserve provisions		<u>104,362</u>	<u>64,623</u>
<u>Provisions in relation to debiting of interest incomes accrued on non-performing loans</u>			
Total provisions		<u>22,163</u>	<u>20,860</u>

8. Other Operating Expenses

	2003	2002
Personnel expenses	233,125	177,535
Contributions to social insurance fund	24,533	20,629

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Depreciation and amortization	72,869	51,828
Communications	67,536	29,065
Travel expenses	10,996	8,982
Advertisement and entertainment	55,008	43,496
Tangible assets maintenance	24,800	2,374
Office expenses	9,367	7,881
Operational lease expenses	60,903	45,631
Consulting and other services	5,759	18,700
Security	10,169	7,944
Taxes other than income tax	22,659	28,182
Paid penalties	1,733	29
Other expenses	78,850	32,602
	678,307	474,878

Average number of employees as at December 31, 2003 was 104 (102 in 2002).

9. Cash, Cash Equivalents and Balances with RA Central Bank

The cash and cash equivalents presented in the Cash Flow Statement include the following items:

	2003	2002
Cash	659,879	186,370
Other cash placements	899	-
Correspondent accounts with RA CB	631,007	367,960
Included in the cash flow statement	1,291,785	554,330
Loss provisions for other cash placements (note 7)	(9)	-
Cash and balances with RA CB	1,291,776	554,330
Cash and balances with RA CB	1,291,785	554,330
Funds placed with other banks (note 10)	2,551,874	2,027,188
Total cash and cash balances	3,843,659	2,581,518

Correspondent accounts with RA Central Bank include funds subject to mandatory provisioning at 6% as per RA banking legislation. The withdrawal of these funds is not prohibited, though failure to observe the minimum provisions entails penalties to be imposed by the RA Central Bank.

10. Due from Banks and Other Financial Organizations

	2003	2002
<u>Current accounts:</u>		
With RA banks	740	1,964
With banks in OECD countries	1,280,881	1,323,173
With other than OECD country banks (except for Armenian ones)	1,270,253	702,051
	2,551,874	2,027,188
<u>Interbank loans and deposits</u>		
With banks in OECD countries	28,300 ¹	-

	28,300	-
Loss reserves for deposits and correspondent accounts with banks (note 7)	(25,802)	(20,272)
	<u>2,554,372</u>	<u>2,006,916</u>

The Bank receives 0.1% to 2% per annum on Nostro accounts placed with other banks.

11. Loans and Advances Extended to Customers

	2003	2002
Loans	2,412,592	2,560,707
Overdrafts	-	11,297
Card loans	56,335	-
	<u>2,468,927</u>	<u>2,572,004</u>
Reserve for losses on loans and advances extended to customers (note 7)	(58,850)	(70,470)
	<u>2,410,077</u>	<u>2,501,534</u>

As at December 31, 2003, loans were extended at 10% to 26% (in 2002 – 18% to 36%), while overdrafts were extended at 11% to 24% (in 2002 – 6% to 24%), loans by credit cards were granted at 11% to 24% interest rate.

As at the end of the year, the structure of performing and non-performing loans and advances extended to customers was as follows:

	2003	2002
Performing loans and advances	2,139,860	2,144,827
Non-performing loans and advances	329,067	427,177
	<u>2,468,927</u>	<u>2,572,004</u>
Reserve for losses on loans and advances to customers (note 7)	(58,850)	(70,470)
	<u>2,410,077</u>	<u>2,501,534</u>

The structure of loans and advances by customers is as follows:

	2003	2002
Private enterprises	1,458,960	1,967,158
Individuals	1,009,967	604,846
	<u>2,468,927</u>	<u>2,572,004</u>
Reserve for losses on loans and advances extended to customers (note 7)	(58,850)	(70,470)
	<u>2,410,077</u>	<u>2,501,534</u>

The total amount of the loans extended to 8 large borrowers accounted for 48% of the loan portfolio.

¹ The deposited amount represents a guarantee deposit of mutual settlements implemented through VISA payment system.

The breakdown of aggregate loan portfolio (without taking into account the amount of reserves for loan losses) per areas of crediting is as follows:

	2003	%	2002	%
Industry	527,584	21.4	26,320	1.0
Agriculture	198,100	8.0		
Construction	234,525	9.5	153,147	6.0
Transport and communication	7,464	0.3	17,983	0.7
Trade	540,994	21.9	406,635	15.8
Consumer sector	872,748	35.4	590,620	23.0
Financial sector	2,801	0.1	274,898	10.7
Others	84,711	3.4	1,102,401	42.8
	2,468,927	100	2,572,004	100

The geographical analysis of the loan portfolio as per customer place of residence is as follows:

	2003	2002
RA residents	2,463,445	1,673,501
Residents of countries other than members of OECD	5,482	898,503
	<u>2,468,927</u>	<u>2,572,004</u>
Loan loss reserves (note 7)	(58,850)	(70,470)
	<u>2,410,077</u>	<u>2,501,534</u>

12. Investments in Securities

The investment securities presented below are classified as held to maturity and available for sale:

	2003	2002
12.1. RA government bonds held to maturity		
Par value	114,000	-
Premium	-	-
Discount	(6,041)	-
	<u>107,959</u>	<u>-</u>

The effective interest rate of RA government bonds as at December 31, 2003 was 13% (in 2002 – 16%).

	2003			2002		
	Quoted	Non-quoted	Total	Quoted	Non-quoted	Total
12.2. Securities available for sale						
<u>Investments in share capital</u>						
- RA	-	-	-	-	10	10
- other than OECD countries (except for RA)	-	219,877	219,877	-	209,123	209,123

Reserve for losses
on securities (note
7)

-	-	-	-	(2)	(2)
-	219,877	219,877	-	209,131	209,131

Investments in share capital are not quoted at any stock exchange and have a limited market. There are no acceptable principles and methods for assessment of the fair value of these instruments, hence, investments are accounted for at their cost less the amount of loss reserves.

Investment in share capital is as follows:

Name	Main activities	Country of registration	Investment (AMD thousand)	Share, %
Interfin CJSC	Trade Investment activities	RF, Moscow	219,877	9.97

13. Fixed Assets

	Buildings	Capital investment in leased fixed assets	Computers and means of communication	Vehicles	Others	Unfinished construction	Total
Historical cost							
As at December 31, 2002	-	75,414	121,268	43,897	122,176	234,689	597,444
Increase	-	-	75,826	-	64,198	381,982	522,006
Disposal	-	(1,109)	(295)	(17,933)	(658)	-	(19,995)
Re-classification	377,723	-	-	-	-	(377,723)	-
As at December 31, 2002	377,723	74,305	196,799	25,964	185,716	238,948	1,099,455
Accumulated depreciation							
As at December 31, 2002	-	13,853	43,855	7,979	42,643	-	108,330
Increase	4,783	12,926	23,019	2,010	15,970	-	58,708
Disposal	-	(1,108)	(153)	(5,562)	(115)	-	(6,938)
As at December 31, 2003	4,783	25,671	66,721	4,427	58,498	-	160,100
Net carrying amount							
As at December 31, 2003	372,940	48,634	130,078	21,537	127,218	238,948	939,355
As at December 31, 2002	-	61,561	77,413	35,918	79,533	234,689	489,114

14. Intangible Assets

	Licenses	Software	Other intangible assets	Total
<u>Historical cost</u>				
As at December 31, 2002	60,612	34,778	14,191	109,581
Increase	3,000	21,978	-	24,978
Disposal	(4,825)	-	-	(4,825)
As at December 31, 2003	58,787	56,756	14,191	129,734
<u>Accumulated Amortization</u>				
As at December 31, 2002	7,769	8,131	3,099	18,999
Increase	8,622	4,147	1,392	14,161
Disposal	(4,825)	-	-	(4,825)
Other adjustments	(127)	-	-	(127)
As at December 31, 2003	7,769	8,131	3,099	18,999
<u>Net carrying amount</u>				
As at December 31, 2003	47,348	44,478	9,700	101,526
As at December 31, 2002	52,843	26,647	11,092	90,582

15. Other Assets

	2003	2002
Advance payments and other debtors	4,418	8,378
Settlements with staff members	47,978	30,654
Other assets	7,672	14,776
	60,077	53,808
Reserve for losses on other assets (note 7)	(1,087)	(1,260)
	58,990	52,548
Accrued interest income	46,734	55,919
Unrecognized interest income on non-performing assets	(15,930)	(21,139)
Other receivables	46,080	72,237
	76,884	107,017
Assets appropriated as a result of collateral foreclosure	85,230	21,288
Idle fixed assets and intangible assets	107,560	1,368

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Income tax prepayments	4,975	6,286
Deferred tax assets (note 20)	2,899	762
Inventory	9,907	7,484
	346,445	196,753

16. Due to Banks and Other Financial Organizations

	2003	2002
<u>Current accounts</u>		
With RA banks	58,960	32,435
With banks in countries other than OECD members (except for RA)	31,638	194,422
	90,598	226,857
<u>Interbank loans and deposits</u>		
Banks in countries other than OECD members (except for RA)	192,205	-
	192,205	-
	282,803	226,857

The Bank does not pay interest on Vostro accounts; rather, it pays interest at 8% per annum on bank deposits.

17. Due to Customers

	2003	2002
<u>Legal entities</u>		
- Current/settlement accounts	2,413,139	1,440,865
- Term deposits	403,602	246,175
	2,816,741	1,687,040
<u>Individuals</u>		
- Current/demand accounts	1,285,351	620,640
- Term deposits	1,659,998	1,610,743
	2,945,349	2,231,383
	5,762,090	3,918,423

The Bank pays annually 0.5% to 2% on current accounts and on term deposits – 0.5% to 10.5%.

18. Interest Payable and Other Liabilities

	2003	2002
Interest payable	8,899	9,224
Other amounts payable	37,733	13,529
Income tax liabilities	-	3,800
Reserve for losses on off-balance sheet items involving credit risk (note 21.2)	2,115	2,472
Other liabilities	1,742	-
	50,489	29,025

19. Share Capital

As of December 31, 2003, the Bank's paid-in registered capital amounted to AMD 2,013,327 thousand. Pursuant to the Bank's Charter, the share capital consists of 38,000 shares, par value of each is equivalent to USD 100 (in Armenian drams), all these shares as of December 31, 2003, were fully allocated and paid-up.

As of December 31, 2003, the Bank's shareholders are:

	Country registration	of Paid-in capital	share %
Finmarket CJSC	RA	1,350,000	67
Roskred Resource & Consulting Ltd.	Cyprus	259,394	13
Ramirez Consultants Ltd.	Cyprus	248,357	12
Canadian Holdings Ltd.	Cyprus	155,576	8
		2,013,327	100

20. Profit Tax Expense/ (Income)

	2003	2002
Current tax	-	3,800
Deferred tax	(2,137)	(762)
	(2,137)	3,038

Income tax rate in the Republic of Armenia is 20%. The difference between the RA tax legislation and IFRS in relation to current cost of a number of assets and liabilities gives rise to the occurrence of temporary differences between tax returns and financial statements. The amount of deferred income tax is computed with application of 20% main rate.

Below is presented the correlation of profit tax expense/ (income) and accounting profit/ (loss):

	2003	2002
Profit/(loss) before taxation	(148,774)	17,365
Profit tax at 20%	(29,755)	3,473
Adjustments of incomes and expenses relating to non-temporary differences, for taxation purposes		
Positive/(negative) FX difference	4,373	(3,492)
Other non-temporary differences	5,915	3,057
Profit tax expense/(income)	(19,467)	3,038
Computation of deferred tax relating to temporary differences		
	2003	2002
<u>Deferred tax assets</u>		
Expense adjustment	2,899	762
Transferable tax loss	17,330	-
	20,229	762

<u>Deferred tax liabilities</u>	-	-
Net deferred tax asset/(liabilities)	<u>20,229</u>	<u>762</u>
Estimate of deferred tax asset	(17,330)	-
Deferred tax asset/(liabilities)	<u>2,899</u>	<u>762</u>

As of December 31, 2003, the deferred tax assets at AMD 17,330 thousand were not recognized as such due to uncertainties associated with their realization.