SEF International Universal Credit Organisation LLC

Financial Statements

for the year ended 31 December 2010

Contents

KPMG

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Independent Auditors' Report

To the Management Board of
SEF International Universal Credit Organisation LLC

We have audited the accompanying financial statements of SEF International Universal Credit Organisation LLC (the Organisation), which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organisation as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Andrew Coxshall
Director KPMG Armenia cjsc

KPMG Armenia cjsc
15 June 2011

Tigran Gasparyan
Head of Audit department

	Notes	2010 AMD'000	2009 AMD'000
Interest income	4	531,921	560,984
Interest expense	4	(221,596)	(277,652)
Net interest income		**310,325**	**283,332**
Fee and commission income		117,653	59,321
Fee and commission expense		(9,399)	(8,450)
Net fee and commission income		**108,254**	**50,871**
Net loss on financial instruments at fair value through profit or loss		-	(1,535)
Net foreign exchange gain/(loss)	5	2,954	(107,342)
Other operating income	6	51,658	145,882
Operating income		**473,191**	**371,208**
Impairment losses	7	(28,858)	(84,505)
General administrative expenses	8	(436,747)	(343,039)
Profit/(loss) before income tax		**7,586**	**(56,336)**
Income tax expense	9	(5,287)	(13,041)
Profit/(loss) for the year		**2,299**	**(69,377)**
Other comprehensive income for the year			
Revaluation of property and equipment, net of tax		-	1,306
Total comprehensive income for the year		**2,299**	**(68,071)**

The financial statements as set out on pages 4 to 41 were approved by the Management Board on 15 June 2011.

Garegin Gevorgyan
Chief Executive Officer

Irina Ohanyan
Chief Accountant

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

	Notes	2010 AMD'000	2009 AMD'000
ASSETS			
Cash and cash equivalents	10	146,859	103,252
Term deposits with banks	11	321,956	1,082,014
Loans to customers	12	2,781,795	2,046,855
Current tax asset		8,291	-
Property, equipment and intangible assets	13	81,145	82,702
Deferred tax asset	9	9,739	10,056
Other assets		11,931	7,363
Total assets		**3,361,716**	**3,332,242**
LIABILITIES			
Loans and borrowings	14	2,263,572	2,454,413
Current tax liability		-	7,586
Other liabilities	15	156,371	71,183
Total liabilities		**2,419,943**	**2,533,182**
EQUITY			
Share capital	16	829,652	764,968
Revaluation surplus for property and equipment		666	1,311
Additional paid-in capital		78,271	2,541
Retained earnings		33,184	30,240
Total equity		**941,773**	**799,060**
Total liabilities and equity		**3,361,716**	**3,332,242**

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

	Notes	2010 AMD'000	2009 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		553,844	542,349
Interest payments		(218,643)	(283,042)
Fee and commission receipts		117,653	59,321
Fee and commission payments		(9,399)	(8,450)
Net payments from financial instruments at fair value through profit or loss		-	(8,341)
Net receipts/(payments) from foreign exchange		1,556	(2,357)
Other income receipts		25,576	130,071
General administrative expense payments		(404,307)	(310,411)
(Increase) decrease in operating assets			
Term deposits with banks		729,861	(110,224)
Loans to customers		(775,919)	421,566
Other assets		(782)	(711)
Increase in operating liabilities			
Other liabilities		48,421	7,658
Net cash provided from operating activities before income tax paid		**67,861**	**437,429**
Income tax paid		(20,847)	(4,676)
Cash flows from operations		**47,014**	**432,753**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment		(27,357)	(19,470)
Proceeds on disposal of property and equipment		10,803	4,420
Cash flows used in investing activities		**(16,554)**	**(15,050)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of loans and borrowings		1,421,879	644,637
Repayments of loans and borrowings		(1,538,891)	(1,161,271)
Proceeds from issuance of share capital		64,684	-
Proceeds from prepayments to share capital		75,730	
Cash flows from/(used in) financing activities		**23,402**	**(516,634)**
Net increase/(decrease) in cash and cash equivalents		**53,862**	**(98,931)**
Effect of changes in exchange rates on cash and cash equivalents		(10,255)	43,314
Cash and cash equivalents as at the beginning of the year		103,252	158,869
Cash and cash equivalents as at the end of the year	10	**146,859**	**103,252**

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

	Share capital	Revaluation surplus for property and equipment	Additional paid-in capital	Retained earnings	Total
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
Balance as at 1 January 2009	**512,160**	**43**	**14,787**	**99,579**	**626,569**
Total comprehensive income					
Loss for the year	-	-	-	(69,377)	(69,377)
Other comprehensive income					
Realisation of property and equipment revaluation reserve	-	(38)	-	38	-
Revaluation of property and equipment, net of tax	-	1,306	-	-	1,306
Total other comprehensive income	-	1,268	-	38	1,306
Total comprehensive income	**-**	**1,268**	**-**	**(69,339)**	**(68,071)**
Transactions with owners, recorded directly in equity					
Shares issued	240,562	-	-	-	240,562
Transfer of additional paid-in capital to share capital (note 16)	12,246	-	(12,246)	-	-
Total transactions with owners	**252,808**	**-**	**(12,246)**	**-**	**240,562**
Balance as at 31 December 2009	**764,968**	**1,311**	**2,541**	**30,240**	**799,060**
Balance as at 1 January 2010	**764,968**	**1,311**	**2,541**	**30,240**	**799,060**
Total comprehensive income					
Profit for the year	-	-	-	2,299	2,299
Other comprehensive income					
Realisation of property and equipment revaluation reserve	-	(645)	-	645	-
Total other comprehensive income	-	(645)	-	645	-
Total comprehensive income	-	(645)	-	2,944	2,299
Transactions with owners, recorded directly in equity					
Shares issued	64,684	-	-	-	64,684
Prepayment made for share capital	-	-	75,730	-	75,730
Total transactions with owners	**64,684**	**-**	**75,730**	**-**	**140,414**
Balance as at 31 December 2010	**829,652**	**666**	**78,271**	**33,184**	**941,773**

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

1 Background

(a) Principal activities

SEF International Universal Credit Organisation LLC (the Organisation) was established in the Republic of Armenia as a limited liability company in 2003 as a legal succesor of SEF International LLC which had been involved in microfinance lending in Armenia since 1998. The principal activities of the Organisation are the provision of microfinance, individual business loans and consumption loans. The activities of the Organisation are regulated by the Central Bank of Armenia (CBA). The Organisation has a credit organisation license.

The Organisation has six branches and three representative offices from which it conducts business throughout the Republic of Armenia. The registered address of the head office is 19/19 Yervand Kochar Street, Yerevan 0070, Armenia.

The Organisation is wholly-owned by Vision Fund International. Related party transactions are detailed in note 22.

(b) Armenian business environment

Armenia is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Armenia involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets and its impact on the economy of Armenia have further increased the level of economic uncertainty in the environment. These financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Organisation. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that computer equipment is stated at revalued amounts.

(c) Functional and presentation currency

The functional currency of the Organisation is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The AMD is also the presentation currency for the purposes of these financial statements. The Armenian Dram is not a convertible currency outside the Republic of Armenia.

Financial information presented in AMD is rounded to the nearest thousand.

(d) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 12 “Loans to customers” in relation to loan impairment estimates and notes 11 and 14 relating to the gross presentation of loans to and deposits from the same banks with similar terms.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Organisation at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and unrestricted balances (nostro accounts) held with banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Organisation may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Organisation:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Organisation has the positive intention and ability to hold to maturity, other than those that:

- the Organisation upon initial recognition designates as at fair value through profit or loss
- the Organisation designates as available-for-sale, or
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Organisation becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms' length transaction on the measurement date.

When available, the Organisation measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Organisation establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Organisation, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Organisation has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Organisation believes a third-party market participant would take them into account in pricing a transaction.

(v) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised as earned in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortization process.

(vi) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expires, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Organisation neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Organisation is recognised as a separate asset or liability in the statement of financial position. The Organisation derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Organisation enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Organisation neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Organisation continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Organisation writes off assets deemed to be uncollectible.

(vii) Offsetting

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

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for computer equipment which is stated at revalued amounts as described below.
Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Revaluation

Computer equipment is subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the computer equipment being revalued. A revaluation increase on an item of computer equipment is recognised as other comprehensive income directly in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on an item of computer equipment is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised directly in equity.

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Leasehold improvements are depreciated over the shorter of the asset’s useful life and lease term.

The estimated useful lives are as follows

- buildings	20 years
- computer equipment	1-5 years
- motor vehicles	7 years
- leasehold improvements	5 years
- other	3-5 years

(e) Intangible assets

Acquired intangible assets that are acquired by the Organisation are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life of the computer software is 10 years.

(f) Impairment

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables (“loans and receivables”). The Organisation reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Organisation would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Organisation first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Organisation determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Organisation uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Organisation writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(a) Provisions

A provision is recognised in the statement of financial position when the Organisation has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(g) Credit related commitments

In the normal course of business, the Organisation enters into credit related commitments, comprising undrawn loan commitments.

Loan commitments are not recognised, except for the following:

- loan commitments that the Organisation designates as financial liabilities at fair value through profit or loss
- if the Organisation has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- commitments to provide a loan at a below-market interest rate.

(h) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(i) Dividends

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

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

Dividend income is recognised in profit or loss on the date that the dividend is declared.

(i) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(j) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

(k) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2010, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Organisation's operations. The Organisation plans to adopt these pronouncements when they become effective. The Organisation has not yet analysed the likely impact of these pronouncements on its financial position and performance.

- Revised IAS 24 *Related Party Disclosures* (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Organisation recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Organisation's financial statements. The impact of these changes will be analyzed during the course of the project as further phases of the standard are issued.

- *Improvements to IFRSs 2010* resulting from the International Accounting Standards Board's third annual improvements project are to be dealt with on a standard-by-standard basis. The effective date of each amendment is included in the IFRSs affected.

4 Net interest income

	2010 AMD'000	2009 AMD'000
Interest income		
Loans to customers	498,589	504,622
Term deposits with banks	33,332	56,362
	531,921	**560,984**
Interest expense		
Loans and borrowings	**221,596**	**277,652**

5 Net foreign exchange gain/(loss)

	2010 AMD'000	2009 AMD'000
Net gain/(loss) from revaluation of financial assets and liabilities	1,398	(104,985)
Gain/(loss) on spot transactions	1,556	(2,357)
	2,954	**(107,342)**

6 Other operating income

	2010 AMD'000	2009 AMD'000
Fines and penalties received	23,860	16,322
Gain on disposal of property and equipment	10,308	4,124
Donations	9,104	122,898
Other	8,386	2,538
	51,658	**145,882**

7 Impairment losses

	2010 AMD'000	2009 AMD'000
Loans to customers	28,193	84,538
Other assets	665	(33)
	28,858	**84,505**

8 General administrative expenses

	2010 AMD'000	2009 AMD'000
Employee compensation	245,078	196,865
Operating lease expense	37,221	20,798
Depreciation and amortisation	28,419	26,575
Payroll related taxes	23,811	19,226
Repairs and maintenance	23,445	16,467
Professional services	18,998	14,907
Communication services	13,385	10,784
Security	5,938	3,516
Travel expenses	3,770	8,903
Advertising and marketing	3,478	2,108
Insurance	1,066	1,077
Other	32,138	21,813
	436,747	**343,039**

Total personnel costs for the year, including short-term benefits and social security payments, amount to AMD 268,889 thousand (2009: AMD 216,091 thousand).

9 Income tax expense

	2010 AMD'000	2009 AMD'000
Current tax expense		
Current year	4,970	17,684
	4,970	**17,684**
Deferred tax expense/(benefit)		
Origination and reversal of temporary differences	317	(4,643)
Total income tax expense	**5,287**	**13,041**

In 2010 applicable tax rate for current and deferred tax is 20% (2009: 20%).

Reconciliation of effective tax rate:

	2010 AMD'000	%	2009 AMD'000	%
Profit/(loss) before income tax	7,586		(56,336)	
Income tax at the applicable tax rate	1,517	20%	(11,267)	20%
Non-deductible costs	3,770	50%	24,308	(43%)
	5,287	**70%**	**13,041**	**(23%)**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as of 31 December 2010 and 2009. These deferred tax assets have been recognised in these financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Organisation’s ability to claim the deductions in future periods.

Temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2010 and 2009 are presented as follows:

AMD’000	Balance 1 January 2010	Recognised in profit or loss	Balance 31 December 2010
Cash and cash equivalents	(199)	(81)	(280)
Term deposits with banks	(2,097)	1,465	(632)
Loans to customers	5,000	(1,289)	3,711
Property, plant and equipment	(328)	162	(166)
Other assets	(63)	111	48
Other liabilities	7,743	(685)	7,058
	10,056	**(317)**	**9,739**

AMD’000	Balance 1 January 2009	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2009
Cash and cash equivalents	(313)	114		(199)
Term deposits with banks	(1,405)	(692)	-	(2,097)
Loans to customers	-	5,000	-	5,000
Property, plant and equipment	(11)	10	(327)	(328)
Other assets	(68)	5	-	(63)
Other liabilities	7,359	384	-	7,743
Tax loss carry-forward	178	(178)	-	-
	5,740	**4,643**	**(327)**	**10,056**

Income tax recognised in other comprehensive income

The tax effects relating to components of other comprehensive income for the year ended 31 December comprise the following:

	2009		
AMD’000	**Amount before tax**	**Tax expense**	**Amount net-of-tax**
Revaluation of property and equipment	**1,633**	**(327)**	**1,306**

10 Cash and cash equivalents

	2010 AMD'000	2009 AMD'000
Cash on hand	**6,866**	**3,992**
Current accounts		
Largest 10 Armenian banks	139,696	99,218
Other Armenian banks	297	42
Total current accounts	**139,993**	**99,260**
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	**146,859**	**103,252**

None of cash and cash equivalents are impaired or past due.

Both as at 31 December 2010 and 2009 the Organisation does not have any banks, whose balances exceed 10% of equity.

11 Term deposits with banks

	2010 AMD'000	2009 AMD'000
Largest 10 Armenian banks	67,548	967,294
Other Armenian banks	254,408	114,720
	321,956	**1,082,014**

None of the term deposits with banks are impaired or past due.

As at 31 December 2010 deposits of AMD 61,785 thousand (2009: AMD 472,363 thousand) are pledged under loans from banks as disclosed in note 14.

As at 31 December 2010 the Organisation has one bank (2009: three banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2010 are AMD 254,408 thousand (2009: AMD 1,082,014 thousand).

12 Loans to customers

	2010 AMD'000	2009 AMD'000
Business loans		
Loans to small companies and sole entrepreneurs	868,802	912,613
Total business loans	**868,802**	**912,613**
Loans to individuals		
Consumer goods purchase financing	687,537	-
Other consumer loans	568,324	460,712
Agricultural loans	514,983	649,414
Renovation loans	218,029	101,694
Total loans to individuals	**1,988,873**	**1,211,820**
Gross loans to customers	**2,857,675**	**2,124,433**
Impairment allowance	(75,880)	(77,578)
Net loans to customers	**2,781,795**	**2,046,855**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2010 are as follows:

	Business loans AMD'000	Loans to individuals AMD'000	Total AMD'000
Balance at the beginning of the year	**22,706**	**54,872**	**77,578**
Net (reversal)/charge	(5,982)	34,175	28,193
Write-offs	3,969	(33,860)	(29,891)
Balance at the end of the year	**20,693**	**55,187**	**75,880**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2009 are as follows:

	Business loans AMD'000	Loans to individuals AMD'000	Total AMD'000
Balance at the beginning of the year	12,542	29,396	41,938
Net charge	16,056	68,482	84,538
Write-offs	(5,892)	(43,006)	(48,898)
Balance at the end of the year	**22,706**	**54,872**	**77,578**

(a) Credit quality of the loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2010:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Business loans				
Loans to small companies and soles enterpreneurs				
Loans without individual signs of impairment				
- not overdue	798,810	6,391	792,419	0.8%
- overdue less than 90 days	29,370	1,900	27,470	6.5%
- overdue more than 90 days and less than 1 year	40,622	12,402	28,220	30.5%
Total business loans to small companies and sole entrepreneurs	**868,802**	**20,693**	**848,109**	**2.4%**
Loans to individuals				
Consumer goods purchase financing				
- not overdue	687,537	5,497	682,040	0.8%
Total consumer goods purchase financing	**687,537**	**5,497**	**682,040**	**0.8%**
Other consumer loans				
- not overdue	568,324	4,547	563,777	0.8%
Total other consumer loans	**568,324**	**4,547**	**563,777**	**0.8%**
Agricultural loans				
- not overdue	472,811	13,116	459,695	2.8%
- overdue less than 90 days	18,612	12,016	6,596	64.6%
- overdue more than 90 days and less than 1 year	23,560	18,267	5,293	77.5%
Total agricultural loans	**514,983**	**43,399**	**471,584**	**8.4%**
Renovation loans				
- not overdue	218,029	1,744	216,285	0.8%
Total renovation loans	**218,029**	**1,744**	**216,285**	**0.8%**
Total loans to individuals	**1,988,873**	**55,187**	**1,933,686**	2.8%
Total loans to customers	**2,857,675**	**75,880**	**2,781,795**	**2.7%**

The following table provides information on the credit quality of the loans to customers portfolio as at 31 December 2009:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Business loans				
Loans to small companies and soles enterpreneurs				
Loans without individual signs of impairment				
- not overdue	882,205	7,058	875,147	0.8%
- overdue less than 90 days	9,874	987	8,887	10.0%
- overdue more than 90 days and less than 1 year	20,534	14,661	5,873	71.4%
Total business loans to small companies and sole entrepreneurs	**912,613**	**22,706**	**889,907**	**2.5%**
Loans to individuals				
Other consumer loans				
- not overdue	456,909	3,655	453,254	0.8%
- overdue more than 90 days and less than 1 year	3,803	3,803	-	100.0%
Total other consumer loans	**460,712**	**7,458**	**453,254**	**1.6%**
Agricultural loans				
- not overdue	563,218	4,506	558,712	0.8%
- overdue less than 90 days	43,963	7,572	36,391	17.2%
- overdue more than 90 days and less than 1 year	42,233	32,128	10,105	76.1%
Total agricultural loans	**649,414**	**44,206**	**605,208**	**6.8%**
Renovation loans				
- not overdue	99,986	1,500	98,486	1.5%
- overdue more than 90 days and less than 1 year	1,708	1,708	-	100.0%
Total renovation loans	**101,694**	**3,208**	**98,486**	**3.2%**
Total loans to individuals	**1,211,820**	**54,872**	**1,156,948**	**4.5%**
Total loans to customers	**2,124,433**	**77,578**	**2,046,855**	**3.7%**

As at 31 December 2010 included in the loan portfolio are business loans and loans to individuals restructured in the year of AMD 13,466 thousand and nil, respectively (2009: AMD 11,344 thousand and AMD 26,560 thousand, respectively) that would otherwise be past due or impaired. Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the renegotiated terms.

(b) Key assumptions and judgements for estimating the loan impairment

(i) Business loans

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for business loans include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in business environment, negative changes in the borrower's markets.

The Organisation estimates loan impairment for business loans based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for business loans, management makes the following key assumptions:

- for impaired loans a discount of 20%-30% to the originally appraised value if the property pledged is sold and a delay of 12 to 24 months in obtaining proceeds from the foreclosure of collateral
- for non-impaired loans the collective impairment allowance is based on loss migration rates which are constant and can be estimated based on the historic loss migration pattern for the past 36 months.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment allowance on business loans as of 31 December 2010 would be AMD 8,481 thousand lower/higher (31 December 2009: AMD 8,899 thousand).

(ii) Loans to individuals

The Organisation estimates loan impairment for loans to individuals based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to individuals include:

- for impaired loans a discount of 20%-30% to the originally appraised value if the property pledged is sold and a delay of 12 to 24 months in obtaining proceeds from the foreclosure of collateral
- for non-impaired loans is collective impairment allowance based on loss migration rates which are constant and can be estimated based on the historic loss migration pattern for the past 36 months
- loans to individuals overdue for more than 180 days are allocated 100% probability of loss.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the loan impairment allowance on loans to individuals as of 31 December 2010 would be AMD 58,010 thousand lower/higher (31 December 2009: AMD 34,708 thousand).

(c) Analysis of collateral

(i) Business loans

The following table provides the analysis of business loans portfolio, net of impairment, by types of collateral as at 31 December 2010 and 2009:

	2010 AMD'000	% of loan portfolio	2009 AMD'000	% of loan portfolio
Real estate	726,537	86%	884,403	99%
Personal guarantees	105,364	12%	-	-
Motor vehicles	2,759	0%	5,504	1%
Other collateral	13,449	2%	-	-
	848,109	**100%**	**889,907**	**100%**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Impaired or overdue business loans with a gross value of AMD 69,992 thousand (2009: AMD 30,408 thousand) are secured by collateral with a fair value of AMD 106,140 thousand (2009: AMD 61,209 thousand).

During the year ended 31 December 2010 the Organisation did not obtain any assets by taking control of collateral accepted as security for business loans (31 December 2009: nil).

(ii) Loans to individuals

The following table provides the analysis of loans to individuals portfolio, net of impairment, by types of collateral as at 31 December 2010 and 2009:

	2010 AMD'000	% of loan portfolio	2009 AMD'000	% of loan portfolio
Consumer equipment	682,040	35%	-	-
Real estate	608,318	31%	472,507	41%
Gold collateral	553,370	29%	432,177	37%
Livestock	46,394	3%	201,946	18%
Motor vehicles	28,554	1%	50,318	4%
Other collateral	15,010	1%	-	-
	1,933,686	**100%**	**1,156,948**	**100%**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Loans for consumer goods purchase financing are secured by underlying consumer equipment. Other consumer loans are secured by gold collateral. Agricultural loans are secured by real estate, motor vehicles and livestock. Renovation loans are secured by the underlying housing real estate.

Impaired or overdue loans to individuals with a gross value of AMD 42,172 thousand (2009: AMD 91,707 thousand) are secured by collateral with a fair value of AMD 119,925 thousand (2009: AMD 228,654 thousand).

(d) Industry and geographical analysis of the loan portfolio

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

	2010 AMD'000	2009 AMD'000
Loans to individuals except for agricultural loans	1,473,890	562,406
Trade	613,526	694,198
Agriculture	514,983	649,414
Food industry	128,016	99,816
Light industry	65,390	33,631
Manufacturing	32,384	47,867
Other	29,486	37,101
	2,857,675	**2,124,433**
Impairment allowance	(75,880)	(77,578)
	2,781,795	**2,046,855**

(e) Significant credit exposures

Both as at 31 December 2010 and 2009 the Organisation has no borrowers or groups of connected borrowers, whose loan balances exceed 10% of equity.

(f) Loan maturities

The maturity of the loan portfolio is presented in note 17, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Organisation, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the term based on contractual terms.

13 Property, equipment and intangible assets

AMD'000	Buildings	Computer equipment	Motor vehicles	Computer software	Leasehold improvements	Other	Total
Cost/revalued amount							
Balance at 1 January 2010	825	17,171	51,244	19,995	22,477	26,961	138,673
Additions	-	12,665	-	-	-	14,692	27,357
Disposals	(825)	(85)	-	-	-	(67)	(977)
Balance at 31 December 2010	**-**	**29,751**	**51,244**	**19,995**	**22,477**	**41,586**	**165,053**
Depreciation and amortisation							
Balance at 1 January 2010	371	6,877	16,594	7,915	12,455	11,759	55,971
Depreciation and amortisation for the year	41	7,323	7,037	2,006	5,012	7,000	28,419
Disposals	(412)	(30)	-	-	-	(40)	(482)
Balance at 31 December 2010	**-**	**14,170**	**23,631**	**9,921**	**17,467**	**18,719**	**83,908**
Carrying amount							
At 31 December 2010	**-**	**15,581**	**27,613**	**10,074**	**5,010**	**22,867**	**81,145**
Cost/revalued amount							
Balance at 1 January 2009	825	32,853	38,127	20,763	22,477	24,588	139,633
Additions	-	2,449	13,117	-	-	3,904	19,470
Revaluation	-	(17,707)	-	-	-	-	(17,707)
Disposals	-	(424)	-	(768)	-	(1,531)	(2,723)
Balance at 31 December 2009	**825**	**17,171**	**51,244**	**19,995**	**22,477**	**26,961**	**138,673**
Depreciation and amortisation							
Balance at 1 January 2009	330	18,097	10,962	6,351	7,258	8,165	51,163
Depreciation and amortisation for the year	41	8,532	5,632	2,082	5,197	5,091	26,575
Revaluation	-	(19,340)	-	-	-	-	(19,340)
Disposals	-	(412)	-	(518)	-	(1,497)	(2,427)
Balance at 31 December 2009	**371**	**6,877**	**16,594**	**7,915**	**12,455**	**11,759**	**55,971**
Carrying amounts							
At 31 December 2009	**454**	**10,294**	**34,650**	**12,080**	**10,022**	**15,202**	**82,702**
At 1 January 2009	**495**	**14,756**	**27,165**	**14,412**	**15,219**	**16,423**	**88,470**

There are no capitalised borrowing costs related to the acquisition or construction of plant and equipment during 2010 (2009: nil).

(a) Revalued assets

In 2009 the management internally appraised computer equipment in order to determine its fair value as at 31 December 2009. The basis used for the appraisal is the market approach. The market approach is based upon an analysis of the results of comparable sales of similar computer equipment. In 2010 the management believes that it is unlikely that the fair value of computer equipment would differ significantly from the carrying amount at the year end.

The carrying value of computer equipment as at 31 December 2010, if the computer equipment would not have been revalued, would be AMD 14,749 thousand (31 December 2009: AMD 8,655 thousand).

14 Loans and borrowings

This note provides information about the contractual terms of the Organisation’s interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Organisation’s exposure to interest rate, foreign currency and liquidity risk, see note 17.

	2010 AMD’000	2009 AMD’000
Non-current liabilities		
Secured bank loans	47,372	46,773
Secured loans from other entities	6,578	1,679
Unsecured loans from other entities	30,071	226,734
	84,021	**275,186**
Current liabilities		
Secured bank loans	-	295,512
Secured loans from other entities	14,691	1,664
Unsecured bank loans	164,534	-
Unsecured loans from related parties	505,748	525,527
Unsecured loans from other entities	1,494,578	1,356,524
	2,179,551	**2,179,227**
	2,263,572	**2,454,413**

Terms and conditions of outstanding loans and borrowings were as follows:

				2010		2009	
’000AMD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face* value**	**Carrying amount**	**Face* value**	**Carrying amount**
Secured bank loans	AMD	8.0%	2012	47,372	47,372	46,773	46,773
Secured bank loans	AMD	8.0%	2010	-	-	295,512	295,512
Secured loans from other entities	AMD	CBA repo+2%	2011-2013	21,269	21,269	3,343	3,343
Unsecured bank loans	USD	10.0%	2011	164,534	164,534	-	-
Unsecured loans from related parties	USD	5.0%	2010	-	-	94,486	94,486
Unsecured loans from related parties	USD	10.6%	2011	91,189	91,189	-	-
Unsecured loans from related parties	USD	10.3%	2011	414,559	414,559	431,041	431,041
Unsecured loans from other entities	USD	8.9%	2012	168,031	168,031	-	-
Unsecured loans from other entities	USD	11.4%	2011	285,947	285,947	297,227	297,227
Unsecured loans from other entities	USD	9.7%	2011	224,749	224,749	467,248	467,248
Unsecured loans from other entities**	USD	0.0%	2012-2013	72,547	65,362	-	-
Unsecured loans from other entities	USD	9.4%	2011	91,122	91,122	-	-
Unsecured loans from other entities	AMD	10.5%	2012	4,300	4,300	-	-
Unsecured loans from other entities	USD	9.1%	2012	254,666	254,666	-	-
Unsecured loans from other entities	USD	9.5%	2012	370,101	370,101	-	-
Unsecured loans from other entities	AMD	15.0%	2011	60,371	60,371	-	-
Unsecured loans from other entities	USD	10.0%	2010	-	-	381,998	381,998
Unsecured loans from other entities	USD	11.1%	2010	-	-	171,048	171,048
Unsecured loans from other entities	USD	10.4%	2010	-	-	265,737	265,737
				2,270,757	**2,263,572**	**2,454,413**	**2,454,413**

* Face value in the above table includes principal and accrued interest.
** Unsecured loans from other entities include a zero percent interest loan which was recognised at fair value using market interest rates for similar instruments.

The bank loans are secured by term deposits with similar terms pledged at the same banks of AMD 61,785 thousand (2009: AMD 472,363 thousand) disclosed in note 11. The Organisation accounts for bank loans secured by term deposits on a gross basis as management believes that:

- such accounting achieves a better presentation of the Organisation's cash flows
- there is no legal right to offset these term deposits with the loans

Concentration of loans and borrowings

As at 31 December 2010, the Organisation has six entities (2009: eight entities), whose balances exceed 10% of equity. These balances as at 31 December 2010 are AMD 1,917,766 thousand (2009: AMD 2,451,070 thousand).

Breach of covenants

As at 31 December 2010 the Organisation has breached covenants in relation to two unsecured loans from other entities. According to the terms of the agreements for the mentioned borrowings, the Organizaton shall not assign, transfer, pledge, encumber or grant any kind of security in respect of its loan portfolio. As at 31 December 2010, loans to customers with a gross value of AMD 21,269 thousand has served as collateral for secured loans from other entities. The above results in a breach of cross covenants in relation to three loans from other entities. The total amount of the loans subject to breach of covenants is AMD 1,169,866 thousand.

As at the date of approval of these financial statements the lenders have not requested repayment of the borrowings and have indicated that they will not request early repayment of borrowings as the amount pledged as collateral is not material to them.

Based on the above the Organization reclassifies the loans subject to the breach of covenants of AMD 781,396 thousand as current liabilities in note 14 and liabilities due on demand in note 17 (d) in maturity analysis on the basis of earliest possible contractual maturities. The Organisation does not expect any of its lenders to request early payment of borrowings and recognises them in accordance with their original contractual maturities in note 17 (b) (i) interest rate gap analysis and in note 17 (d) in expected maturity analysis.

15 Other liabilities

	2010 AMD'000	2009 AMD'000
Payables to retail shops	39,703	-
Payables to employees	30,673	22,899
Payables to suppliers	10,890	12,417
Total other financial liabilities	**81,266**	**35,316**
Prepayment for loan from the parent company	45,105	-
Grants	16,325	25,429
Other taxes payable	2,406	8,201
Other	11,269	2,237
Total other non financial liabilities	**75,105**	**35,867**
Total other liabilities	**156,371**	**71,183**

16 Share capital

(a) Issued capital

As of 31 December 2010 authorised, issued and outstanding share capital comprises 100 ordinary shares (2009: 100). All shares have a nominal value of AMD 8,296,520 (2008: AMD 7,649,680).

During 2010 there was a capital injection of AMD 64,684 thousand by the shareholders. As a result, the nominal value of each ordinary share was increased from AMD 7,649,680 to AMD 8,296,520.
In 2009 the loans from the shareholder with interest rates below market were forgiven and reclassified to share capital. As a result of the above share capital increased by the carrying amount of the loan AMD 240,562 and related additional paid-in capital AMD 12,246 thousand. Thus, the nominal value of each ordinary share was increased from AMD 5,121,600 to AMD 7,649,680.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share.

(b) Additional paid-in capital

During 2010 the Shareholder made a prepayment to share capital amounting AMD75,730 thousand which was classified as additional paid-in capital.

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Organisation, which are determined according to the charter of the Organisation. In accordance with the charter of the Organisation, as at the reporting date, reserves available for distribution amount to AMD 28,760 thousand (2009: AMD 25,816 thousand).

At the reporting date and subsequent to 31 December 2010 no dividends were declared.

17 Risk management

Management of risk is fundamental to the business of credit organisations and is an essential element of the Organisation’s operations. The major risks faced by the Organisation are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Organisation, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Management Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled by the Asset and Liability Management Committee (ALCO) and the Credit Committee.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

The Organisation manages its market risk by setting open position limits in relation to interest rate, maturity and currency positions. These are monitored on a regular basis and reviewed and approved by the ALCO.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Organisation is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

AMD '000	Less than 3 months	3-6 months	6-12 months	1-5 years	Carrying amount
31 December 2010					
ASSETS					
Cash and cash equivalents	146,859	-	-	-	146,859
Term deposits with banks	254,466	-	-	67,490	321,956
Loans to customers	430,286	431,614	761,263	1,158,632	2,781,795
	831,611	**431,614**	**761,263**	**1,226,122**	**3,250,610**
LIABILITIES					
Loans and borrowings	490,535	515,167	398,774	859,096	2,263,572
Interest rate gap	**341,076**	**(83,553)**	**362,489**	**367,026**	**987,038**
31 December 2009					
ASSETS					
Cash and cash equivalents	103,252	-	-	-	103,252
Term deposits with banks	404,409	610,658	-	66,947	1,082,014
Loans to customers	330,051	339,980	647,380	729,444	2,046,855
	837,712	**950,638**	**647,380**	**796,391**	**3,232,121**
LIABILITIES					
Loans and borrowings	907,138	893,312	378,777	275,186	2,454,413
Interest rate gap	**(69,426)**	**57,326**	**268,603**	**521,205**	**777,708**

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2010 and 2009. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2010 Average effective interest rate, %		2009 Average effective interest rate, %	
	AMD	**USD**	**AMD**	**USD**
Interest bearing assets				
Term deposits with banks	-	2.4%	8.1%	5.7%
Loans to customers	24.0%	20.5%	21.6%	22.%
Interest bearing liabilities				
Loans and borrowings				
- Secured bank loans	7.9%	-	8.0%	-
- Secured loans from other entities	9.3%	-	7.5%	-
- Unsecured loans from banks	-	10.0%	-	-
- Unsecured loans from other entities	14.7%	9.3%	-	10.4%
- Unsecured loans from related parties	-	10.4%	-	9.4%

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is suplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2010 and 2009 is as follows:

	2010		2009	
	Profit or loss AMD'000	**Equity AMD'000**	**Profit or loss AMD'000**	**Equity AMD'000**
100 bp parallel fall	(2,356)	(2,356)	(5,401)	(5,401)
100 bp parallel rise	2,356	2,356	5,401	5,401

(ii) Currency risk

The Organisation has assets and liabilities denominated in USD.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The external funding in foreign currency is partially hedged by back to back transactions or through lending in foreign currency in order to match the foreign exchange position. As funding sources grow the Organisation will identify specific limits of risk tolerance, like limiting the ratio of net foreign currency position in absolute terms to equity up to 0.35 for any particular time period, thereby minimizing the mismatch of foreign exchange assets and liabilities risk exposure.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2010 and as at 31 December 2009:

AMD'000	USD 2010	USD 2009
ASSETS		
Cash and cash equivalents	52,199	57,641
Term deposits with banks	321,956	874,668
Loans to customers	1,520,124	1,303,563
Total assets	**1,894,279**	**2,235,872**
LIABILITIES		
Loans and borrowings	2,130,261	2,108,785
Other financial liabilities	-	-
Total liabilities	**2,130,261**	**2,108,785**
Net position as at 31 December	**(235,982)**	**127,087**

A weakening of the AMD, as indicated below, against the following currencies at 31 December 2010 and 2009 would have increased (decreased) profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2010 Profit or loss AMD'000	**2009 Profit or loss AMD'000**
10% appreciation of USD against AMD	(23,598)	12,709

A strengthening of the AMD against the above currencies at 31 December 2010 and 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

Credit risk is the risk of financial loss to the Organisation if a borrower or counterparty to a financial instrument fails to meet its contractual obligations. The Organisation has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (business loans and loans to individuals)
- methodology for the credit assessment of counterparties
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Credit exposures arise principally in lending activities that lead to loans and advances, and placing funds in current accounts and term deposits. The credit risk management and control are centralized in Credit Committee and reported to the Management Board.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2010 AMD'000	2009 AMD'000
ASSETS		
Cash and cash equivalents	139,993	99,260
Term deposits with banks	321,956	1,082,014
Loans to customers	2,781,795	2,046,855
Other financial assets	1,733	1,468
Total maximum exposure	**3,245,477**	**3,229,597**

For the analysis of concentration of credit risk in respect of loans to customers refer to note 12.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 19.

As at 31 December 2010 the Organisation does not have debtors or groups of connected debtors (2009: two), credit risk exposure to whom exceeds 10% of maximum credit risk exposure. The credit risk exposure for these customers as at 31 December 2010 is nil (2009: AMD 835,193 thousand).

(d) Liquidity risk

Liquidity risk is the risk that the Organisation will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Organisation maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Organisation seeks to actively support a diversified and stable funding base comprising, long-term and short-term loans from banks and other lending institutions, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by currencies and considering the level of liquid assets necessary in relation thereto
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- monitoring liquidity ratios against benchmarks.

The tables below show the undiscounted cash flows of non-derivative financial liabilities, including unrecognised loan commitments on the basis of their earliest possible contractual maturity.

The maturity analysis for financial liabilities as at 31 December 2010 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Loans and borrowings	1,338,351	299,934	440,375	141,638	90,026	2,310,324	2,263,572
Other financial liabilities	50,593	-	-	30,673	-	81,266	81,266
Total liabilities	**1,388,944**	**299,934**	**440,375**	**172,311**	**90,026**	**2,391,590**	**2,344,838**
Credit related commitments	**804,859**						

The maturity analysis for financial liabilities as at 31 December 2009 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Loans and borrowings	733,055	209,171	949,395	444,358	353,999	2,689,978	2,454,413
Other financial liabilities	4,555	-	8,047	22,714	-	35,316	35,316
Total liabilities	**737,610**	**209,171**	**957,442**	**467,072**	**353,999**	**2,725,294**	**2,489,729**
Credit related commitments	**918,758**						

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2010:

	Demand and less than 1 month AMD'000	From 1 to 3 months AMD'000	From 3 to 12 months AMD'000	From 1 to 5 years AMD'000	No maturity AMD'000	Overdue AMD'000	Total AMD'000
ASSETS							
Cash and cash equivalents	146,859	-	-	-	-	-	146,859
Term deposits with banks	164,667	89,799	-	67,490	-	-	321,956
Loans to customers	144,799	285,487	1,192,877	1,125,826	-	32,806	2,781,795
Current tax asset	-	-	8,292	-	-	-	8,291
Property equipment and intangible assets	-	-	-	-	81,145	-	81,145
Deferred tax asset	-	-		-	9,739	-	9,739
Other assets	11,930	-	-	-	-	-	11,931
Total assets	**468,255**	**375,286**	**1,201,169**	**1,193,316**	**90,884**	**32,806**	**3,361,716**
LIABILITIES							
Loans and borrowings	192,263	280,415	925,220	865,674	-	-	2,263,572
Other liabilities	56,011	-	34,136	66,224	-	-	156,371
Total liabilities	**248,274**	**280,415**	**959,356**	**931,898**	**-**	**-**	**2,419,943**
Net position	**219,981**	**94,871**	**241,813**	**261,418**	**90,884**	**32,806**	**941,773**

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2009:

	Demand and less than 1 month AMD'000	From 1 to 3 months AMD'000	From 3 to 12 months AMD'000	From 1 to 5 years AMD'000	No maturity AMD'000	Overdue AMD'000	Total AMD'000
ASSETS							
Cash and cash equivalents	103,252	-	-	-	-	-	103,252
Term deposits with banks	56,477	347,932	610,658	66,947	-	-	1,082,014
Loans to customers	120,242	209,809	987,360	665,633	-	63,811	2,046,855
Property equipment and intangible assets	-	-	-	-	82,702	-	82,702
Deferred tax asset	-	-		-	10,056	-	10,056
Other assets	7,363	-	-	-	-	-	7,363
Total assets	**287,334**	**557,741**	**1,598,018**	**732,580**	**92,758**	**63,811**	**3,332,242**
LIABILITIES							
Loans and borrowings	728,369	178,769	1,272,089	275,186	-	-	2,454,413
Current tax liability	7,586	-	-	-	-	-	7,586
Other liabilities	13,125	4,325	33,372	20,361	-	-	71,183
Total liabilities	**749,080**	**183,094**	**1,305,461**	**295,547**	**-**	**-**	**2,533,182**
Net position	**(461,746)**	**374,647**	**292,557**	**437,033**	**92,758**	**63,811**	**799,060**

The key measures used by the Organisation for managing liquidity risk are the ratios of highly liquid assets to total assets, current ratio and quick ratio. For this purpose highly liquid assets ratio is calculated as cash and cash equivalent divided by total assets; current ratio is calculated as current assets divided by current liabilities and quick ratio is calculated as cash and cash equivalents divided by current liabilities. The ratios for 31 December 2010 and 2009 are as follows:

	2010	**2009**
Highly liquid assets to total assets	4%	3%
Current ratio	0.90	1.09
Quick ratio	0.06	0.05

18 Capital management

The Central Bank of Armenia ("CBA") sets and monitors capital requirements for the Organisation.

The Organisation defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, credit organisations have to maintain a minimum share capital and total capital of AMD 150,000 thousand. The Organisation is in compliance with the statutory capital requirements during the years ended 31 December 2010 and 2009. In addition the Organisation manages its capital in order to meet covenant requirements.

The Organisation's debt to capital ratio at the end of the reporting period was as follows:

	2010 **AMD'000**	**2009** **AMD'000**
Total liabilities	2,419,943	2,533,182
Less: cash and cash equivalents	(146,859)	(103,252)
Net debt	2,273,084	2,429,930
Total equity	**941,773**	**799,060**
Debt to capital ratio at 31 December	**2.41**	**3.04**

There were no changes in the Organisation's approach to capital management during the year.

19 Commitments

The Organisation has outstanding commitments to extend loans. These commitments take the form of approved loans.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced.

	2010 **AMD'000**	**2009** **AMD'000**
Undrawn loan commitments – contracted amount	**804,859**	**918,758**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

None of these commitments represent significant exposure to the Organisaton.

20 Operating leases

(a) Leases as lessee

Non-cancelable operating lease rentals are payable as follows:

	2010 AMD'000	2009 AMD'000
Less than 1 year	42,825	21,494
Between 1 and 5 years	81,514	32,652
	124,339	**54,146**

The Organisation leases a number of premises and equipment under operating leases. The leases typically run for an initial period of up to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During 2009 AMD 37,221 thousand is recognised as an expense in profit or loss in respect of operating leases (2009: AMD 20,798 thousand).

21 Contingencies

(a) Insurance

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

(b) Taxation contingencies

The taxation system in the Republic of Armenia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

These circumstances may create tax risks in the Republic of Armenia that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

22 Related party transactions

(a) Control relationships

The Organisation's parent company is Vision Fund International. The party with ultimate control over the Organisation is World Vision International. No publicly available financial statements are produced by the Organisation's parent company. The Organisation's ultimate parent produces publicly available financial statements.

(b) Transactions with management

The outstanding balances as of 31 December and transactions with the members of management are as follows:

	2010 AMD'000	2009 AMD'000
Statement of financial position		
LIABILITIES		
Other liabilities	7,839	6,521
Profit or loss		
Employee compensation	49,978	50,900

(c) Transactions with other related parties

Other related parties include the ultimate controlling party, parent company and entities under common control of the Organisation's ultimate controlling party. The outstanding balances and the related average interest rates as of 31 December 2010 and related profit or loss amounts of transactions for the year ended 31 December 2010 and 2009 with other related parties are as follows.

	2010 AMD'000	Average interest rate, %	2009 AMD'000	Average interest rate, %
Statement of financial position				
Loans and borrowings	505,748	10.37	525,527	9.37
Other liabilities	45,105	-	-	-
Profit or loss				
Interest expense	46,746		62,068	

23 Financial assets and liabilities: fair values and accounting classifications

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2010:

AMD ’000	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	146,859	-	146,859	146,859
Term deposits with banks	321,956	-	321,956	321,956
Loans to customers:				
Business loans	848,109	-	848,109	848,109
Loans to individuals	1,933,686	-	1,933,686	1,933,686
Other financial assets	1,733	-	1,733	1,733
	3,252,343	**-**	**3,252,343**	**3,252,343**
Loans and borrowings	-	2,263,572	2,263,572	2,263,572
Other financial liabilities	-	81,266	81,266	81,266
	-	**2,344,838**	**2,344,838**	**2,344,838**

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2009:

AMD ’000	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	103,252	-	103,252	103,252
Term deposits with banks	1,082,014	-	1,082,014	1,082,014
Loans to customers:				
Business loans	889,907	-	889,907	889,907
Loans to individuals	1,156,948	-	1,156,948	1,156,948
Other financial assets	1,468		1,468	1,468
	3,233,589	**-**	**3,233,589**	**3,233,589**
Loans and borrowings	-	2,454,413	2,454,413	2,454,413
Other financial liabilities		35,316	35,316	35,316
	-	**2,489,729**	**2,489,729**	**2,489,729**

The estimated fair values of all financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date. The estimated fair values of all financial instruments approximates their carrying values.

As at 31 December 2010 and 31 December 2009, the Organisation does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.