SEF International Universal Credit Organisation LLC

Financial Statements

for the year ended 31 December 2012

Contents

KPMG Armenia cjsc
8th floor, Erebuni Plaza Business Center,
26/1 Vazgen Sargsyan Street
Yerevan 0010, Armenia

Telephone + 374 (10) 566 762
Fax + 374 (10) 566 762
Internet www.kpmg.am

Independent Auditors' Report

To the Board of Directors
SEF International Universal Credit Organization 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 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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 of 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 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Andrew Coxshall
Director

Tigran Gasparyan
Head of Audit Department

KPMG Armenia cjsc

KPMG Armenia cjsc
14 June 2013

	Notes	2012 AMD'000	2011 AMD'000
Interest income	4	1,463,963	926,964
Interest expense	4	(493,496)	(287,998)
Net interest income		**970,467**	**638,966**
Fee and commission income		32,664	38,013
Fee and commission expense		(4,987)	(4,884)
Net fee and commission income		**27,677**	**33,129**
Net foreign exchange gain (loss)		21	(442)
Other operating income	5	89,051	53,344
Operating income		**1,087,216**	**724,997**
Impairment (losses) reversals	6	(4,257)	5,505
Personnel expenses	7	(533,616)	(389,487)
Other general administrative expenses	8	(308,189)	(256,654)
Profit before income tax		**241,154**	**84,361**
Income tax expense	9	(61,149)	(29,197)
Profit and total comprehensive income for the period		**180,005**	**55,164**

The financial statements as set out on pages 4 to 46 were approved by management on 14 June 2013 and were signed on its behalf by:

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	2012 AMD'000	2011 AMD'000
ASSETS			
Cash and cash equivalents	10	347,532	184,665
Term deposits with banks	11	871,664	557,655
Loans to customers	12	5,774,882	4,482,649
Property, equipment and intangible assets	13	152,073	93,458
Deferred tax asset	9	6,944	3,953
Other assets		16,447	11,449
Total assets		**7,169,542**	**5,333,829**
LIABILITIES			
Loans and borrowings	14	5,394,211	3,920,398
Current tax liability		50,639	13,762
Other liabilities	15	150,245	133,207
Total liabilities		**5,595,095**	**4,067,367**
EQUITY			
Share capital	16	1,236,566	975,372
Additional paid-in capital	16	68,862	202,076
Retained earnings		269,019	89,014
Total equity		**1,574,447**	**1,266,462**
Total liabilities and equity		**7,169,542**	**5,333,829**

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

	Notes	2012 AMD'000	2011 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		1,474,493	913,720
Interest payments		(456,508)	(255,571)
Fee and commission receipts		32,664	38,013
Fee and commission payments		(4,987)	(4,884)
Net receipts from foreign exchange		5,288	3,218
Other income receipts		38,748	27,430
Payments to employees		(504,900)	(369,324)
Other general administrative expenses payments		(264,118)	(220,116)
Increase in operating assets			
Term deposits with banks		(298,250)	(227,155)
Loans to customers		(1,172,469)	(1,566,353)
Other assets		(3,014)	(733)
Decrease in operating liabilities			
Other liabilities		(16,330)	(28,750)
Net cash used in operating activities before income tax paid		**(1,169,383)**	**(1,690,505)**
Income tax paid		(27,263)	(1,358)
Cash flows used in operations		**(1,196,646)**	**(1,691,863)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(96,667)	(47,948)
Sales of property, equipment and intangible assets		2,619	2,067
Cash flows used in investing activities		**(94,048)**	**(45,881)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of loans and borrowings		1,858,712	2,142,503
Repayment of loans and borrowings		(534,435)	(645,728)
Proceeds from issuance of share capital		61,659	69,990
Proceeds from prepayments of share capital		66,321	199,535
Cash flows from financing activities		**1,452,257**	**1,766,300**
Net increase in cash and cash equivalents		**161,563**	**28,556**
Effect of changes in exchange rates on cash and cash equivalents		1,304	9,250
Cash and cash equivalents as at the beginning of the period		184,665	146,859
Cash and cash equivalents as at the end of the period	10	**347,532**	**184,665**

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

AMD'000	Share capital	Revaluation surplus for computer equipment	Additional paid-in capital	Retained earnings	Total equity
Balance as at 1 January 2011	829,652	666	78,271	33,184	941,773
Total comprehensive income					
Profit for the period	-	-	-	55,164	55,164
Other comprehensive income					
Realisation of computer equipment revaluation reserve	-	(666)	-	666	-
Total other comprehensive income	-	(666)	-	666	-
Total comprehensive income for the period	**-**	**(666)**	**-**	**55,830**	**55,164**
Transactions with owners, recorded directly in equity					
Issuance of share capital	145,720	-	(75,730)	-	69,990
Prepayment made for share capital	-	-	199,535	-	199,535
Total transactions with owners	**145,720**	**-**	**123,805**	**-**	**269,525**
Balance as at 31 December 2011	**975,372**	**-**	**202,076**	**89,014**	**1,266,462**
Balance as at 1 January 2012	975,372	-	202,076	89,014	1,266,462
Total comprehensive income					
Profit for the period	-	-	-	180,005	180,005
Total comprehensive income for the period	-	-	-	180,005	180,005
Transactions with owners, recorded directly in equity					
Issuance of share capital	261,194	-	(199,535)	-	61,659
Prepayment made for share capital	-	-	66,321	-	66,321
Total transactions with owners	**261,194**	**-**	**(133,214)**	**-**	**127,980**
Balance as at 31 December 2012	**1,236,566**	**-**	**68,862**	**269,019**	**1,574,447**

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) Organisation and operations

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 (the CBA). The Organisation has a credit organisation license.

The Organisation's registered office is 23/44,45 Davit Anhaght Street, Yerevan 0014, Republic of Armenia.

The Organisation conducts its operations through 12 branches and 2 representative offices in the Republic of Armenia. The majority of the assets and liabilities are located in the Republic of Armenia.

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

The Organisation is ultimately controlled by World Vision International, an international Christian charity organisation.

(b) Armenian business environment

The Organisation's operations are primarily located in the Republic of Armenia. Consequently, the Organisation is exposed to the economic and financial markets of the Republic of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Republic of Armenia. The financial statements reflect management's assessment of the impact of the Republic of Armenia 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.

(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.

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the note 12 “Loans to customers” in relation to loan impairment estimates.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, and are applied consistently by the Organisation.

(a) Foreign currency

Transactions in foreign currencies are translated to the respective 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 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. Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and unrestricted current account balances 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, 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 foreseeble 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 recognized 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 amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized 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 amortized cost.

(iv) 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 amortized based on the effective interest rate of the instrument.

(v) Financial liabilities originated at interest rates different from market rates

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference is credited or charged to profit or loss as gains or losses on origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortization of the gains/losses on origination and the related income/expense is recorded in interest income/expense within profit or loss using the effective interest method.

(vi) 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 arm's 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 Organisation and 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.

(vii) 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 recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss
- a gain or loss on an available-for-sale financial asset is recognized 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 derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

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

(viii) Derecognition

The Organisation derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, 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.

If the Organisation purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Organisation writes off assets deemed to be uncollectible.

(ix) 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 a computer equipment is recognised as other comprehensive income 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 a 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 in other comprehensive income.

Management uses comparable sales approach to estimate the fair value of computer and equipment.

(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. Land is not depreciated. The estimated useful lives are as follows:

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

(e) Intangible assets

Acquired intangible assets 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 is 10 years.

(f) Impairment

(i) Financial assets carried at amortized cost

Financial assets carried at amortized 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 recognized 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) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and can not be reversed.

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iv) 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 recognized 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.

(g) 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.

A provision for restructuring is recognised when the Organisation has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(h) 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 followings:

- 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.

(i) Share capital

(i) Ordinary shares

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.

(ii) Dividends

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

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

(j) 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 temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. 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.

(k) 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 amortized 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.

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

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

(l) 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 2012, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Organisation plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification 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 2013. 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 financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Organisation does not intend to adopt this standard early.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The Organisation has not yet analysed the likely impact of the new standard on its financial position or performance.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted. The amendment will not have impact on the Organisation's financial position or financial performance.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013. The Organisation has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2012 AMD'000	2011 AMD'000
Interest income		
Loans to customers	1,408,737	910,632
Term deposits with banks	55,226	16,332
	1,463,963	**926,964**
Interest expense		
Loans and borrowings	**493,496**	**287,998**
	970,467	**638,966**

Included in interest income from loans to customers for the year ended 31 December 2012 is a total of AMD 2,746 thousand (2011: AMD 749 thousand) accrued on impaired financial assets.

Included in interest income from loans to customers for the year ended 31 December 2012 are loan origination fees and loan servicing fees of AMD 418,260 thousand (2011: AMD 197,156 thousand) that in substance represent an adjustment to the yield on the related loans.

Included in interest expense on loans and borrowings for the year ended 31 December 2012 are origination and servicing fees of AMD 20,385 thousand (2011: AMD 16,567 thousand) that in substance represent an adjustment to the rate of the related loans and borrowings.

5 Other operating income

	2012 AMD'000	2011 AMD'000
Gain on origination of borrowings at rates different from market rates	44,991	17,270
Fines and penalties received	35,655	21,551
Donations	3,040	8,502
Other	5,365	6,021
	89,051	**53,344**

6 Impairment (losses) recoveries

	2012 AMD'000	2011 AMD'000
Loans to customers	**(4,257)**	**5,505**

7 Personnel expenses

	2012 AMD'000	2011 AMD'000
Employee compensation	488,527	355,224
Payroll related taxes	45,089	34,263
	533,616	**389,487**

8 Other general administrative expenses

	2012 AMD'000	2011 AMD'000
Operating lease expense	61,137	52,718
Repairs and maintenance	50,864	36,478
Depreciation and amortization	36,841	33,710
Taxes other than on income	22,964	15,151
Professional services	22,638	22,882
Communications and information services	20,602	17,001
Loan maintenance expenses	18,738	18,322
Security	12,294	9,774
Advertising and marketing	10,859	6,547
Travel expenses	8,038	7,600
Insurance	4,835	1,478
Other	38,379	34,993
	308,189	**256,654**

9 Income tax expense

	2012 AMD'000	2011 AMD'000
Current year tax expense	64,140	23,411
Deferred taxation movement due to origination and reversal of temporary differences	(2,991)	5,786
Total income tax expense	**61,149**	**29,197**

In 2012, the applicable tax rate for current and deferred tax is 20% (2011: 20%).

Reconciliation of effective tax rate:

	2012 AMD'000	%	2011 AMD'000	%
Profit before tax	241,154		84,361	
Income tax at the applicable tax rate	48,231	20%	16,872	20%
Non-deductible costs	12,918	5%	12,325	15%
	61,149	**25%**	**29,197**	**35%**

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 at 31 December 2012 and 2011. 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 2012 and 2011 are presented as follows:

2012 AMD'000	**Balance 1 January 2012**	**Recognised in profit or loss**	**Balance 31 December 2012**
Cash and cash equivalents	(362)	(307)	(669)
Term deposits with banks	(1,096)	(647)	(1,743)
Loans to customers	(3,709)	1,565	(2,144)
Other assets	(19)	17	(2)
Loans and borrowings	(2,263)	(2,145)	(4,408)
Other liabilities	11,402	4,508	15,910
	3,953	**2,991**	**6,944**

2011 AMD'000	**Balance 1 January 2011**	**Recognised in profit or loss**	**Balance 31 December 2011**
Cash and cash equivalents	(280)	(82)	(362)
Term deposits with banks	(632)	(464)	(1,096)
Loans to customers	3,711	(7,420)	(3,709)
Property, equipment and intangible assets	(166)	166	-
Other assets	48	(67)	(19)
Loans and borrowings	-	(2,263)	(2,263)
Other liabilities	7,058	4,344	11,402
	9,739	**(5,786)**	**3,953**

10 Cash and cash equivalents

	2012 AMD'000	**2011 AMD'000**
Cash on hand	**12,798**	**3,783**
Current accounts		
Largest 5 Armenian banks	334,039	180,654
Other Armenian banks	695	228
Total current accounts	**334,734**	**180,882**
Total cash and cash equivalents in the statement of financial position and in the statement of cash flows	**347,532**	**184,665**

No cash and cash equivalents are impaired or past due.

As at 31 December 2012 the Organisation has one bank (2011: no banks) whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 is AMD 255,405 thousand (2011: nil).

11 Term deposits with banks

	2012 AMD'000	**2011 AMD'000**
Largest 5 Armenian banks	460,448	557,655
Other Armenian banks	411,216	-
	871,664	**557,655**

No term deposits with banks are impaired or past due.

As at 31 December 2012 the Organisation has two banks (2011: two banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 is AMD 871,664 thousand (2011: AMD 557,655 thousand).

12 Loans to customers

	2012 AMD'000	2011 AMD'000
Business loans		
Loans to small companies and sole enterpreneurs	1,052,259	1,109,062
Total business loans	**1,052,259**	**1,109,062**
Loans to individuals		
Agricultural loans	2,395,083	1,342,639
Other consumer loans	1,242,858	740,308
Consumer goods purchase financing	952,550	1,038,449
Renovation loans	192,187	283,772
Total loans to individuals	**4,782,678**	**3,405,168**
Gross loans to customers	**5,834,937**	**4,514,230**
Impairment allowance	(60,055)	(31,581)
Net loans to customers	**5,774,882**	**4,482,649**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2012 are as follows:

	Business loans AMD'000	Loans to individuals AMD'000	Total AMD'000
Balance at the beginning of the year	9,067	22,514	31,581
Impairment losses	2,709	1,548	4,257
Recovery	4,522	19,695	24,217
Balance at the end of the year	**16,298**	**43,757**	**60,055**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2011 are as follows:

	Business loans AMD'000	Loans to individuals AMD'000	Total AMD'000
Balance at the beginning of the year	20,693	55,187	75,880
Net reversal	(111)	(5,394)	(5,505)
Write-offs	(11,515)	(27,279)	(38,794)
Balance at the end of the year	**9,067**	**22,514**	**31,581**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2012:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Business loans				
Loans to small companies and sole enterpreneurs				
Loans without individual signs of impairment	1,015,402	5,106	1,010,296	0.5%
Impaired loans:				
- not overdue	15,167	4,252	10,915	28.0%
- overdue less than 90 days	14,834	2,270	12,564	15.3%
- overdue more than 90 days and less than 1 year	6,856	4,670	2,186	68.1%
Total impaired loans	36,857	11,192	25,665	30.4%
Total loans to small companies and sole enterpreneurs	**1,052,259**	**16,298**	**1,035,961**	**1.5%**
Loans to individuals				
Agricultural loans				
- not overdue	2,394,663	12,429	2,382,234	0.5%
- overdue less than 30 days	420	39	381	9.3%
Total agricultural loans	**2,395,083**	**12,468**	**2,382,615**	**0.5%**
Other consumer loans				
- not overdue	1,242,858	6,313	1,236,545	0.5%
Total other consumer loans	**1,242,858**	**6,313**	**1,236,545**	**0.5%**
Consumer goods purchase financing				
Loans without individual signs of impairment				
- not overdue	843,507	6,723	836,784	0.8%
Impaired loans:				
- not overdue	88,184	11,733	76,451	13.3%
- overdue less than 30 days	15,000	2,034	12,966	13.6%
- overdue 30-89 days	2,757	879	1,878	31.9%
- overdue 90-179 days	1,642	1,197	445	72.9%
- overdue 180-360 days	1,460	1,460	-	100.0%
Total impaired loans	109,043	17,303	91,740	15.9%
Total consumer goods purchase financing	**952,550**	**24,026**	**928,524**	**2.5%**
Renovation loans				
- not overdue	192,187	950	191,237	0.5%
Total renovation loans	**192,187**	**950**	**191,237**	**0.5%**
Total loans to individuals	**4,782,678**	**43,757**	**4,738,921**	**0.9%**
Total loans to customers	**5,834,937**	**60,055**	**5,774,882**	**1.0%**

The following table provides information on the credit quality of the loans to customers as at 31 December 2011:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Business loans				
Loans to small companies and sole enterpreneurs				
Loans without individual signs of impairment	1,095,617	4,934	1,090,683	0.5%
Impaired loans:				
- overdue less than 90 days	10,652	1,629	9,023	15.3%
- overdue more than 90 days and less than 1 year	2,793	2,504	289	89.7%
Total impaired loans	13,445	4,133	9,312	30.7%
Total loans to small companies and sole enterpreneurs	**1,109,062**	**9,067**	**1,099,995**	**0.8%**
Loans to individuals				
Agricultural loans				
- not overdue	1,336,335	9,029	1,327,306	0.7%
- overdue 30-89 days	687	187	500	27.2%
- overdue 90-179 days	5,015	2,452	2,563	48.9%
- overdue 180-360 days	602	571	31	94.9%
Total agricultural loans	**1,342,639**	**12,239**	**1,330,400**	**0.9%**
Other consumer loans				
- not overdue	740,308	3,335	736,973	0.5%
Total other consumer loans	**740,308**	**3,335**	**736,973**	**0.5%**
Consumer goods purchase financing				
- not overdue	1,032,500	4,650	1,027,850	0.5%
- overdue less than 30 days	4,663	453	4,210	9.7%
- overdue 30-89 days	632	121	511	19.1%
- overdue 90-179 days	614	398	216	64.8%
- overdue 180-360 days	40	40	-	100.0%
Total consumer goods purchase financing	**1,038,449**	**5,662**	**1,032,787**	**0.5%**
Renovation loans				
- not overdue	283,772	1,278	282,494	0.5%
Total renovation loans	**283,772**	**1,278**	**282,494**	**0.5%**
Total loans to individuals	**3,405,168**	**22,514**	**3,382,654**	**0.7%**
Total loans to customers	**4,514,230**	**31,581**	**4,482,649**	**0.7%**

As at 31 December 2012 included in the loan portfolio are renegotiated buisness loans and loans to individuals that would otherwise be past due or impaired of AMD 10,307 thousand and AMD 200 thousand, respectively (2011: AMD 13,134 thousand and nil, respectively). 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 judgments 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 loans to small companies and sole enterpreneurs include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in business environment or 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 non-impaired loans the Organization creates a collective provision of 0.5% considering the economic environment, historical loss and industry average loss experience
- for impaired loans a discount of between 30% and 40% 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.

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 impairment allowance on business loans at 31 December 2012 would be AMD 10,360 thousand lower/higher (2011: AMD 11,000 thousand lower/higher).

(ii) Loans to individuals

The Organization reviewed its current loan portfolio to individuals and did not identify any significant loans that display indicators of impairment. The significant assumption used by management in determining the impairment losses for loans to individuals is based on the economic environment, historical loss and industry average losses.

Based on reductions in delinquent loans and overall improvements in the quality of the portfolio of agricultural loans, management reduced the collective impairment allowance percentage from 0.7% as at 31 December 2011 to 0.5% as at 31 December 2012.

The Organization created a 0.8% (2011: 0.5%) allowance for impairment on consumer goods purchase financing loans based on historical loss experience.

The Organization created a 0.5% (2011: 0.5%) allowance for impairment on other consumer and renovation loans based on historical loss experience.

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 impairment allowance on loans to individuals as at 31 December 2012 would be AMD 142,168 thousand lower/higher (2011: AMD 101,480 thousand).

(c) Analysis of collateral

(i) Business loans

The following tables provides information on collateral securing business loans, net of impairment, by types of collateral as at 31 December 2012 and 2011:

	2012		**2011**	
AMD'000	**Loans to customers, carrying amount**	**Fair value of collateral assessed as of loan inception date**	**Loans to customers, carrying amount**	**Fair value of collateral assessed as of loan inception date**
Loans without individual signs of impairment				
Personal guarantees	571,389	-	463,543	-
Real estate	367,168	362,405	518,770	508,275
Other collateral	71,739	35,847	108,370	46,553
Total loans without individual signs of impairment	**1,010,296**	**398,252**	**1,090,683**	**554,828**
Overdue or impaired loans				
Personal guarantees	12,041	-	4,160	-
Real estate	11,077	11,077	4,532	4,550
Other collateral	2,547	1,733	620	623
Total overdue or impaired loans	**25,665**	**12,810**	**9,312**	**5,173**
Total loans to corporate customers	**1,035,961**	**411,062**	**1,099,995**	**560,001**

The tables above exclude overcollateralization. For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed.

For all loans to corporate customers the fair value of collateral was estimated at the inception of the loans and was adjusted for subsequent changes if any to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, although the Organization periodically updates the valuation of collateral on an annual basis. The recoverability of loans secured by personal guarantees is primarily dependent on the creditworthiness of the borrowers and guarantors.

(ii) Loans to individuals

The following tables provides information on collateral securing loans to individuals, net of impairment, by types of collateral as at 31 December 2012 and 2011:

	2012		2011	
AMD'000	**Loans to customers, carrying amount**	**Fair value of collateral assessed as of loan inception date**	**Loans to customers, carrying amount**	**Fair value of collateral assessed as of loan inception date**
Loans without individual signs of impairment				
Personal guarantees	2,422,807	-	1,185,327	-
Gold	1,413,927	1,410,330	904,779	900,611
Purchased goods	411,668	420,675	603,682	599,975
Real estate	379,806	376,756	625,765	620,270
Other collateral	18,592	17,581	55,070	50,537
Total loans without individual signs of impairment	**4,646,800**	**2,225,342**	**3,374,623**	**2,171,393**
Overdue or impaired loans				
Gold	32,771	32,763	2,216	2,207
Personal guarantees	47,444	-	524	-
Other collateral	11,906	12,995	5,291	8,735
Total overdue or impaired loans	**92,121**	**45,758**	**8,031**	**10,942**
Total loans to corporate customers	**4,738,921**	**2,271,100**	**3,382,654**	**2,182,335**

The tables above exclude overcollateralization. For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed.

For all loans to individuals the fair value of collateral was estimated at the inception of the loans and was adjusted for subsequent changes if any to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, although the Organization periodically updates the valuation of collateral on an annual basis. The recoverability of loans secured by personal guarantees is primarily dependent on the creditworthiness of the borrowers and guarantors.

(iii) Repocessed collateral

During the year ended 31 December 2012, the Organisation obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AMD 5,572 thousand (31 December 2011: nil).

(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:

	2012 AMD'000	2011 AMD'000
Loans to individuals except for agricultural loans	2,387,595	2,062,529
Agriculture	2,395,083	1,342,639
Trade	904,355	910,722
Food industry	56,158	123,600
Manufacturing	25,029	23,838
Light industry	15,958	18,369
Other	50,759	32,533
	5,834,937	**4,514,230**
Impairment allowance	(60,055)	(31,581)
	5,774,882	**4,482,649**

(e) Significant credit exposures

Both as at 31 December 2012 and 2011 the Organisation has no borrowers or groups of connected borrowers whose loan balances exceed 10% of equity.

13 Property, equipment and intangible assets

AMD'000	Computer equipment	Motor vehicles	Computer software	Leasehold improvements	Other	Total
Cost/revalued amount						
Balance at 1 January 2012	38,583	61,631	19,995	22,477	63,669	206,355
Additions	22,697	46,481	1,766	-	25,723	96,667
Disposals	(7)	(6,215)	(395)	-	-	(6,617)
Balance at 31 December 2012	**61,273**	**101,897**	**21,366**	**22,477**	**89,392**	**296,405**
Depreciation and amortisation						
Balance at 1 January 2012	22,364	27,380	11,926	22,477	28,750	112,897
Depreciation/amortization for the year	10,673	12,218	2,127	-	11,823	36,841
Disposals	(7)	(5,372)	(27)	-	-	(5,406)
Balance at 31 December 2012	**33,030**	**34,226**	**14,026**	**22,477**	**40,573**	**144,332**
Carrying amount						
At 31 December 2012	**28,243**	**67,671**	**7,340**	**-**	**48,819**	**152,073**

AMD'000	Computer equipment	Motor vehicles	Computer software	Leasehold improvements	Other	Total
Cost/revalued amount						
Balance at 1 January 2011	29,751	51,244	19,995	22,477	41,586	165,053
Additions	8,832	16,979	-	-	22,137	47,948
Disposals	-	(6,592)	-	-	(54)	(6,646)
At 31 December 2011	**38,583**	**61,631**	**19,995**	**22,477**	**63,669**	**206,355**
Depreciation and amortisation						
Balance at 1 January 2011	14,170	23,631	9,921	17,467	18,719	83,908
Depreciation/amortization for the year	8,194	8,449	2,005	5,010	10,052	33,710
Disposals	-	(4,700)	-	-	(21)	(4,721)
Balance at 31 December 2011	**22,364**	**27,380**	**11,926**	**22,477**	**28,750**	**112,897**
Carrying amounts						
At 31 December 2011	**16,219**	**34,251**	**8,069**	**-**	**34,919**	**93,458**
At 1 January 2011	**15,581**	**27,613**	**10,074**	**5,010**	**22,867**	**81,145**

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2012 (2011: nil).

The carrying value of computer equipment as at 31 December 2012, if the computer equipment would not have been revalued, would be AMD 34,226 thousand (2011: AMD 16,219 thousand).

In preparing these financial statements management uses an independent appraiser to assess fair value of computer equipment as at 31 December 2012. Based on the assessment performed, management believes that no adjustments are needed to the carrying values of computer equipment in order for them to approximate their fair values.

14 Loans and borrowings

This note provides information about the contractual terms of 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.

	2012 AMD'000	2011 AMD'000
Non-current liabilities		
Secured loans from other entities	-	2,590
Unsecured loans from related parties	-	334,432
Unsecured loans from other entities	3,563,344	916,102
	3,563,344	**1,253,124**
Current liabilities		
Secured bank loans	-	46,794
Secured loans from other entities	1,763	9,123
Unsecured bank loans	113	-
Unsecured loans from related parties	751,641	440,137
Unsecured loans from other entities	1,077,350	2,171,220
	1,830,867	**2,667,274**
	5,394,211	**3,920,398**

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

				2012		**2011**	
'000AMD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face* value**	**Carrying amount**	**Face* value**	**Carrying amount**
Secured bank loans	AMD	8.00%	2012	-	-	46,794	46,794
Secured loans from other entities	AMD	CBA repo+2%	2011-2013	1,763	1,763	11,713	11,713
Unsecured bank loans	AMD	3.00%	2013	113	113	-	-
Unsecured loans from related parties	AMD	9.44%	2013	45,152	45,143	45,128	45,128
Unsecured loans from related parties	USD	8.33%	2012	-	-	439,980	439,980
Unsecured loans from related parties	USD	8.33%	2013	706,499	706,498	289,461	289,461
Unsecured loans from other entities	AMD	16.67%	2012	-	-	311,069	310,624
Unsecured loans from other entities	AMD	16.11%	2014	289,893	289,680	294,478	291,220
Unsecured loans from other entities	AMD	10.50%	2012	-	-	2,243	2,243
Unsecured loans from other entities	USD	8.90%	2012	-	-	178,355	178,355
Unsecured loans from other entities	USD	8.34%	2014	313,484	312,884	299,784	299,784
Unsecured loans from other entities**	USD	0.00%	2012-2015	396,099	372,820	173,871	162,554
Unsecured loans from other entities	USD	9.10%	2012	-	-	270,519	270,519
Unsecured loans from other entities	USD	9.50%	2012	-	-	392,841	391,329
Unsecured loans from other entities	USD	8.34%	2013	334,747	334,391	318,276	315,921
Unsecured loans from other entities	USD	8.83%	2014	490,391	487,380	583,907	577,159
Unsecured loans from other entities	USD	8.33%	2012	-	-	289,893	287,614
Unsecured loans from other entities	USD	8.89%	2014	896,925	889,202	-	-

				2012		2011	
'000AMD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face* value**	**Carrying amount**	**Face* value**	**Carrying amount**
Unsecured loans from other entities	USD	9.06%	2014	306,264	304,232	-	-
Unsecured loans from other entities	AMD	17.22%	2014	422,435	419,415	-	-
Unsecured loans from other entities	AMD	17.78%	2014	341,284	338,388	-	-
Unsecured loans from other entities	USD	8.11%	2015	303,694	303,205	-	-
Unsecured loans from other entities	USD	8.33%	2015	283,029	283,019	-	-
Unsecured loans from other entities	USD	8.33%	2014	308,073	306,078	-	-
				5,439,845	**5,394,211**	**3,948,312**	**3,920,398**

* Face value in the above table includes principal and accrued interest.
** Unsecured loans from other entities with a zero percent interest rate are recognized at fair value using market interest rates for similar instruments.

(a) Concentration of loans and borrowings

As at 31 December 2012, the Organisation has eleven entities (2011: eight entities), whose balances exceed 10% of equity. These balances as at 31 December 2011 are AMD 5,204,679 thousand (2011: AMD 3,739,440 thousand).

(b) Breach of covenants

A number of borrowing agreements require the Organisation to meet certain covenants, including a range of financial measures and ratios, a breach of which could allow the lender to demand early repayment of the loan. There are no breaches of the covenants as at 31 December 2012 and 2011.

15 Other liabilities

	2012 AMD'000	2011 AMD'000
Payables to employees	79,552	50,836
Payables to retail shops	32,699	32,970
Payables to suppliers	12,364	11,126
Total other financial liabilities	**124,615**	**94,932**
Other taxes payable	14,128	15,621
Other	11,502	22,654
Total other non financial liabilities	**25,630**	**38,275**
Total other liabilities	**150,245**	**133,207**

16 Share capital

(a) Issued capital

The authorised, issued and outstanding share capital comprises 100 ordinary shares (2011: 100). All shares have a nominal value of AMD 12,365,660 (2011: AMD 9,753,720).

During 2012 the shareholder increased the share capital by AMD 261,194 thousand, from which AMD 61,659 thousand was paid in cash and the balance of AMD 199,535 thousand was transferred from additional paid-in capital. As a result, the nominal value of each ordinary share was increased from AMD 9,753,720 to AMD 12,365,660.

During 2011 the shareholder increased the share capital by AMD 145,720, from which AMD 69,990 thousand was paid in cash and the balance of AMD 75,730 thousand was transferred from additional paid-in capital. As a result, the nominal value of each ordinary share was increased from AMD 8,296,520 to AMD 9,753,720.

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

(b) Additional paid-in capital

During 2012 the shareholder made a prepayment to share capital amounting AMD 66,321 thousand (2011: AMD 199,535 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 amounted to AMD 264,595 thousand (2011: AMD 84,590 thousand).

At the reporting date no dividends were declared (2011: nil).

17 Risk management

Management of risk is fundamental to the business of lending 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 Board of Directors 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 as well as approving significantly large exposures.

The management is responsible for monitoring and implementation of risk mitigation measures and making sure that the Organisation operates within the established risk parameters. Management is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. Management reports directly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Organisation established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the Organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures.

(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 comprises 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 financial instruments, interest rate maturity and currency positions and stop-loss limits. 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	Non-interest bearing	Carrying amount
31 December 2012						
ASSETS						
Cash and cash equivalents	78,634	-	-	-	268,898	347,532
Term deposits with banks	871,664	-	-	-	-	871,664
Loans to customers	989,636	1,038,731	1,786,619	1,959,896	-	5,774,882
	1,939,934	**1,038,731**	**1,786,619**	**1,959,896**	**268,898**	**6,994,078**
LIABILITIES						
Loans and borrowings	143,283	918,903	768,682	3,563,343	-	5,394,211
	1,796,651	**119,828**	**1,017,937**	**(1,603,447)**	**268,898**	**1,559,867**
31 December 2011						
ASSETS						
Cash and cash equivalents	114,722	-	-	-	69,943	184,665
Term deposits with banks	557,655	-	-	-	-	557,655
Loans to customers	674,404	695,889	1,288,277	1,824,079	-	4,482,649
	1,346,781	**695,889**	**1,288,277**	**1,824,079**	**69,943**	**5,224,969**
LIABILITIES						
Loans and borrowings	317,493	489,467	1,862,904	1,250,534	-	3,920,398
	1,029,288	**206,422**	**(574,627)**	**573,545**	**69,943**	**1,304,571**

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2012 and 2011. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2012 Average effective interest rate, %		**2011 Average effective interest rate, %**	
	AMD	**USD**	**AMD**	**USD**
Interest bearing assets				
Term deposits with banks	11.4%	7.6%	-	4.5%
Loans to customers	23.5%	17.3%	28.3%	24.7%
Interest bearing liabilities				
Loans and borrowings				
- Secured bank loans	-	-	8.0%	-
- Secured loans from other entities	10.5%	-	10.5%	-
- Unsecured bank loans	3.0%	-	-	-
- Unsecured loans from related parties	9.4%	8.3%	9.4%	8.3%
- Unsecured loans from other entities	16.9%	8.6%	16.4%	9.2%

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 rates (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 2012 and 2011 is as follows:

	2012 AMD'000	**2011 AMD'000**
100 bp parallel fall	(15,394)	(8,664)
100 bp parallel rise	15,394	8,664

(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 foreign currency exchange rates. Although the Organisation hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2012 and 2011:

AMD'000	**USD 2012**	**USD 2011**
ASSETS		
Cash and cash equivalents	246,648	60,801
Term deposits with banks	727,279	557,640
Loans to customers	3,353,286	2,694,703
Total assets	**4,327,213**	**3,313,144**
LIABILITIES		
Loans and borrowings	4,299,709	3,212,676
Net position	**27,504**	**100,468**

A weakening of the AMD, as indicated below, against the USD at 31 December 2012 and 2011 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Organisation considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2012 AMD'000	**2011 AMD'000**
10% appreciation of USD against AMD	2,750	10,047

A strengthening of the AMD against the USD at 31 December 2012 and 2011 would have had the equal but opposite effect on the USD 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 customer 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 management.

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 and guarantors
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Business and agricultural loan credit applications are originated by the relevant loan officers. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The Credit Committee reviews the loan credit application on the basis of submissions. According to Organization's current practices agricultural loans are issued only to the farmers with two diverse sources of agricultural income. The guarantors for agricultural loans are assessed as potential borrowers, and must provide either sources for stable salary or two sources of agricultural income.

The Organisation continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial information submitted by the borrower, or otherwise obtained by the Organisation.

In addition to an individual customer analysis, the credit portfolio is assessed by management with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. 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:

	2012 AMD'000	**2011 AMD'000**
ASSETS		
Cash and cash equivalents	334,734	180,882
Term deposits with banks	871,664	557,655
Loans to customers	5,774,882	4,482,649
Other financial assets	563	1,349
Total maximum exposure	**6,981,843**	**5,222,535**

The Organisation holds collateral against loans to customers in the form of mortgages over property, other collateral and guarantees. Estimates of fair value are assessed at the time of borrowing, which are periodically updated by the Organisation.

For the analysis of collateral held against loans to customers and 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 2012 the Organization has no debtors or groups of connected debtors (2011: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

(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 management.

The Organisation seeks to actively support a stable funding base comprising long-term and short-term loans and borrowings from financial institutions, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment.

The maturity analysis for financial liabilities as at 31 December 2012 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
Loans and borrowings	69,570	100,830	1,009,816	970,487	3,829,833	5,980,536	5,394,211
Other financial liabilities	45,063	29,000	-	27,129	23,423	124,615	124,615
Total liabilities	**114,633**	**129,830**	**1,009,816**	**997,616**	**3,853,256**	**6,105,151**	**5,518,826**
Credit related commitments	**743,661**	**-**	**-**	**-**	**-**	**743,661**	**-**

The maturity analysis for financial liabilities as at 31 December 2011 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
Loans and borrowings	51,975	288,400	567,712	2,004,307	1,426,864	4,339,258	3,920,398
Other financial liabilities	44,095	-	-	50,837	-	94,932	94,932
Total	**96,070**	**288,400**	**567,712**	**2,055,144**	**1,426,864**	**4,434,190**	**4,015,330**
Credit related commitments	**737,144**	**-**	**-**	**-**	**-**	**737,144**	**-**

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2012:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	No maturity	Overdue	Total
Cash and cash equivalents	347,532	-	-	-	-	-	347,532
Term deposits with banks	-	871,664	-	-	-	-	871,664
Loans to customers	311,053	672,126	2,825,351	1,959,895	-	6,457	5,774,882
Property, equipment and intangible assets	-	-	-	-	152,073	-	152,073
Deferred tax asset	-	-	-	6,944	-	-	6,944
Other assets	16,447	-	-	-	-	-	16,447
Total assets	**675,032**	**1,543,790**	**2,825,351**	**1,966,839**	**152,073**	**6,457**	**7,169,542**
Loans and borrowings	64,505	77,092	1,689,271	3,563,343	-	-	5,394,211
Current tax liability	-	-	50,639	-	-	-	50,639
Other liabilities	56,524	38,386	27,129	28,206	-	-	150,245
Total liabilities	**121,029**	**115,478**	**1,767,039**	**3,591,549**	**-**	**-**	**5,595,095**
Net position	**554,003**	**1,428,312**	**1,058,312**	**(1,624,710)**	**152,073**	**6,457**	**1,574,447**

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2011:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	No maturity	Overdue	Total
Cash and cash equivalents	184,665	-	-	-	-	-	184,665
Term deposits with banks	-	557,655	-	-	-	-	557,655
Loans to customers	215,343	449,953	1,984,166	1,824,079	-	9,108	4,482,649
Property, equipment and intangible assets	-	-	-	-	93,458	-	93,458
Deferred tax asset	-	-	-	3,953	-	-	3,953
Other assets	11,449	-	-	-	-	-	11,449
Total assets	**411,457**	**1,007,608**	**1,984,166**	**1,828,032**	**93,458**	**9,108**	**5,333,829**
Loans and borrowings	45,280	263,627	2,358,367	1,253,124	-	-	3,920,398
Current tax liability	-	-	13,762	-	-	-	13,762
Other liabilities	49,456	21,220	54,667	7,864	-	-	133,207
Total liabilities	**94,736**	**284,847**	**2,426,796**	**1,260,988**	**-**	**-**	**4,067,367**
Net position	**316,721**	**722,761**	**(442,630)**	**567,044**	**93,458**	**9,108**	**1,266,462**

The key measure used by the Organisation for managing liquidity risk is the ratio of highly liquid assets to total assets, the minimum acceptable level of which is 10%. For this purpose the highly liquid assets ratio is calculated as cash and cash equivalents and term deposits with banks with maturity less than three months divided by total assets. Other liquidity measures include the current ratio which is calculated as current assets divided by current liabilities and the quick ratio which is calculated as cash and cash equivalents divided by current liabilities. The ratios as at 31 December are as follows:

	2012	**2011**
Highly liquid assets to total assets	17.0%	13.9%
Current ratio	2.52	1.26
Quick ratio	0.17	0.07

18 Capital management

The 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 CBA, credit organizations have to maintain a minimum share capital of AMD 150,000 thousand (2011: 150,000 thousand) and total capital of AMD 300,000 thousand (2011: AMD 200,000 thousand). The Organisation is in compliance with the minimum share capital and total capital requirements during the years ended 31 December 2012 and 2011.

As per the CBA regulatory requirement which became effective in 2011, credit organisations conducting foreign exchange transactions in cash other than for the purpose of accepting loan repayments, have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2012, this minimum level is 10% (2011: 10%). Per the approved charter of the Organisation, it has the right to conduct foreign exchange cash transactions as a separate activity, thus the Organisation has to measure and comply with this statutory capital ratio.

The Organisation is in compliance with the statutory capital ratio as at 31 December 2012 and 2011. The calculation of statutory capital ratio based on requirements set by the CBA as at 31 December 2012 and 2011 is as follows:

	2012 AMD'000 Unaudited	**2011 AMD'000 Unaudited**
Primary capital	1,478,362	1,041,819
Additional capital	-	-
Total capital	**1,478,362**	**1,041,819**
Risk-weighted assets	**8,155,610**	**6,245,107**
Statutory capital ratio (%)	**18.10%**	**16.7%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

In addition the Organization manages its capital in order to meet covenant requirements.

19 Commitments

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

The Organisation applies the same credit risk management policies and procedures when granting credit commitments as it does for granting loans to customers.

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

	2012 AMD'000	**2011 AMD'000**
Undrawn loan commitments – contracted amount	**743,661**	**737,144**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional commitment by the Organisation.

As at 31 December 2012 management believes there is no significant credit risk exposure to the Organisation from these commitments.

20 Operating leases

(a) Leases as lessee

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2012 AMD'000	**2011 AMD'000**
Less than 1 year	54,828	55,591
Between 1 and 5 years	100,219	73,653
	155,047	**129,244**

The Organisation leases a number of premises under operating leases. The leases typically run for an initial period of five to ten 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.

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. During the year ended 31 December 2012 the Organisation entered into several insurance contracts for coverage of loss for gold pledged as collateral, cash in transit, etc. However 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 its 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) Litigation

In the ordinary course of business, the Organisation is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(c) Taxation contingencies

The taxation system in the Republic of Armenia continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes 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. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Republic of Armenia suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

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, USA. The party with ultimate control over the Organisation is World Vision International, USA.

Publicly available financial statements are produced by the Organisation's parent company and by the party with ultimate control.

(b) Transactions with the members of the Board of Directors and the management

Total remuneration included in personnel expenses and outstanding balances for the years ended 31 December are as follows:

	2012 AMD'000	2011 AMD'000
Statement of financial position		
Other liabilities-payables to employees	17,992	14,501
Profit or loss		
Employee compensation	118,077	96,558

(c) Transactions with other related parties

Other related parties include the parent company of the Organisation. The outstanding balances and the related average interest rates as at 31 December 2012 and 2011 and related profit or loss amounts of transactions for the year ended 31December 2012 and 2011 with other related parties are as follows:

	2012 AMD'000	Average interest rate, %	2011 AMD'000	Average interest rate, %
Statement of financial position				
Loans and borrowings	751,641	8.40	774,569	8.40
Profit or loss				
Interest expense	64,283		56,975	

23 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2012:

AMD '000	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	347,532	-	347,532	347,532
Term deposits with banks	871,664	-	871,664	871,664
Loans to customers:				
Business loans	1,035,961	-	1,035,961	1,035,961
Loans to individuals	4,738,921	-	4,738,921	4,738,921
Other financial assets	563	-	563	563
	6,994,641	**-**	**6,994,641**	**6,994,641**
Loans and borrowings	-	5,394,211	5,394,211	5,394,211
Other financial liabilities	-	124,615	124,615	124,615
	-	**5,518,826**	**5,518,826**	**5,518,826**

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2011:

AMD '000	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	184,665	-	184,665	184,665
Term deposits with banks	557,655	-	557,655	557,655
Loans to customers:				
Business loans	1,099,995	-	1,099,995	1,099,995
Loans to individuals	3,382,654	-	3,382,654	3,382,654
Other financial assets	1,349	-	1,349	1,349
	5,226,318	**-**	**5,226,318**	**5,226,318**
Loans and borrowings	-	3,920,398	3,920,398	3,920,398
Other financial liabilities	-	94,932	94,932	94,932
	-	**4,015,330**	**4,015,330**	**4,015,330**

The Organisation uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like arising only observable market data and involving little management judgment and estimation.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 7.5-11.5% and 14.0-23.5% are used for discounting future cash flows from term deposits with banks and loans to customers, respectively
- discount rates of 8.3-17.0% is used for discounting future cash flows from liabilities.

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.

24 Events after the reporting period

On 31 January 2013 the shareholder decided to increase the share capital by AMD 66,321 thousand. As a result of the decision the share capital increased from AMD 1,236,566 thousand to AMD 1,302,886 thousand and the nominal value of each share increased from AMD 12,365,660 to AMD 13,028,860. The decision was registered by the Central Bank of Armenia and came into force on 13 March 2013.