

Aregak Universal Credit Organisation cjsc

Financial Statements

for the Year Ended 31 December 2009

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Independent Auditors' Report

To the Shareholder
Aregak Universal Credit Organization cjsc

Report on the Financial Statements

We have audited the accompanying financial statements of Aregak Universal Credit Organization cjsc (the "Organization"), which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance 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 principles 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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organization as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The financial statements of the Organization as at and for the year ended 31 December 2008 were audited by other auditors whose report dated 22 May 2009 expressed an unmodified opinion on those statements.



Andrew Coxshall
Director

KPMG
KPMG Armenia cjsc
31 March 2010





Irina Gevorgyan
Manager, Audit

Aregak Universal Credit Organization cjsc
Statement of financial position as at 31 December 2009

	Notes	2009 AMD'000	2008 AMD'000
ASSETS			
Cash		11,736	6,804
Placements with banks	10	2,841,144	1,678,179
Loans to customers	11	7,915,989	7,595,819
Held-to-maturity investments	12	221,839	-
Property, equipment and intangible assets	13	122,597	166,330
Deferred tax asset	9	14,254	413
Other assets		11,738	11,078
Total assets		11,139,297	9,458,623
LIABILITIES			
Loans and borrowings	14	5,810,569	6,441,920
Current tax liability		157,225	55,517
Other liabilities		71,896	43,350
Total liabilities		6,039,690	6,540,787
EQUITY			
Share capital	15	3,290,000	1,791,000
Additional paid-in capital	14	390,660	586,587
Retained earnings		1,418,947	540,249
Total equity		5,099,607	2,917,836
Total liabilities and equity		11,139,297	9,458,623

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

Aregak Universal Credit Organization cjsc
Statement of cash flows for the year ended 31 December 2009

	Notes	2009 AMD'000	2008 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		2,740,227	1,986,069
Interest payments		(508,847)	(151,823)
Fee and commission payments		(22,864)	(36,608)
Net payments from foreign exchange		(662)	(961)
Penalty receipts		226,354	128,684
Other net (payments)/receipts		(20,306)	1,404
Personnel and other general administrative payments		(904,685)	(1,021,872)
Increase in operating assets			
Placements with banks		(460,019)	(1,453,210)
Loans to customers		(559,128)	(3,272,520)
Net cash provided from/(used in) operating activities before income tax paid		490,070	(3,820,837)
Income tax paid		(154,388)	(150,045)
Cash flows from/(used in) operations		335,682	(3,970,882)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of held-to-maturity investments		(220,051)	-
Purchases of property and equipment		(7,957)	(19,452)
Sales of property and equipment		1,267	292
Cash flows used in investing activities		(226,741)	(19,160)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of loans and borrowings		486,699	4,132,931
Repayments of loans and borrowings		(1,841,900)	(2,199,105)
Proceeds from issuance of share capital		1,499,000	1,591,000
Cash flows from financing activities		143,799	3,524,826
Net increase/(decrease) in cash and cash equivalents		252,740	(465,216)
Effect of changes in exchange rates on cash and cash equivalents		18,950	1,544
Cash and cash equivalents as at the beginning of the year		232,784	696,456
Cash and cash equivalents as at the end of the year	20	504,474	232,784

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

Aregak Universal Credit Organization cjsc
Statement of changes in equity for the year ended 31 December 2009

	Share capital	Additional paid-in capital	Retained earnings	Total equity
	AMD'000	AMD'000	AMD'000	AMD'000
Balance as at 1 January 2008	200,000	801,028	244,952	1,245,980
Total comprehensive income	-	-	295,297	295,297
Shares issued	1,591,000	-	-	1,591,000
Decrease in additional paid-in capital as a result of substantial modification of terms of the borrowing from shareholder at below market interest rate (Note 14)	-	(214,441)	-	(214,441)
Balance as at 31 December 2008	1,791,000	586,587	540,249	2,917,836
Balance as at 1 January 2009	1,791,000	586,587	540,249	2,917,836
Total comprehensive income	-	-	878,698	878,698
Shares issued	1,499,000	-	-	1,499,000
Decrease in additional paid-in capital as a result of substantial modification of terms of the borrowing from shareholder at below market interest rate (Note 14)	-	(195,927)	-	(195,927)
Balance as at 31 December 2009	3,290,000	390,660	1,418,947	5,099,607

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

Principal activities

Aregak Universal Credit Organisation cjsc (the Organisation) was established in the Republic of Armenia as a closed joint stock company in 2006. The principal activity of the Organization is provision of microfinance loans, individual business and consumption loans in the Republic of Armenia (RA) and Nagorno Karabakh (NK). The activities of the Organization are regulated by the Central Bank of the Republic of Armenia (CBA). The Organization has a credit organization license.

The Organization has 23 branches and 6 representative offices from which it conducts business throughout the Republic of Armenia and Nagorno Karabakh. The registered address of the head office is 42/1 Arami Street, Yerevan, Armenia. The majority of the assets and liabilities are located in the Republic of Armenia. The average number of people employed during the year was 204 (2008: 224).

Armenian business environment

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

2 Basis of preparation

Statement of compliance

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

Basis of measurement

The financial statements are prepared on the historical cost basis.

Functional and presentation currency

The functional currency of the Organization 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.

Use of estimates and judgments

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the note 11 “Loans to customers” in relation to loan impairment estimates and in note 14 “Loans and borrowings” in relation to accounting for interrelated balances with banks.

3 Significant accounting policies

The following significant accounting policies are consistently applied in the preparation of the financial statements. Changes in accounting policies are described at the end of this note.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Organization 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. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Cash and cash equivalents

The Organization includes cash, current accounts and short-term deposits with banks in cash and cash equivalents. Short-term deposits are deposits with an initial maturity of less than three months.

Financial instruments

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

- the assets or liabilities are managed and evaluated 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.

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 Organization:

- 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 Organization has the positive intention and ability to hold to maturity, other than those that:

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

Available-for-sale assets are those 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.

Management determines the appropriate classification of financial instruments 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 asset that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Recognition

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

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. Amortized cost is calculated using the effective interest method. 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. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

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 between the fair value and the nominal value at origination is charged to equity as additional paid-in capital. 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.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. Where a quoted market price is not available, fair value is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Organization would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties and own credit risk.

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 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 asset is recognized as earned 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.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Organization transfers substantially all the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. The Organization also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

A financial liability is derecognised when it is extinguished. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are considered substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

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.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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.

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. Land is not depreciated. Leasehold improvements are depreciated over the shortest of the asset useful life and lease term. The estimated useful lives are as follows:

- buildings	20 years
- leasehold improvements	20 years
- motor vehicles	5 years
- communication devices and computers	1-5 years
- office equipment	5 years
- computer software	10 years
- other	5 years

Intangible assets

Intangible assets that are acquired by the Organization are stated at cost less accumulated amortisation and impairment losses.

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.

Impairment

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Organization 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 Organization 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 Organization 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 Organization 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 Organization 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.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale 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.

Available-for-sale assets

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been 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.

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.

Provisions

A provision is recognised in the statement of financial position when the Organization 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 Organization 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.

Share capital

Ordinary shares are classified as equity.

Dividends

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

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

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 provided using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at 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.

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.

Comparative information

Comparative information is reclassified to conform to changes in presentation in the current year. The reclassification represents regrouping or combination of several items in the statement of comprehensive income, the statement of financial position and in the notes to the financial statements made to achieve better presentation. The statement of financial position as at the beginning of the earliest comparative period is not presented on the basis that the effect of the reclassifications is not judged to be material.

Changes in accounting policies

Starting from 1 January 2009 the Organization adopted the revised version of IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009). As a result the income statement is replaced by a statement of comprehensive income that also includes all non-owner changes in equity. The balance sheet is renamed to the statement of financial position and the cash flow statement is renamed to the statement of cash flows. According to the revised IAS 1, a statement of financial position at the beginning of the earliest comparative period is presented whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis.

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 2009, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Organization's operations. The Organization plans to adopt these pronouncements when they become effective. The Organization has not yet analysed the likely impact of these pronouncements on its financial statements.

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

Various *Improvements to IFRSs* which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010.

4 Net interest income

	2009	2008
	AMD'000	AMD'000
Interest income		
Loans to customers	2,607,394	1,970,419
Placements with banks	134,754	50,333
Held-to-maturity investments	1,788	-
	2,743,936	2,020,752
Interest expense		
Loans and borrowings	508,192	505,644
Other	1,264	632
	509,456	506,276

5 Other operating income

	2009	2008
	AMD'000	AMD'000
Fines and penalties	226,354	128,684
Other	1,805	442
	228,159	129,126

6 Impairment losses

	2009	2008
	AMD'000	AMD'000
Loans to customers	310,401	63,889

7 Personnel expenses

	2009	2008
	AMD'000	AMD'000
Employee compensation	556,065	645,345
Payroll related taxes	62,737	69,466
	618,802	714,811

8 Other general administrative expenses

	2009	2008
	AMD'000	AMD'000
Occupancy	57,332	60,309
Repairs and maintenance	56,339	76,210
Security	55,741	47,656
Depreciation and amortization	50,232	47,139
Taxes other than on income	47,528	39,575
Communications and information services	37,483	37,899
Professional services	10,950	6,900
Office supplies	9,191	10,390
Travel expenses	4,814	6,320
Insurance	3,100	4,551
Advertising and marketing	2,342	18,941
Staff training expenses	2,305	7,174
Loss on property, plant and equipment disposal	192	184
Other	10,757	11,414
	348,306	374,662

9 Income tax expense

	2009	2008
	AMD'000	AMD'000
Current tax expense		
Current year	256,096	126,429
Under provided in prior years	-	5,400
	256,096	131,829
Deferred tax expense		
Origination and reversal of temporary differences	(13,841)	(304)
Total income tax expense	242,255	131,525

The applicable tax rate for current tax is 20% (2008: 20%). The Organization applied a 20% deferred tax rate (2008: 20%).

Reconciliation of effective tax rate:

	2009		2008	
	AMD'000	%	AMD'000	%
Profit before tax	1,120,953		426,822	
Income tax at the applicable tax rate	224,191	20%	85,364	20%
Non-deductible costs	18,064	2%	40,761	10%
Under provided in prior years	-	-	5,400	-
	242,255	22%	131,525	30%

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as of 31 December 2009 and 2008. These deferred tax assets are recognised in these financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Organization's ability to claim the deductions in future periods.

These deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2009 and 2008 are presented as follows.

AMD'000	Balance	Recognised	Balance
	1 January 2009	in profit or loss	31 December 2009
Placements with banks	(3,360)	(2,299)	(5,659)
Loans to customers	(1,252)	15,618	14,366
Other liabilities	5,025	522	5,547
	413	13,841	14,254

AMD'000	Balance	Recognised	Balance
	1 January 2008	in profit or loss	31 December 2008
Placements with banks	(1,408)	(1,952)	(3,360)
Loans to customers	(459)	(793)	(1,252)
Other liabilities	1,976	3,049	5,025
	109	304	413

10 Placements with banks

	2009 AMD'000	2008 AMD'000
Current accounts		
Largest 10 Armenian banks	119,384	101,794
Other Armenian banks	134,459	1,478
Total current accounts	253,843	103,272
Deposits		
Largest 10 Armenian banks	2,458,929	1,574,907
Other Armenian banks	128,372	-
Total deposits	2,587,301	1,574,907
Total placements with banks	2,841,144	1,678,179

Concentration of placements with banks

Both as at 31 December 2009 and 2008 the Organization has three banks whose balances exceeded 10% of total placements with banks. The gross value of these balances as of 31 December 2009 and 2008 are AMD 2,133,264 thousand and AMD 1,672,907 thousand, respectively.

As at 31 December 2009 deposits of AMD 1,786,286 (2008: AMD 1,449,913) are pledged under loans from banks (note 14 “Loans and borrowings”).

11 Loans to customers

	2009 AMD'000	2008 AMD'000
Loans to legal entities		
Business loans to small companies and sole entrepreneurs	864,032	1,658,951
Total loans to legal entities	864,032	1,658,951
Loans to individuals		
Micro and medium loans *	7,035,670	5,885,306
Consumer loans	309,279	178,857
Total loans to individuals	7,344,949	6,064,163
Gross loans to customers	8,208,981	7,723,114
Impairment allowance	(292,992)	(127,295)
Net loans to customers	7,915,989	7,595,819

* Micro and medium loans are loans provided to individuals in rural areas mainly for agricultural and trade purposes.

Movements in the loan impairment allowance for the year ended 31 December are as follows:

	2009 AMD'000	2008 AMD'000
Balance at the beginning of the year	127,295	63,406
Loan impairment losses	310,401	63,889
Write-offs	(144,704)	-
Balance at the end of the year	292,992	127,295

As at 31 December 2009, interest accrued on impaired loans amounts to AMD 21,014 thousand (31 December 2008: AMD 6,261 thousand).

Credit quality of the loans to legal entities portfolio

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

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment to gross loans %
Business loans to small companies and sole entrepreneurs				
Loans without individual signs of impairment				
- not overdue	677,262	7,371	669,891	1.1%
- overdue less than 30 days	44,580	12,175	32,405	27.3%
- overdue more than 30-89 days	41,250	19,502	21,748	47.3%
- overdue more than 90-179 days	51,455	42,496	8,959	82.6%
- overdue more than 180 days	49,485	49,485	-	100.0%
Total business loans to small companies and sole entrepreneurs	864,032	131,029	733,003	15.2%

The following table provides information on the credit quality of the loans to legal entities portfolio as at 31 December 2008:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment to gross loans %
Business loans to small companies and sole entrepreneurs				
Loans without individual signs of impairment				
- not overdue	1,585,929	15,859	1,570,070	1.0%
- overdue less than 30 days	34,273	6,855	27,418	20.0%
- overdue more than 30-89 days	17,146	6,858	10,288	40.0%
- overdue more than 90-179 days	14,424	10,183	4,241	70.6%
- overdue more than 180 days	7,179	7,179	-	100.0%
Total business loans to small companies and sole entrepreneurs	1,658,951	46,934	1,612,017	2.8%

The Organisation does not have individually significant loans, therefore the management estimates loan impairment for loans to legal entities based on its past loss experience.

In determining the impairment allowance for loans to legal entities, management makes the following key assumptions:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months
- loans to legal entities overdue for more than 180 days are allocated 100% probability of loss.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment provision on loans to legal entities as of 31 December 2009 would be AMD 7,330 thousand lower/higher (31 December 2008: AMD 16,120 thousand).

Analysis of collateral

The following table provides the analysis of business loans, net of impairment, by types of collateral as at 31 December 2009 and 31 December 2008:

	2009 AMD'000	% of loan portfolio	2008 AMD'000	% of loan portfolio
Real estate	693,041	94.5%	1,249,762	77.5%
Finished goods	694	0.1%	29,552	1.8%
Other collateral	39,268	5.4%	332,703	20.7%
	733,003	100.0%	1,612,017	100.0%

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

Overdue loans with a gross value of AMD 186,770 thousand are secured mainly by real estate collateral with a fair value of AMD 654,410 thousand determined at the time of the origination of the loans.

During the year ended 31 December 2009 the Organization did not obtain any assets by taking control of collateral accepted as security for business loans (31 December 2008: nil).

Analysis of movements in the impairment allowance

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

	Total AMD'000
Loan impairment allowance as at 1 January	46,934
Write-offs	(64,027)
Loan impairment losses	148,122
Loan impairment allowance as at 31 December	131,029

Movements in the loan impairment allowance by classes of business loans for the year ended 31 December 2008 are as follows:

	Total AMD'000
Loan impairment allowance as at 1 January	39,232
Loan impairment losses	7,702
Loan impairment allowance as at 31 December	46,934

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals collectively assessed for impairment as at 31 December 2009:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment to gross loans, %
Micro and medium loans				
- Not past due	6,853,483	14,324	6,839,159	0.2%
- Overdue less than 30 days	57,817	8,761	49,056	15.2%
- Overdue 30-89 days	33,903	21,889	12,014	64.6%
- Overdue 90-179 days	48,918	43,248	5,670	88.4%
- Overdue more than 180 days	41,549	41,549	-	100.0%
Total micro and medium loans	7,035,670	129,771	6,905,899	1.8%
Consumer loans				
- Not past due	266,398	4,880	261,518	1.8%
- Overdue less than 30 days	2,048	541	1,507	26.4%
- Overdue 30-89 days	33,989	20,034	13,955	58.9%
- Overdue 90-179 days	2,052	1,945	107	94.7%
- Overdue more than 180 days	4,792	4,792	-	100.0%
Total consumer loans	309,279	32,192	277,087	10.4%
Total loans to individuals	7,344,949	161,963	7,182,986	2.2%

The following table provides information on the credit quality of loans to individuals collectively assessed for impairment as at 31 December 2008:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment to gross loans %
Micro and medium loans				
- Not past due	5,792,588	17,528	5,775,060	0.3%
- Overdue less than 30 days	47,920	7,188	40,732	15.0%
- Overdue 30-89 days	13,668	8,201	5,467	60.0%
- Overdue 90-179 days	9,959	7,967	1,992	80.0%
- Overdue more than 180 days	21,171	21,171	-	100.0%
Total micro and medium loans	5,885,306	62,055	5,823,251	1.1%
Consumer loans				
- Not past due	134,684	2,424	132,260	1.8%
- Overdue less than 30 days	32,024	8,006	24,018	25.0%
- Overdue 30-89 days	8,738	4,806	3,932	55.0%
- Overdue 90-179 days	3,411	3070	341	90.0%
Total consumer loans	178,857	18,306	160,551	10.2%
Total loans to individuals	6,064,163	80,361	5,983,802	1.3%

The Organization estimates loan impairment based on its past historical loss experience on these types of loans.

In determining the impairment allowance for loans to legal entities, management made the following key assumptions:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months
- loans to legal entities overdue for more than 180 days are allocated 100% probability of loss.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the loan impairment on loans to individuals as of 31 December 2009 would be AMD 71,830 thousand lower/higher (31 December 2008: AMD 59,838 thousand).

Analysis of collateral

Micro and medium loans are secured by individual guarantees given by the members of a group of borrowers formed for the purpose of obtaining loans from the Organisation. Consumer loans are secured by the underlying cars or other items.

Analysis of movements in the impairment allowance

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

AMD'000	Micro and medium loans	Consumer loans	Total
Loan impairment allowance as at 1 January	62,055	18,306	80,361
Write-offs	(64,839)	(15,838)	(80,677)
Loan impairment losses	132,555	29,724	162,279
Loan impairment allowance as at 31 December	129,771	32,192	161,963

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2008 are as follows:

AMD'000	Micro and medium loans	Consumer loans	Total
Loan impairment allowance as at 1 January	13,790	10,384	24,174
Loan impairment losses	48,265	7,922	56,187
Loan impairment allowance as at 31 December	62,055	18,306	80,361

Industry and geographical analysis of the loan portfolio

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

	2009	2008
	AMD'000	AMD'000
Agriculture	4,902,807	3,946,301
Trade	2,437,707	2,882,571
Consumer loans	309,279	178,857
Light industry	48,086	24,464
Food industry	46,333	335,527
Other	464,769	355,394
	8,208,981	7,723,114
Impairment allowance	(292,992)	(127,295)
	7,915,989	7,595,819

Significant credit exposures

As at 31 December 2009 and 2008 the Organization has no borrowers or groups of connected borrowers, respectively, whose loan balances exceed 10% of loans to customers.

Loan maturities

The maturity of the loan portfolio is presented in note 23, which shows the remaining period from the reporting date to the contractual maturity of the loans.

12 Held-to-maturity investments

	2009	2008
	AMD'000	AMD'000
Held by the Organisation		
Debt and other fixed-income instruments		
Treasury Bills of the Republic of Armenia	221,839	-
	221,839	-

13 Property, equipment and intangible assets

AMD'000	<u>Buildings</u>	<u>Leasehold improvements</u>	<u>Motor vehicles</u>	<u>Communication devices and computers</u>	<u>Office equipment</u>	<u>Computer software</u>	<u>Other</u>	<u>Total</u>
Cost								
At 1 January 2009	9,047	2,350	98,407	62,726	44,726	12,064	6,155	235,475
Additions	-	1,209	1,688	2,863	1,064	-	1,133	7,957
Disposals and write-offs	-	-	(1,326)	(278)	(1,152)	-	-	(2,756)
At 31 December 2009	9,047	3,559	98,769	65,311	44,638	12,064	7,288	240,676
Depreciation								
At 1 January 2009	677	243	28,438	22,599	12,916	2,125	2,147	69,145
Depreciation charge	459	118	19,771	18,525	8,875	1,206	1,278	50,232
Disposals and write-offs	-	-	(502)	(246)	(550)	-	-	(1,298)
At 31 December 2009	1,136	361	47,707	40,878	21,241	3,331	3,425	118,079
Carrying value								
At 31 December 2009	7,911	3,198	51,062	24,433	23,397	8,733	3,863	122,597
At 1 January 2008	7,884	2,210	98,407	47,472	43,601	12,064	5,948	217,586
Additions	1,163	140	-	16,106	1,431	-	612	19,452
Disposals and write-offs	-	-	-	(852)	(306)	-	(405)	(1,563)
At 31 December 2008	9,047	2,350	98,407	62,726	44,726	12,064	6,155	235,475
Depreciation								
At 1 January 2008	255	127	8,744	6,442	4,779	918	1,095	22,360
Depreciation charge	422	116	19,694	16,313	8,200	1,207	1,187	47,139
Disposals and write offs	-	-	-	(156)	(63)	-	(135)	(354)
At 31 December 2008	677	243	28,438	22,599	12,916	2,125	2,147	69,145
Carrying value								
At 31 December 2008	8,370	2,107	69,969	40,127	31,810	9,939	4,008	166,330

14 Loans and borrowings

This note provides information about the contractual terms of the Organization's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Organization's exposure to interest rate, foreign currency and liquidity risk, see notes 16, 22 and 24.

	2009	2008
	AMD'000	AMD'000
<i>Non-current liabilities</i>		
Secured bank loans	210,665	1,321,384
Unsecured loans from other entities	1,159,364	1,701,442
Loan from shareholder	2,189,859	3,419,094
	3,559,888	6,441,920
<i>Current liabilities</i>		
Secured bank loans	1,110,444	-
Unsecured loans from other entities	1,140,237	-
	2,250,681	-
	5,810,569	6,441,920

Loan from shareholder was provided in 2006 and 2007 in the amount of AMD 4,510,000 at below market interest rates. The loan was recognized at fair value using market interest rates for similar instruments. The difference between the fair value upon initial recognition and the nominal amount of the loan was recognized as additional-paid-in capital (APIC) in total amount of AMD 801,028 thousand as at 31 December 2007.

Both in 2008 and 2009 the terms of the loan were substantially modified. The modifications of the terms of the loan agreement were accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between amortized cost of derecognized loan and the fair value of the newly recognized loan was reduced from APIC.

Terms and debt repayment schedule

Terms and conditions of outstanding loans are as follows:

'000 AMD	Currency	Nominal interest rate	Year of maturity	31 December 2009		31 December 2008	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	AMD	8.00%	2010	1,109,027	1,110,444	1,109,027	1,110,752
Secured bank loan	AMD	11.41%	2011	210,172	210,665	210,172	210,632
Unsecured loans from other entities	USD	7.75%	2011	839,755	853,443	214,711	218,701
Unsecured loans from other entities	USD	8.10%	2010	1,133,670	1,159,365	1,226,920	1,251,384
Unsecured loans from other entities	USD	7.75%	2011	277,089	284,267	224,910	231,357
Unsecured loans from other entities	AMD	7.00%	2016	2,520	2,526	-	-
Loan from shareholder	AMD	9.66%	2016	2,032,000	2,189,859	3,341,000	3,303,324
Loan from shareholder	AMD	4.00%	2009	-	-	115,740	115,770
				5,604,233	5,810,569	6,442,480	6,441,920

The bank loans are secured by term deposits with similar terms pledged at the same banks in the total amount of USD 4,727,000 (AMD 1,786,286 thousand). The Organisation accounts for bank loans secured by term deposits on a gross basis as management believes that:

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

Concentrations of loans and borrowing

As of 31 December 2009 and 2008, the Organization has 4 and 3 entities, respectively, whose balances exceed 10% of total loans and borrowings. These balances as of 31 December 2009 and 2008 are AMD 5,313,112 thousand and AMD 5,781,230 thousand, respectively.

15 Share capital

Issued capital

The authorised, issued and outstanding share capital comprises 16,450 ordinary shares (2008: 8,955). All shares have a nominal value of AMD 200,000. During 2009 7,495 ordinary shares (2008: 7,955) were issued at their nominal value.

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 Organization.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Organization, which are determined according to legislation of the Republic of Armenia. In accordance with the legislation of the Republic of Armenia, as of the reporting date, reserves available for distribution amount to AMD 925,447 thousand (2008: AMD 271,599 thousand).

At the reporting date no dividends were declared.

16 Risk management

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

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.

Overall responsibility for the risk management resides with the Management Board.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Organisation operates within the established risk parameters.

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, and credit spreads will affect income or the value of portfolios. Market risk comprises currency risk, interest rate risk and other risks. Market risk arises from open positions in interest rate and currency, which are exposed to general and specific market movements.

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

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

In addition, the Organisation uses stress scenarios to model the financial impact of a variety of exceptional market scenarios on loan portfolio and the overall position.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

The Organization 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 risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

An analysis of sensitivity of profit or loss and equity to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2009 and 2008 is as follows:

	2009		2008	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
100 bp parallel fall	(21,455)	(21,455)	(22,101)	(22,101)
100 bp parallel rise	21,455	21,455	22,101	22,101

Currency risk

The Organization has assets and liabilities denominated in USD. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the exposure to currency risk at year end refer to note 24.

Currently the Organization has a policy of fully covering the foreign exchange exposure. The outside funding in foreign currency is fully hedged by back to back transactions or through lending in foreign currency, matching foreign exchange denominated assets to foreign exchange liability exposure. As funding sources grow the Organization will identify specific limits of risk tolerance, like limiting the ratio of foreign exchange assets to foreign exchange liabilities for any particular time period to between 0.9-1.1, thereby minimizing the mismatch of foreign exchange assets and liabilities risk exposure to 10%.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 20% change in USD to Armenian Dram exchange rates is as follows:

	2009		2008	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
20% appreciation of USD against AMD	16,427	16,427	18,403	18,403
20% depreciation of USD against AMD	(16,427)	(16,427)	(18,403)	(18,403)

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Organisation. The Organisation has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

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

Credit risk is the most important risk for the Organization's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Organization's asset portfolio. The credit risk management and control are centralized in Credit Committee and reported to the Executive Administration regularly.

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

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

	2009 AMD'000	2008 AMD'000
ASSETS		
Placements with banks	2,841,144	1,678,179
Loans to customers	7,915,989	7,595,819
Held-to-maturity investments	221,839	-
Other assets	3,237	29
Total maximum exposure to on balance sheet credit risk	10,982,209	9,274,027

For the analysis of concentration of credit risk in respect of loans to customers refer to note 11.

Liquidity risk

Liquidity risk is the risk that the Organisation will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

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

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

The liquidity management policy requires:

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

The following tables show the undiscounted cash flows on financial liabilities 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. The expected cash flows on these financial liabilities can vary significantly from this analysis.

The liquidity position as at 31 December 2009 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Loans and borrowings	<u>143,194</u>	<u>29,808</u>	<u>1,012,645</u>	<u>1,949,871</u>	<u>4,202,212</u>	<u>7,337,730</u>	<u>5,810,569</u>

The liquidity position as at 31 December 2008 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 (inflow)	Carrying amount
Non-derivative liabilities							
Loans and borrowings	<u>23,634</u>	<u>144,931</u>	<u>72,519</u>	<u>340,444</u>	<u>6,885,634</u>	<u>7,467,162</u>	<u>6,441,920</u>

To manage the liquidity risk arising from financial liabilities, the Organization holds liquid assets comprising cash and cash equivalents and Government bonds for which there is a liquid market. These assets can be readily sold to meet liquidity requirements. Hence, the Organization believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

For further information on the exposure to liquidity risk at year end refer to note 23.

17 Capital management

The Central Bank of Armenia sets and monitors capital requirements for the Organization.

The Organization defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, credit organizations have to maintain a minimum share capital and total capital of AMD 150,000 thousand. The Organization is in compliance with the statutory capital requirements during the years ended 31 December 2009 and 2008.

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

18 Contingencies

Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Organization 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 the Organization's property or relating to operations. Until the Organization 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.

Litigation

Management is unaware of any significant actual, pending or threatened claims against the Organization.

Taxation contingencies

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

These circumstances may create tax risks in Armenia that are 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 these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

19 Related party transactions

Control relationships

The Organization's parent and the party with ultimate control over the Organization is the United Methodist Committee on Relief (the UMCOR) of the General Board of Global Ministers of the United Methodist Church.

The UMCOR produces publicly available financial statements.

Transactions with Management

Total remuneration of the members of the Management Board included in personnel expenses (refer to note 7):

	2009 AMD'000	2008 AMD'000
Employee compensation	64,718	72,547
Payroll related taxes	4,187	4,901
	68,905	77,448

The outstanding balances and the related average interest rates as of 31 December 2009 and related profit or loss amounts of transactions for the year ended 31 December 2009 with the Management are as follows.

	AMD'000	Average interest rate, %	Total AMD'000
Statement of financial position			
Loans to customers	20,074	10.00%	20,074
Statement of comprehensive income			
Interest income	374		374

Transactions with parent

The outstanding balances and the related average interest rates as of 31 December 2009 and related profit or loss amounts of transactions for the year ended 31 December 2009 with the parent are as follows.

	AMD'000	Average interest rate, %	Total AMD'000
Statement of financial position			
Loans and borrowings	2,189,589	9.66%	2,189,589
Statement of comprehensive income			
Interest expense	192,630		192,630

The outstanding balances and the related average interest rates as of 31 December 2008 and related profit or loss amounts of transactions for the year ended 31 December 2008 with the parent are as follows.

	AMD'000	Average interest rate, %	Total AMD'000
Statement of financial position			
Loans and borrowings	3,419,094	8.00%	3,419,094
Statement of comprehensive income			
Interest expense	363,311		363,311

20 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are composed of the following items:

	2009 AMD'000	2008 AMD'000
Cash	11,736	6,804
Placement with banks – current accounts and short-term deposits	492,738	225,980
	504,474	232,784

21 Fair value of financial instruments

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

The estimated fair values of all financial instruments approximate their carrying values.

As at 31 December 2009 and 2008, the Organization does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

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

22 Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2009 and 2008. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2009		2008	
	Average effective interest rate, %		Average effective interest rate, %	
	AMD	USD	AMD	USD
Interest bearing assets				
Placements with banks				
- Current accounts	0.00%	0.0%	0.00%	0.00%
- Term deposits	8.90%	5.60%	-	5.40%
Loans to customers	46.00%	25.00%	42.60%	22.60%
Held-to-maturity investments	6.50%	-	-	-
Interest bearing liabilities				
Loans and borrowings				
- Secured bank loans	8.80%	-	8.70%	-
- Unsecured loans from other entities	-	7.90%		8.00%
- Loan from shareholder	9.66%	-	7.90%	-

23 Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2009.

	Less than 1 month	1 to 3 months	3 to 12 tmonths	1 to 5 years	More than 5 years	No maturity	Overdue	Total
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
ASSETS								
Cash	11,736	-	-	-	-	-	-	11,736
Placements with banks	265,360	471,156	1,967,265	137,363	-	-	-	2,841,144
Loans to customers	864,596	1,566,976	4,779,617	647,110	-	-	57,690	7,915,989
Held-to-maturity investments	-	-	221,839	-	-	-	-	221,839
Property equipment and intangible assets	-	-	-	-	-	122,597	-	122,597
Deferred tax asset	-	-	14,254	-	-	-	-	14,254
Other assets	3	540	2,122	-	-	5,845	3,228	11,738
Total assets	1,141,695	2,038,672	6,985,097	784,473	-	128,442	60,918	11,139,297
LIABILITIES								
Loans and borrowings	27,278	7,178	2,414,577	1,329,536	2,032,000	-	-	5,810,569
Current tax liability	-	-	157,225	-	-	-	-	157,225
Other liabilities	53,760	-	18,136	-	-	-	-	71,896
Total liabilities	81,038	7,178	2,589,938	1,329,536	2,032,000	-	-	6,039,690
Net position as at 31 December 2009	1,060,657	2,031,494	4,395,159	(545,063)	(2,032,000)	128,442	60,918	5,099,607
Net position as at 31 December 2008	936,379	(3,795)	3,928,580	(2,118,683)	1,055	173,211	1,089	2,917,836
Cumulative net position as at 31 December 2009	1,060,657	3,092,151	7,487,310	6,942,247	4,910,247	5,038,689	5,099,607	5,099,607
Cumulative net position as at 31 December 2008	936,379	932,584	4,861,164	2,742,481	2,743,536	2,916,747	2,917,836	2,917,836

Due to the fact that substantially all the financial instruments are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates. The amounts in this table represent the carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

24 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2009:

	AMD	USD	Total
	AMD'000	AMD'000	AMD'000
ASSETS			
Cash	11,736	-	11,736
Placements with banks	734,716	2,106,428	2,841,144
Loans to customers	7,643,225	272,764	7,915,989
Held-to-maturity investments	221,839	-	221,839
Property, equipment and intangible assets	122,597	-	122,597
Deferred tax asset	14,254	-	14,254
Other assets	11,722	16	11,738
Total assets	8,760,089	2,379,208	11,139,297
LIABILITIES			
Loans and borrowings	3,513,495	2,297,074	5,810,569
Current tax liability	157,225	-	157,225
Other liabilities	71,896	-	71,896
Total liabilities	3,742,616	2,297,074	6,039,690
Net on balance sheet position as of 31 December 2009	5,017,473	82,134	5,099,607
Net on balance sheet positions as of 31 December 2008	2,825,823	92,013	2,917,836