

Aregak Universal Credit Organization cjsc

**Financial Statements
for the year ended 31 December 2010**

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Independent Auditors' Report

To the Shareholder of 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 2010, 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 our 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, we consider 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 audit opinion.


Opinion

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


Andrew Coxshall
Director

KPMG Armenia cjsc
31 March 2011




Tigran Gasparyan
Head of Audit Department

Aregak Universal Credit Organization cjsc
Statement of Financial Position as at 31 December 2010

	Notes	2010 AMD'000	2009 AMD'000
ASSETS			
Cash and cash equivalents		5,108	11,736
Placements with banks	10	828,398	2,841,144
Loans to customers	11	8,330,783	7,915,989
Held-to-maturity investments	12	373,045	221,839
Property, equipment and intangible assets	13	626,646	122,597
Deferred tax asset	9	1,930	14,254
Other assets		41,975	11,738
Total assets		10,207,885	11,139,297
LIABILITIES			
Loans and borrowings	14	3,310,803	5,810,569
Current tax liability		152,781	157,225
Other liabilities		78,495	71,896
Total liabilities		3,542,079	6,039,690
EQUITY			
Share capital	15	3,445,000	3,290,000
Additional paid-in capital		390,660	390,660
Retained earnings		2,830,146	1,418,947
Total equity		6,665,806	5,099,607
Total liabilities and equity		10,207,885	11,139,297

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 2010

	Notes	2010 AMD'000	2009 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		3,010,278	2,740,227
Interest payments		(239,759)	(508,847)
Fee and commission payments		(28,971)	(22,864)
Net payments from foreign exchange		(1,028)	(662)
Fines and penalties receipts		250,518	226,354
Other net payments		(31,074)	(20,306)
Other general administrative expenses payments		(983,564)	(904,685)
(Increase) decrease in operating assets			
Placements with banks		1,888,923	(460,019)
Loans to customers		(454,517)	(559,128)
Net cash provided from operating activities before income tax paid		3,410,806	490,070
Income tax paid		(349,320)	(154,388)
Cash flows from operations		3,061,486	335,682
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of held-to-maturity investments		(144,135)	(220,051)
Purchases of property and equipment and intangible assets		(553,754)	(7,957)
Sales of property and equipment and intangible assets		2,231	1,267
Cash flows used in investing activities		(695,658)	(226,741)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of loans and borrowings		1,468,301	486,699
Repayment of loans and borrowings		(3,968,224)	(1,841,900)
Proceeds from issuance of share capital		12,927	1,499,000
Cash flows from financing activities		(2,486,996)	143,799
Net (decrease) increase in cash and cash equivalents		(121,168)	252,740
Effect of changes in exchange rates on cash and cash equivalents		(3,503)	18,950
Cash and cash equivalents as at the beginning of the period		504,474	232,784
Cash and cash equivalents as at the end of the period	20	379,803	504,474

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 2010

	Share capital	Additional paid-in capital	Retained earnings	Total equity
	AMD'000	AMD'000	AMD'000	AMD'000
Balance as at 1 January 2009	1,791,000	586,587	540,249	2,917,836
Total comprehensive income				
Profit for the period	-	-	878,698	878,698
Transactions with owners, recorded directly in equity				
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)
Total transactions with owners	1,499,000	(195,927)	-	1,303,073
Balance as at 31 December 2009	3,290,000	390,660	1,418,947	5,099,607
Balance as at 1 January 2010	3,290,000	390,660	1,418,947	5,099,607
Total comprehensive income				
Profit for the period	-	-	1,411,199	1,411,199
Transactions with owners, recorded directly in equity				
Shares issued (note 15)	155,000	-	-	155,000
Total transactions with owners	155,000	-	-	155,000
Balance as at 31 December 2010	3,445,000	390,660	2,830,146	6,665,806

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) Organization and operations

Aregak Universal Credit Organization cjsc (the Organization) was established in the Republic of Armenia as a closed joint stock company in 2006. The principal activity of the Organization is provision of micro and medium 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 26 branches and 2 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 208 (2009: 204).

The Organization is wholly-owned and ultimately controlled by the United Methodist Committee on Relief (the UMCOR) of the General Board of Global Ministers of the United Methodist Church (the Shareholder). Related party transactions are detailed in note 19.

(b) Armenian business environment

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

(d) Use of estimates and judgments

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in 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 accounting policies set out below are applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the 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.

(b) 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. 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 Organization 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 Organization has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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

(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 that 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.

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.

(iv) Fair value measurement principles

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

When available, the Organization 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 Organization 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 Organization, 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 Organization 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 Organization 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 Organization believes a third-party market participant would take them into account in pricing a transaction.

(v) *Gains and losses on subsequent measurement*

A gain or loss arising from a change in the fair value of a financial asset or liability is 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.

(vi) *Derecognition*

The Organization 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 Organization 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 Organization is recognised as a separate asset or liability in the statement of financial position. The Organization derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Organization 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 Organization 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 Organization 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 Organization 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 Organization writes off assets deemed to be uncollectible.

(vii) *Offsetting*

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

(d) *Property and equipment*

(i) *Owned assets*

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

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) *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 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 to 5 years
- office equipment	5 years
- other	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 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. The Organization 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 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.

(h) Share capital

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

(i) 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.

(i) Taxation

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the 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.

(j) Income and expense recognition

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

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and 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.

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

(k) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2010, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Organization plans to adopt these pronouncements when they become effective. The Organization has not yet analysed the likely impact of this pronouncement 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 International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued in the first half of 2011. 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.
- *Improvements to IFRSs 2010* resulting from the International Accounting Standards Board's third annual improvements project are to be dealt with on a standard-by-standard basis. The effective date of each amendment is included in the IFRSs affected.

4 Net interest income

	2010	2009
	AMD'000	AMD'000
Interest income		
Loans to customers	2,925,232	2,607,394
Placements with banks	84,286	134,754
Held-to-maturity investments	8,859	1,788
	3,018,377	2,743,936
Interest expense		
Loans and borrowings	401,507	508,192
Other	-	1,264
	401,507	509,456

5 Other operating income

	2010	2009
	AMD'000	AMD'000
Fines and penalties	250,518	226,354
Other	95	1,805
	250,613	228,159

6 Impairment losses

	2010	2009
	AMD'000	AMD'000
Loans to customers	36,500	310,401

7 Personnel expenses

	2010	2009
	AMD'000	AMD'000
Employee compensation	572,551	556,065
Payroll related taxes	64,456	62,737
	637,007	618,802

8 Other general administrative expenses

	2010	2009
	AMD'000	AMD'000
Repairs and maintenance	63,313	56,339
Security	58,509	55,741
Operating lease expense	58,479	57,332
Taxes other than on income	50,263	47,528
Depreciation and amortization	47,931	50,232
Communications and information services	37,127	37,483
Professional services	15,377	10,950
Travel expenses	8,949	4,814
Office supplies	8,747	9,191
Advertising and marketing	5,606	2,342
Insurance	2,265	3,100
Staff training expenses	2,075	2,305
Other	13,470	10,949
	372,111	348,306

9 Income tax expense

	2010	2009
	AMD'000	AMD'000
Current tax expense		
Current year	344,876	256,096
Deferred tax expense		
Origination and reversal of temporary differences	12,324	(13,841)
Total income tax expense	357,200	242,255

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

Reconciliation of effective tax rate:

	2010		2009	
	AMD'000	%	AMD'000	%
Profit before tax	1,768,399		1,120,953	
Income tax at the applicable tax rate	353,680	20%	224,191	20%
Non-deductible costs	3,520	0.2%	18,064	1.6%
	357,200	20.2%	242,255	21.6%

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 2010 and 2009. 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 2010 and 2009 are presented as follows:

2010

AMD'000	Balance 1 January 2010	Recognised in profit or loss	Balance 31 December 2010
Placements with banks	(5,659)	4,017	(1,642)
Loans to customers	14,366	(14,366)	-
Other liabilities	5,547	(1,975)	3,572
	14,254	(12,324)	1,930

2009

AMD'000	Balance 1 January 2009	Recognised in profit or loss	Balance 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

10 Placements with banks

	2010 AMD'000	2009 AMD'000
Current accounts		
Largest 10 Armenian banks	221,395	119,384
Other Armenian banks	8,925	134,459
Total current accounts	230,320	253,843
Deposits		
Largest 10 Armenian banks	157,383	2,458,929
Other Armenian banks	440,695	128,372
Total deposits	598,078	2,587,301
Total placements with banks	828,398	2,841,144

(a) Collateral accepted as security for loans

As at 31 December 2010 deposits of AMD 132,110 thousands (2009: AMD 1,786,286 thousand) are pledged under loans from banks (refer to note 14).

(b) Concentration of placements with banks

As at 31 December 2010 the Organization has three banks (2009: three banks), whose balances exceed 10% of total placements with banks. The gross value of these balances as at 31 December 2010 is AMD 780,793 thousand (2009: AMD 2,133,264 thousand).

11 Loans to customers

	2010 AMD'000	2009 AMD'000
Business loans		
Loans to small companies and sole entrepreneurs	296,556	864,032
Loans to individuals		
Micro and medium loans *	7,932,378	7,035,670
Consumer loans	263,034	309,279
Total loans to individuals	8,195,412	7,344,949
Gross loans to customers	8,491,968	8,208,981
Impairment allowance	(161,185)	(292,992)
Net loans to customers	8,330,783	7,915,989

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

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

	Business loans AMD'000	Loans to individuals AMD'000	Total AMD'000
Balance at the beginning of the year	131,029	161,963	292,992
Net (recovery) charge	(16,435)	52,935	36,500
Write-offs	(81,266)	(87,041)	(168,307)
Balance at the end of the year	33,328	127,857	161,185

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

	Business loans AMD'000	Loans to individuals AMD'000	Total AMD'000
Balance at the beginning of the year	46,934	80,361	127,295
Net charge	148,122	162,279	310,401
Write-offs	(64,027)	(80,677)	(144,704)
Balance at the end of the year	131,029	161,963	292,992

(a) Credit quality of loans to customers

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

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans,
	AMD'000	AMD'000	AMD'000	%
Business loans				
Loans to small companies and sole entrepreneurs				
- not overdue	252,451	2,480	249,971	1.0%
- overdue less than 30 days	6,258	1,604	4,654	25.6%
- overdue 30-89 days	13,488	6,354	7,134	47.1%
- overdue 90-179 days	9,302	7,833	1,469	84.2%
- overdue more than 180 days	15,057	15,057	-	100.0%
Total business loans	296,556	33,328	263,228	11.2%
Loans to individuals				
Micro and medium loans				
- not overdue	7,728,214	10,668	7,717,546	0.1%
- overdue less than 30 days	78,955	10,646	68,309	13.5%
- overdue 30-89 days	51,897	27,913	23,984	53.8%
- overdue 90-179 days	48,589	41,433	7,156	85.3%
- overdue more than 180 days	24,723	24,723	-	100.0%
Total micro and medium loans	7,932,378	115,383	7,816,995	1.5%
Consumer loans				
- not overdue	247,875	1,763	246,112	0.7%
- overdue less than 30 days	1,945	489	1,456	25.1%
- overdue 30-89 days	3,633	1,052	2,581	29.0%
- overdue 90-179 days	2,429	2,018	411	83.1%
- overdue more than 180 days	7,152	7,152	-	100.0%
Total consumer loans	263,034	12,474	250,560	4.7%
Total loans to individuals	8,195,412	127,857	8,067,555	1.6%
Total loans to customers	8,491,968	161,185	8,330,783	1.9%

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

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans,
	AMD'000	AMD'000	AMD'000	%
Business loans				
Loans to small companies and sole entrepreneurs				
- not overdue	677,262	7,371	669,891	1.1%
- overdue less than 30 days	44,580	12,175	32,405	27.3%
- overdue 30-89 days	41,250	19,502	21,748	47.3%
- overdue 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	864,032	131,029	733,003	15.2%
Loans to individuals				
Micro and medium loans				
- not overdue	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 overdue	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	94.8%
- 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%
Total loans to customers	8,208,981	292,992	7,915,989	3.6%

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

(i) Business loans

The Organization does not have individually significant loans, therefore the management estimates loan impairment for business loans based on its past loss experience.

In determining the impairment allowance for business loans, 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 24 months
- business loans 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 business loans as of 31 December 2010 would be AMD 2,632 thousand lower/higher (31 December 2009: AMD 7,330 thousand).

(ii) Loans to individuals

The Organization estimates loan impairment based on its past historical loss experience on loans to individuals.

In determining the impairment allowance for loans to individuals, 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 24 months
- loans to individuals overdue for more than 180 days are allocated 100% probability of loss.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus one percent, the loan impairment on loans to individuals as of 31 December 2010 would be AMD 80,676 thousand lower/higher (31 December 2009: AMD 71,830 thousand).

(c) Analysis of collateral

(i) Business loans

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

	2010 AMD'000	% of loan portfolio	2009 AMD'000	% of loan portfolio
Real estate	242,094	92.0%	693,041	94.5%
Finished goods	1,091	0.4%	694	0.1%
Other collateral	20,043	7.6%	39,268	5.4%
	263,228	100.0%	733,003	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 44,105 thousand (2009: AMD 186,770 thousand) are secured mainly by real estate collateral with a fair value of AMD 356,703 thousand (2009: AMD 654,410 thousand) determined at the time of the origination of the loans.

During the year ended 31 December 2010 the Organization obtained an asset with the carrying amount of AMD 4,647 thousand by taking control of collateral securing a loan to a legal entity (2009: nil).

(ii) Loans to individuals

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 Organization. Consumer loans are secured by the underlying cars or other items.

Impaired or overdue micro and medium loans with a gross value of AMD 204,164 thousand (2009: AMD182,187 thousand) are secured by individual guarantees given by the members of a group of borrowers formed for the purpose of obtaining loans from the Organization. Impaired or overdue consumer loans with a gross value of AMD 15,159 thousand (2009: AMD 42,881 thousand) are secured by underlying cars or other items.

(d) 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:

	2010	2009
	AMD'000	AMD'000
Agriculture	5,592,480	4,902,807
Trade	1,987,234	2,437,707
Consumer loans	263,034	309,279
Food industry	37,010	46,333
Light industry	26,068	48,086
Other	586,142	464,769
	8,491,968	8,208,981
Impairment allowance	(161,185)	(292,992)
	8,330,783	7,915,989

(e) Significant credit exposures

As at 31 December 2010 the Organization has no borrowers or groups of connected borrowers (2009: nil), whose loan balances exceed 10% of total loans to customers.

(f) Loan maturities

The maturity of the loan portfolio is presented in note 16 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

12 Held-to-maturity investments

	2010	2009
	AMD'000	AMD'000
Government bonds		
Treasury Bills of the Republic of Armenia	373,045	221,839

13 Property, equipment and intangible assets

AMD'000	Buildings	Leasehold improvements	Motor vehicles	Communication devices and computers	Office equipment	Computer software	Other	Total
Cost								
Balance at 1 January 2010	9,047	3,559	98,769	65,311	44,638	12,064	7,288	240,676
Additions	456,837	-	3,233	89,970	1,021	1,500	1,193	553,754
Disposals	-	-	(2,523)	(608)	(774)	-	-	(3,905)
Balance at 31 December 2010	465,884	3,559	99,479	154,673	44,885	13,564	8,481	790,525
Depreciation								
Balance at 1 January 2010	1,136	361	47,707	40,878	21,241	3,331	3,425	118,079
Depreciation for the year	459	178	20,164	15,160	9,020	1,368	1,582	47,931
Disposals	-	-	(1,276)	(436)	(419)	-	-	(2,131)
Balance at 31 December 2010	1,595	539	66,595	55,602	29,842	4,699	5,007	163,879
Carrying amount								
At 31 December 2010	464,289	3,020	32,884	99,071	15,043	8,865	3,474	626,646
AMD'000								
AMD'000	Buildings	Leasehold improvements	Motor vehicles	Communication devices and computers	Office equipment	Computer software	Other	Total
Cost								
Balance 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	-	-	(1,326)	(278)	(1,152)	-	-	(2,756)
Balance at 31 December 2009	9,047	3,559	98,769	65,311	44,638	12,064	7,288	240,676
Depreciation								
Balance at 1 January 2009	677	243	28,438	22,599	12,916	2,125	2,147	69,145
Depreciation for the year	459	118	19,771	18,525	8,875	1,206	1,278	50,232
Disposals	-	-	(502)	(246)	(550)	-	-	(1,298)
Balance at 31 December 2009	1,136	361	47,707	40,878	21,241	3,331	3,425	118,079
Carrying amount								
At 31 December 2009	7,911	3,198	51,062	24,433	23,397	8,733	3,863	122,597
At 1 January 2009	8,370	2,107	69,969	40,127	31,810	9,939	4,008	166,330

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

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 note 16.

	2010	2009
	AMD'000	AMD'000
Non-current liabilities		
Secured bank loans	-	210,665
Unsecured loans from other entities	308,629	1,140,236
Unsecured loan from shareholder	2,228,291	2,189,859
	2,536,920	3,540,760
Current liabilities		
Secured bank loans	105,259	1,110,444
Unsecured loans from other entities	668,624	1,159,365
	773,883	2,269,809
	3,310,803	5,810,569

Loans from the shareholder were provided in 2006 and 2007 of AMD 4,510,000 thousand 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 of AMD 801,028 thousand as at 31 December 2007.

In 2008 and 2009 the terms of the loan were modified substantially. 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 the derecognized loan and the fair value of the newly recognized loan was deducted from additional-paid-in capital.

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 2010		31 December 2009	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	AMD	11.41%	2011	105,259	105,259	210,665	210,665
Secured bank loan	AMD	8.00%	2010	-	-	1,110,444	1,110,444
Unsecured loans from other entities	USD	7.75%	2011	455,492	455,492	1,137,710	1,137,710
Unsecured loans from other entities	AMD	13.50%	2013	279,987	279,987	-	-
Unsecured loans from other entities	AMD	13.50%	2011	139,236	139,236	-	-
Unsecured loans from other entities	USD	7.00%	2011	73,896	73,896	-	-
Unsecured loans from other entities	USD	0.00%	2012	25,833	25,833	-	-
Unsecured loans from other entities	AMD	9.25%	2012	2,809	2,809	2,526	2,526
Unsecured loans from other entities	USD	8.10%	2010	-	-	1,159,365	1,159,365
Unsecured loan from shareholder	AMD	9.66%	2016	2,228,291	2,228,291	2,189,859	2,189,859
				3,310,803	3,310,803	5,810,569	5,810,569

The bank loan is secured by a term deposit with similar terms pledged at the same bank in the total amount of AMD 132,110 thousand (2009: AMD 1,786,286 thousand). The Organization accounts for the bank loan secured by a term deposit on a gross basis as management believes that:

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

Concentrations of loans and borrowings

As of 31 December 2010 the Organization has two counterparties (2009: four counterparties), whose balances exceed 10% of total loans and borrowings. These balances as of 31 December 2010 are AMD 2,784,212 thousand (2009: AMD 5,313,112 thousand).

15 Share capital

(a) Issued capital

The authorised share capital comprises 100,000 ordinary shares both as at 31 December 2010 and 2009. Issued and outstanding share capital comprises 17,225 ordinary shares (2009: 16,450). All shares have a nominal value of AMD 200,000. During 2010 775 ordinary shares (2009: 7,495) were issued at their nominal value resulting in an increase in share capital of AMD 155,000 thousand, from which AMD 142,073 thousand was made by offsetting the Organization's liability to the shareholder and the balance was paid in cash.

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.

(b) 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 at the reporting date, reserves available for distribution amount to AMD 2,313,392 thousand (2009: AMD 925,447 thousand).

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

16 Risk management

Management of risk is fundamental to the business of lending 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.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Organization, 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 management.

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

Management is responsible for monitoring and implementation of risk mitigation measures and making sure that the Organization 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 representative of the shareholder.

Both external and internal risk factors are identified and managed throughout the Organization. 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 Organization 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 representative of the shareholder.

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

(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 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 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	More than 5 years	Carrying amount
31 December 2010						
ASSETS						
Placements with banks	486,068	148,351	193,979	-	-	828,398
Loans to customers	2,726,015	2,187,732	2,844,577	572,459	-	8,330,783
Held-to-maturity investments	373,045	-	-	-	-	373,045
	<u>3,585,128</u>	<u>2,336,083</u>	<u>3,038,556</u>	<u>572,459</u>	<u>-</u>	<u>9,532,226</u>
LIABILITIES						
Loans and borrowings	<u>136,684</u>	<u>179,548</u>	<u>688,213</u>	<u>274,358</u>	<u>2,032,000</u>	<u>3,310,803</u>
Interest rate gap	<u>3,448,444</u>	<u>2,156,535</u>	<u>2,350,343</u>	<u>298,101</u>	<u>(2,032,000)</u>	<u>6,221,423</u>
31 December 2009						
ASSETS						
Placements with banks	736,516	1,527,590	439,675	137,363	-	2,841,144
Loans to customers	2,489,262	2,054,917	2,724,700	647,110	-	7,915,989
Held-to-maturity investments	-	221,839	-	-	-	221,839
	<u>3,225,778</u>	<u>3,804,346</u>	<u>3,164,375</u>	<u>784,473</u>	<u>-</u>	<u>10,978,972</u>
LIABILITIES						
Loans and borrowings	<u>34,456</u>	<u>1,133,670</u>	<u>1,280,907</u>	<u>1,329,536</u>	<u>2,032,000</u>	<u>5,810,569</u>
Interest rate gap	<u>3,191,322</u>	<u>2,670,676</u>	<u>1,883,468</u>	<u>(545,063)</u>	<u>(2,032,000)</u>	<u>5,168,403</u>

Average interest rates

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

	2010		2009	
	AMD	USD	AMD	USD
Interest bearing assets				
Placements with banks				
- Current accounts	0.0%	0.0%	0.0%	0.0%
- Term deposits	9.0%	6.5%	8.9%	5.6%
Loans to customers	48.0%	19.5%	46.0%	25.0%
Held-to-maturity investments	7.5%	-	6.5%	-
Interest bearing liabilities				
Loans and borrowings				
- Secured bank loans	11.4%	-	8.8%	-
- Unsecured loans from other entities	13.5%	7.5%	-	7.9%
- Unsecured loan from shareholder	9.7%	-	9.7%	-

Interest rate sensitivity analysis

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

	2010		2009	
	Profit or loss AMD'000	Equity AMD'000	Profit or loss AMD'000	Equity AMD'000
100 bp parallel fall	(42,939)	(42,939)	(21,455)	(21,455)
100 bp parallel rise	42,939	42,939	21,455	21,455

(ii) 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.

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%.

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

	AMD	USD	Total
	AMD'000	AMD'000	AMD'000
ASSETS			
Cash and cash equivalents	5,108	-	5,108
Placements with banks	358,558	469,840	828,398
Loans to customers	8,246,697	84,086	8,330,783
Held-to-maturity investments	373,045	-	373,045
Other financial assets	5,154	611	5,765
Total assets	8,988,562	554,537	9,543,099
LIABILITIES			
Loans and borrowings	2,755,582	555,221	3,310,803
Net position as at 31 December 2010	6,232,980	(684)	6,232,296

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

	AMD	USD	Total
	AMD'000	AMD'000	AMD'000
ASSETS			
Cash and cash equivalents	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
Other financial assets	4,555	16	4,571
Total assets	8,616,071	2,379,208	10,995,279
LIABILITIES			
Loans and borrowings	3,513,495	2,297,074	5,810,569
Net position as at 31 December 2009	5,102,576	82,134	5,184,710

A strengthening of the AMD, as indicated below, against the USD at 31 December 2010 and 2009 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Organization considers to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2010		2009	
	Profit or loss	Equity	Profit or loss	Equity
	AMD'000	AMD'000	AMD'000	AMD'000
10% appreciation of AMD against USD	68	68	(8,213)	(8,213)

A weakening of the AMD against the USD at 31 December 2010 and 2009 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 Organization if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Organization has developed policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee which actively monitors credit risk. The credit policy is reviewed and approved by the Executive Administration.

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 from financial assets at the reporting date is as follows:

	2010	2009
	AMD'000	AMD'000
ASSETS		
Placements with banks	828,398	2,841,144
Loans to customers	8,330,783	7,915,989
Held-to-maturity investments	373,045	221,839
Other assets	4,182	3,237
Total maximum exposure	9,536,408	10,982,209

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

As at 31 December 2010 the Organization has no debtors or groups of connected debtors (2009: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

(d) Liquidity risk

Liquidity risk is the risk that the Organization 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 Organization 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 Executive Administration.

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Loans and borrowings	<u>107,636</u>	<u>39,107</u>	<u>188,326</u>	<u>724,112</u>	<u>3,441,188</u>	<u>4,500,369</u>	<u>3,310,803</u>

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Loans and borrowings	<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>

Management does not expect that the cash flows from financial assets and liabilities will be significantly different from their contractual terms. In the tables below the following financial assets and liabilities are presented on a discounted basis and are based on their expected/contractual cash flows:

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	5,108	-	-	-	-	-	-	5,108
Placements with banks	341,693	144,375	342,330	-	-	-	-	828,398
Loans to customers	913,585	1,693,742	5,032,309	572,459	-	-	118,688	8,330,783
Held-to-maturity investments	-	373,045	-	-	-	-	-	373,045
Property equipment and intangible assets	-	-	-	-	-	626,646	-	626,646
Deferred tax asset	-	-	1,930	-	-	-	-	1,930
Other assets	5,444	19,839	562	-	-	10,982	5,148	41,975
Total assets	1,265,830	2,231,001	5,377,131	572,459	-	637,628	123,836	10,207,885
Non-derivative liabilities								
Loans and borrowings	110,260	26,424	867,761	274,358	2,032,000	-	-	3,310,803
Current tax liability	-	-	152,781	-	-	-	-	152,781
Other liabilities	78,495	-	-	-	-	-	-	78,495
Total liabilities	188,755	26,424	1,020,542	274,358	2,032,000	-	-	3,542,079
Net position	1,077,075	2,204,577	4,356,589	298,101	(2,032,000)	637,628	123,836	6,665,806

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	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
Non-derivative 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	1,060,657	2,031,494	4,395,159	(545,063)	(2,032,000)	128,442	60,918	5,099,607

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

<i>Unaudited</i>	2010	2009
Idle cash ratio	2.8%	3.3%
High liquid assets to total assets	2.3%	2.8%
Current ratio	0.8	0.9
Quick ratio	0.5	0.6

17 Capital management

The CBA 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 CBA, 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 2010 and 2009.

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

	2010	2009
	AMD'000	AMD'000
Total liabilities	3,542,079	6,039,690
Less: cash and cash equivalents	5,108	11,736
Net debt	3,536,971	6,027,954
Total equity	6,665,806	5,099,607
Debt to capital ratio at 31 December	0.53	1.18

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

18 Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The 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 its 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.

(b) Litigation

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

(c) Taxation contingencies

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

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

19 Related party transactions

(a) Control relationships

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

UMCOR produces publicly available financial statements.

(b) Transactions with the Management

Total remuneration included in personnel expenses for the year ended 31 December is as follows:

	2010 AMD'000	2009 AMD'000
Employee compensation	64,676	64,718
Payroll related taxes	4,074	4,187
	68,750	68,905

The outstanding balances and average interest rates as at 31 December for transactions with management are as follows:

	2010 AMD'000	Average interest rate, %	2009 AMD'000	Average interest rate, %
Statement of financial position				
ASSETS				
Loans to customers	41,639	7.50%	20,074	10.00%

The loans are in Armenian Drams and repayable by 2014.

Amounts included in profit or loss in relation to transactions with management for the year ended 31 December are as follows:

	2010 AMD'000	2009 AMD'000
Statement of comprehensive income		
Interest income	2,650	374

(c) Transactions with the parent

The outstanding balances and the related average interest rates as at 31 December 2010 and related profit or loss amounts of transactions for the year ended 31 December 2010 with the parent are as follows.

	AMD'000	Average interest rate, %
Statement of financial position		
LIABILITIES		
Loans and borrowings		
- In AMD	2,228,291	9.66%
Statement of comprehensive income		
Interest expense	196,291	

The outstanding balances and the related average interest rates as at 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, %
Statement of financial position		
LIABILITIES		
Loans and borrowings		
- In AMD	2,189,859	9.66%
Statement of comprehensive income		
Interest expense	192,630	

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:

	2010 AMD'000	2009 AMD'000
Cash on hand	5,108	11,736
Cash and cash equivalents in the statement of financial position	5,108	11,736
Current accounts	230,320	253,843
Term deposits	144,375	238,895
Cash and cash equivalents in the statement of cash flows	379,803	504,474

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

21 Financial assets and liabilities: fair values and accounting classifications

(a) 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 2010:

AMD'000	Held-to-maturity	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	5,108	-	5,108	5,108
Placements with banks	-	828,398	-	828,398	828,398
Loans customers:					
Business loans	-	281,608	-	281,608	281,608
Loans to individuals	-	8,049,175	-	8,049,175	8,049,175
Held-to-maturity investments:					
Government bonds	373,045	-	-	373,045	373,045
	373,045	9,164,289	-	9,537,334	9,537,334
Loans and borrowings	-	-	3,310,803	3,310,803	3,310,803

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

AMD'000	Held-to-maturity	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	11,736	-	11,736	11,736
Placements with banks	-	2,841,144	-	2,841,144	2,841,144
Loans customers:					
Business loans	-	733,003	-	733,003	733,003
Loans to individuals	-	7,182,986	-	7,182,986	7,182,986
Held-to-maturity investments:					
Government bonds	221,839	-	-	221,839	221,839
	221,839	10,768,869	-	10,990,708	10,990,708
Loans and borrowings	-	-	5,810,569	5,810,569	5,810,569

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 2010 and 2009, 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 realizable in an immediate sale of the assets or settlement of liabilities.