CARD AgroCredit Universal Credit Organisation CJSC

International Financial Reporting Standards
Financial Statements and
Independent Auditor’s Report

31 December 2011

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Independent Auditor's Report

To the Shareholder and Management of CARD AgroCredit Universal Credit Organisation CJSC:

1 We have audited the accompanying financial statements of CARD AgroCredit Universal Credit Organisation CJSC (the "Company") which comprise the statement of financial position as of 31 December 2011 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 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.

Auditor's Responsibility

3 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 whether the financial statements are free from material misstatement.

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

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

Opinion

6 In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Altaf Tapia Managing Partner	Victor Nalbandyan Audit Senior Manager

XX XXXXX 2012
Yerevan, Republic of Armenia

In thousands of Armenian Drams	**Note**	**31 December 2011**	**31 December 2010**
ASSETS			
Cash and cash equivalents	7	17,298	104,919
Short-term deposits at banks	8	60,121	-
Loans to customers	9	1,658,667	1,295,530
Finance lease receivables	10	11,083	12,879
Deferred income tax asset	18	3,898	2,097
Premises and equipment	11	17,023	15,631
Other assets	12	9,209	4,525
TOTAL ASSETS		**1,777,299**	**1,435,581**
LIABILITIES			
Current income tax liability		4,118	5,690
Other financial liabilities	13	11,729	5,791
Other liabilities		3,596	1,687
Borrowings	14	1,046,662	760,440
TOTAL LIABILITIES		**1,066,105**	**773,608**
EQUITY			
Share capital	15	604,500	604,500
Retained earnings		106,694	57,473
TOTAL EQUITY		**711,194**	**661,973**
TOTAL LIABILITIES AND EQUITY		**1,777,299**	**1,435,581**

Approved for issue and signed on XX XXXXX 2012.

Sevak Manukyan
Executive Director

Andranik Mosinyan
Chief Accountant

In thousands of Armenian Drams	Note	2011	2010
Interest income	16	232,053	176,320
Interest expense	16	(37,136)	(26,466)
Net interest income		**194,917**	**149,854**
Provision for loan impairment	9	(25,155)	(18,475)
Net interest income after provision for loan impairment		**169,762**	**131,379**
Fee and commission income		14,460	6,751
Fee and commission expense		(5,935)	(2,876)
Foreign exchange translation differences		439	(3,920)
Administrative and other operating expenses	17	(117,189)	(62,689)
Profit before tax		**61,537**	**68,645**
Income tax expense	18	(12,316)	(14,872)
PROFIT FOR THE YEAR		**49,221**	**53,773**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**49,221**	**53,773**

In thousands of Armenian Drams	**Share capital**	**Retained earnings**	**Total**
Balance at 1 January 2010	**465,000**	**74,222**	**539,222**
Comprehensive income for the year	-	53,773	**53,773**
Transfer from retained earnings to share capital	70,522	(70,522)	**-**
Capital contribution from shareholder	68,978	-	**68,978**
Balance at 31 December 2010	**604,500**	**57,473**	**661,973**
Comprehensive income for the year	-	49,221	**49,221**
Balance at 31 December 2011	**604,500**	**106,694**	**711,194**

The accompanying notes set out on pages 5 to 33 are an integral part of these financial statements.

In thousands of Armenian Drams	Note	2011	2010
Cash flows from operating activities			
Interest received		223,816	168,576
Interest paid		(33,432)	(23,650)
Fee and commission received		8,612	4,529
Fee and and commission paid		(1,397)	(318)
Staff costs paid		(84,244)	(38,478)
Administrative and other operating expenses paid		(23,022)	(23,388)
Income tax paid		(16,133)	(19,597)
Cash flows from operating activities before changes in operating assets		**74,200**	**67,674**
Net increase in loans to customers		(382,389)	(383,841)
Net cash used in operating activities		**(308,189)**	**(316,167)**
Cash flows from investing activities			
Acquisition of premises and equipment		(5,677)	(8,398)
Purchase of assets leased out under finance lease		(12,261)	(26,773)
Receipts from finance lease receivable		15,722	11,041
(Placement of deposits at banks) /Repayment of matured deposits at banks		(60,121)	87,759
Interest received from placement of deposits at banks		2,233	3,041
Net cash (used in)/from investing activities		**(60,104)**	**66,670**
Cash flows from financing activities			
Proceeds from borrowings		468,610	272,550
Repayment of borrowings		(188,515)	(20,043)
Capital contributions from shareholder other than share issue		-	68,978
Net cash generated from financing activities		**280,095**	**321,485**
Effect of exchange rate changes on cash and cash equivalents		**577**	**4,934**
Net (decrease)/increase in cash and cash equivalents		**(87,621)**	**76,922**
Cash and cash equivalents at the beginning of the year	7	104,919	27,997
Cash and cash equivalents at the end of the year	7	**17,298**	**104,919**

1 Introduction

CARD AgroCredit Universal Credit Organisation CJSC ("the Company") was incorporated and is domiciled in the Republic of Armenia. The Company licence was granted by the Central Bank of RA on 27 June 2008. The Company is a closed joint stock company limited by shares and was set up in accordance with the Armenian Regulations. As of 31 December 2011 and 2010, the Company's immediate and ultimate parent company was Center for Agricultural and Rural Development Foundation domiciled in the Republic of Armenia ("the CARD Foundation").

Principal activity

The principal activity of the Company is lending. The Company provides a comprehensive package of financial services throughout the entire chain of agricultural production, processing and marketing, including operational and business development loans, farm development and seasonal loans to food processing enterprises, rural small and medium entities and private farmers.

The activities of the Company are regulated by the Central Bank of the Republic of Armenia ("the CBA").The Company has no branches within the Republic of Armenia.

Registered address and place of business.

The Company's registered address is at 1/21, 40 Azatutyan Street, Yerevan, Republic of Armenia.

2 Operating Environment of the Company

The Republic of Armenia displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the economy of the Republic of Armenia and the financial situation in the financial and corporate sectors significantly deteriorated since mid-2008. In 2011, the economy of the Republic of Armenia experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Armenian Dram against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within the Republic of Armenia is subject to varying interpretations and frequent changes. The future economic direction of the Republic of Armenia is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management is unable to predict all developments which could have an impact on the economy of the Republic of Armenia and consequently what effect, if any, they could have on the future financial position of the Company. Management believes it is taking all the necessary measures to support the sustainability and development of the Company's business.

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention.

Classes of financial instrument. The Company classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

3 Summary of Significant Accounting Policies (Continued)

<table>
<tr><th colspan="2">Category as defined by IAS 39</th><th colspan="2">Classes as defined by the Company</th></tr>
<tr><td rowspan="6">Financial assets</td><td rowspan="6">Loans and receivables</td><td rowspan="3">Loans to customers</td><td>Loans to individuals</td></tr>
<tr><td>Loans to legal entities</td></tr>
<tr><td>Loans to individuals – entrepreneurs</td></tr>
<tr><td colspan="2">Cash and cash equivalents</td></tr>
<tr><td colspan="2">Short-term deposits at banks</td></tr>
<tr><td colspan="2">Finance lease receivables</td></tr>
<tr><td rowspan="2">Financial liabilities</td><td rowspan="2">Financial liabilities at amortised cost</td><td colspan="2">Borrowings</td></tr>
<tr><td colspan="2">Other financial liabilities</td></tr>
</table>

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Company may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded

3 Summary of Significant Accounting Policies (Continued)

if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include demand cash with bank and placement with banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Short-term deposits at banks. Short-term deposits at banks include deposits held with banks with original maturities of more than three months. Short-term deposits at banks are carried at amortised cost using the effective interest method.

Loans to customers. Loans to customers are recorded when the Company advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or Credit organisation of financial assets that can be reliably estimated. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a Credit organisation of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Company obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the

3 Summary of Significant Accounting Policies (Continued)

assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts.

Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Finance lease receivables. Where the Company is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Company uses the same principal criteria to determine whether there is objective evidence that an impairment loss has occurred as for loans carried at amortised cost. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The

3 Summary of Significant Accounting Policies (Continued)

carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of comprehensive income for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in statement of comprehensive income for the year (within other operating income or expenses).

Depreciation. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Motor vehicles	5
Furniture and fittings	5
Computer and equipment	3

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Borrowings. Borrowings are carried at amortised cost using the effective interest method.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

3 Summary of Significant Accounting Policies (Continued)

Other financial liabilities. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Company to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Company will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Company does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Foreign currency translation. The functional currency of Credit organisation is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and the Company's presentation currency is the national currency of the Republic of Armenia, Armenian Dram ("AMD").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of Armenia ("CBA") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBA are recognised in the statement of comprehensive income. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

At 31 December 2011 the principal rate of exchange used for translating foreign currency balances was US Dollars ("USD") 1 = AMD 385.77 (31 December 2010: USD 1 = AMD 363.44).

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

Employee benefits. Wages, salaries, contributions to the Armenian state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Company.

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Company regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Credit organisation, or national or local economic conditions that correlate with defaults on assets in the Company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of AMD 2,724 thousand (2010: AMD 2,010 thousand).

Derecognition of financial assets. Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

Tax legislation. Armenian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 21.

Deferred income tax asset recognition. Management believes that it is probable that future taxable profit will be available against which the deductions can be utilised. Accordingly, deferred tax assets were recorded in the financial statements.

Initial recognition of related party transactions. In the normal course of business the Company enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 24.

Going concern. Management prepared these financial statements on a going concern basis.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Company from 1 January 2011:

***Amendment to IAS 24, Related Party Disclosures* (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).** IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Company now also discloses contractual commitments to purchase and sell goods or services to its related parties.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

Other revised standards and interpretations effective for the current period. IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later, and which the Company has not early adopted.

IFRS 9, Financial Instruments: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Company is currently assessing the impact of the new standard on its financial statements.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Company is currently assessing the impact of the new standard on its financial statements.

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of

6 New Accounting Pronouncements (Continued)

non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Company is currently assessing the impact of the new standard on its financial statements.

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Company is currently assessing the impact of the new standard on its financial statements.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Company is currently assessing the impact of the new standard on its financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Company is currently assessing the impact of the new standard on its financial statements.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Company is currently assessing the impact of the new standard on its financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Company expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances. The Company expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Company is currently assessing the impact of the amended standard on its financial statements.

Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment did not have a material impact on these financial statements.

6 New Accounting Pronouncements (Continued)

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement. The Company is considering the implications of the amendment, the impact on the Company and the timing of its adoption by the Company.

Other revised standards and interpretations: The amendments to IFRS 1 “First-time adoption of IFRS”, relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 “Income taxes”, which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, and IFRIC 20, “Stripping Costs in the Production Phase of a Surface Mine”, which considers when and how to account for the benefits arising from the stripping activity in mining industry, will not have any impact on these financial statements.

The Company does not expect the amendments to have any effect on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company’s financial statements.

7 Cash and Cash Equivalents

In thousands of Armenian Drams	31 December 2011	31 December 2010
Placements with other banks with original maturities of less than three months	4,643	92,155
Bank balances payable on demand	12,655	12,764
Total cash and cash equivalents	**17,298**	**104,919**

Interest rate analysis of cash and cash equivalents is disclosed in Note 19. All cash and cash equivalents balances are placed in Top 10 Armenian banks and are classified as current and not impaired (2010: Top 10 Armenian banks, current and not impaired).

8 Short-term Deposits at Banks

In thousands of Armenian Drams	31 December 2011	31 December 2010
VTB-Armenia Bank CJSC	60,121	-
Total short–term deposits at banks	**60,121**	-

Short-term deposits at banks are considered deposits with original maturities of more than three months. Interest rate analysis of short-term deposits at banks is disclosed in Note 19.

9 Loans to Customers

In thousands of Armenian Drams	31 December 2011	31 December 2010
Loans to individuals	1,345,109	1,026,170
Loans to legal entities	219,088	184,538
Loans to individuals – entrepreneurs	156,162	121,359
Less: Provision for loan impairment	(61,692)	(36,537)
Total loans to customers	**1,658,667**	**1,295,530**

Movements in the provision for loan impairment during 2011 are as follows.

In thousands of Armenian Drams	Loans to individuals	Loans to legal entities	Loans to individuals - entrepreneurs	Total
Provision for loan impairment at 1 January 2011	**15,830**	**2,567**	**18,140**	**36,537**
Provision for/(Recovery of) loan impairment during the year	23,808	619	728	**25,155**
Provision for loan impairment at 31 December 2011	**39,638**	**3,186**	**18,868**	**61,692**

9 Loans to Customers (Continued)

Movements in the provision for loan impairment during 2010 are as follows.

In thousands of Armenian Drams	Loans to individuals	Loans to legal entities	Loans to individuals - entrepreneurs	Total
Provision for loan impairment at 1 January 2010	**12,902**	**4,470**	**690**	**18,062**
Provision for/(Recovery of) loan impairment during the year	2,928	(1,903)	17,450	18,475
Provision for loan impairment at 31 December 2010	**15,830**	**2,567**	**18,140**	**36,537**

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2011		31 December 2010	
In thousands of Armenian Drams	**Amount**	**%**	**Amount**	**%**
Fruit and vegetable production	858,887	50%	631,082	47%
Milk processing	255,352	15%	190,181	14%
Meat production	157,279	9%	112,844	9%
Milk production	153,544	9%	27,149	2%
Construction of cooling facilities	114,417	7%	196,443	15%
Wine and brandy production	6,995	0%	46,455	3%
Other	173,885	10%	127,913	10%
Total loans to customers (before impairment)	**1,720,359**	**100%**	**1,332,067**	**100%**

At 31 December 2011 the Company had 20 borrowers (31 December 2010: 31 borrowers) with aggregated loan amounts above AMD 10,000 thousand totalling to AMD 273,810 thousand (31 December 2010: AMD 389,422 thousand) or 16% of the gross loan portfolio (31 December 2010: 29%).

Information about exposure to credit risk and collateral held at 31 December 2011 is as follows:

In thousands of Armenian Drams	Loans to individuals	Loans to legal entities	Loans to individuals - entrepreneurs	Total
Loans guaranteed by other parties	657,387	-	3,571	**660,958**
Loans collateralised by:				
-Residential property	502,588	154,870	69,870	**727,328**
-Land	116,813	4,803	-	**121,616**
-Commercial property	68,321	59,415	82,721	**210,457**
Total loans to customers	**1,345,109**	**219,088**	**156,162**	**1,720,359**

9 Loans to Customers (Continued)

Information about exposure to credit risk and collateral held at 31 December 2010 is as follows:

In thousands of Armenian Drams	**Loans to individuals**	**Loans to legal entities**	**Loans to individuals - entrepreneurs**	**Total**
Loans guaranteed by other parties	325,749	983	-	**326,732**
Loans collateralised by:				
-Residential property	492,387	119,182	71,426	**682,995**
-Land	116,478	44,696	-	**161,174**
-Commercial property	91,556	19,677	49,933	**161,166**
Total loans to customers	**1,026,170**	**184,538**	**121,359**	**1,332,067**

The above disclosure represents the lower of the carrying value of the loan or collateral taken. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

Analysis by credit quality of loans outstanding at 31 December 2011 is as follows:

In thousands of Armenian Drams	**Loans to individuals**	**Loans to legal entities**	**Loans to individuals - entrepreneurs**	**Total**
Neither past due nor impaired				
- up to 10,000	1,212,235	44,987	47,897	**1,305,119**
- above 10,000	98,703	169,962	91,827	**360,492**
Total neither past due nor impaired	**1,310,938**	**214,949**	**139,724**	**1,665,611**
Past due but not impaired				
- less than 30 days overdue	16,159	-	-	**16,159**
- 30 to 90 days overdue	-	4,139	-	**4,139**
Total past due but not impaired	**16,159**	**4,139**	**-**	**20,298**
Loans individually determined to be impaired				
- less than 30 days overdue	7,102	-	-	**7,102**
- 91 to 180 days overdue	10,910	-	-	**10,910**
- over 360 days overdue	-	-	16,438	**16,438**
Total individually impaired loans	**18,012**	**-**	**16,438**	**34,450**
Less impairment provisions	**(39,638)**	**(3,186)**	**(18,868)**	**(61,692)**
Total loans to customers	**1,305,471**	**215,902**	**137,294**	**1,658,667**

9 Loans to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2010 is as follows:

In thousands of Armenian Drams	**Loans to individuals**	**Loans to legal entities**	**Loans to individuals - entrepreneurs**	**Total**
Neither past due nor impaired with less than two years experience				
- up to 10,000	661,274	47,458	25,224	**733,956**
- above 10,000	364,896	137,080	79,697	**581,673**
Total neither past due nor impaired	**1,026,170**	**184,538**	**104,921**	**1,315,629**
Loans individually determined to be impaired				
- 181 to 360 days overdue	-	-	16,438	**16,438**
Total individually impaired loans	**-**	**-**	**16,438**	**16,438**
Less impairment provisions	**(15,830)**	**(2,567)**	**(18,140)**	**(36,537)**
Total loans to customers	**1,010,340**	**181,971**	**103,219**	**1,295,530**

The Company applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of the reporting period. The Company's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology. The primary factors that the Company considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Company presents above an ageing analysis of loans that are individually determined to be impaired.

None of the fully performing financial assets have been renegotiated.

9 Loans to Customers (Continued)

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2011 was as follows:

In thousands of Armenian Drams	**Loans to individuals**	**Loans to legal entities**	**Loans to individuals - entrepreneurs**	**Total**
Fair value of collateral - Loans past due but not impaired				
- Loans secured by residential property	-	18,308	-	**18,308**
- Loans secured by commercial property	24,000	-	-	**24,000**
- Loans guaranteed by other parties	310	-	**-**	**310**
Fair value of collateral - Loans individually determined to be impaired				
- Loans secured by residential property	17,360	-	10,184	**27,544**
- Loans guaranteed by other parties	1,329	-	-	**1,329**
Total	**42,999**	**18,308**	**10,184**	**71,491**

The fair value of collateral in respect of loans individually determined to be impaired at 31 December 2010 was as follows:

In thousands of Armenian Drams	**Loans to individuals**	**Loans to legal entities**	**Loans to individuals - entrepreneurs**	**Total**
Fair value of collateral – Loans individually determined to be impaired				
- Loans secured by residential property	-	-	13,084	**13,084**
Total	**-**	**-**	13,084	**13,084**

Past due but not impaired loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

Interest rate analysis of loans to customers is disclosed in Note 19.

10 Finance Lease Receivables

In thousands of Armenian Drams	31 December 2011	31 December 2010
Finance lease to individuals	5,800	1,645
Finance lease to legal entities	5,283	11,234
Total finance lease receivables	**11,083**	**12,879**

Economic sector risk concentrations within the finance lease receivables are as follows:

	31 December 2011		31 December 2010	
In thousands of Armenian Drams	Amount	%	Amount	%
Cooling facilities	4,301	39%	11,120	86%
Fruits and vegetables	4,097	37%	-	-
Meat production	2,685	24%	1,759	14%
Total finance lease receivables	**11,083**	**100%**	**12,879**	**100%**

Analysis by credit quality of finance lease receivables at 31 December 2011 is as follows:

In thousands of Armenian Drams	31 December 2011	31 December 2010
Neither past due nor impaired		
- up to 5,000	11,083	6,836
- above 5,000	-	6,043
Total finance lease receivable	**11,083**	**12,879**

Finance lease receivables are not collaterised.

10 Finance Lease Receivables (Continued)

Finance lease payments receivable (gross investment in the leases) and their present values at 31 December 2010 and 2011 are as follows:

In thousands of Armenian Drams	**Due within 1 year**	**Due between 1 and 5 years**	**Total**
Finance lease payments receivable at 31 December 2011	**9,107**	**1,889**	**10,996**
Unearned finance income	75	12	**87**
Present value of lease payments receivable at 31 December 2011	**9,182**	**1,901**	**11,083**
Finance lease payments receivable at 31 December 2010	**8,474**	**4,301**	**12,775**
Unearned finance income	68	36	**104**
Present value of lease payments receivable at 31 December 2010	**8,542**	**4,337**	**12,879**

11 Premises and Equipment

In thousands of Armenian Drams	**Motor vehicles**	**Computer and equipment**	**Furniture and Fittings**	**Total**
Cost				
At 1 January 2010	8,063	4,292	228	12,583
Additions	6,296	2,102	-	8,398
At 31 December 2010	**14,359**	**6,394**	**228**	**20,981**
Additions	-	4,769	908	5,677
At 31 December 2011	**14,359**	**11,163**	**1,136**	**26,658**
Depreciation				
At 1 January 2010	(776)	(700)	(60)	(1,536)
Depreciation charge	(2,812)	(930)	(72)	(3,814)
At 31 December 2010	**(3,588)**	**(1,630)**	**(132)**	**(5,350)**
Depreciation charge	(3,066)	(1,141)	(78)	(4,285)
At 31 December 2011	**(6,654)**	**(2,771)**	**(210)**	**(9,635)**
Carrying amount				
At 1 January 2010	**7,287**	**3,592**	**168**	**11,047**
At 31 December 2010	**10,771**	**4,764**	**96**	**15,631**
At 31 December 2011	**7,705**	**8,392**	**926**	**17,023**

12 Other Assets

In thousands of Armenian Drams	**31 December 2011**	**31 December 2010**
Prepayments for services	6,630	4,136
Other	2,579	389
Total other assets	**9,209**	**4,525**

All the above assets are expected to be recovered during twelve months after the year-end.

13 Other Financial Liabilities

In thousands of Armenian Drams	**31 December 2011**	**31 December 2010**
Provision for professional and consulting services	10,102	5,400
Other payables	1,627	391
Total other financial liabilities	**11,729**	**5,791**

All of the above liabilities are expected to be settled within twelve months after the year-end.

14 Borrowings

In thousands of Armenian Drams	**31 December 2011**	**31 December 2010**
Non-current		
Borrowings from Millennium Challenge Account Armenia SNCO	752,850	730,811
Borrowings from Program Management Unit of German Armenian Fund (GAF) Institution	154,653	-
Current		
Borrowings from Millennium Challenge Account Armenia SNCO	7,590	29,629
Borrowings from Program Management Unit of German Armenian Fund (GAF) Institution	3,022	-
Borrowings from Jinishian Memorial Foundation	70,529	-
Borrowings from CARD Foundation	58,018	-
Total borrowings	**1,046,662**	**760,440**

The borrowing agreement between the Company and Millennium Challenge Account Armenia SNCO ("MCA") was signed on 30 April 2009. In accordance with the agreement maximum amount of the borrowings should not exceed an AMD equivalent of USD 2 million. The borrowing was granted at 4% per annum. The purpose of the borrowings is to lend the specified business sectors in agriculture at the interest rate not exceeding 11.5% per annum. The Company's borrowings are denominated in AMD. Maturity of the agreement is 15 September 2020.

The borrowing agreements between the Company and Program Management Unit of German Armenian Fund Institution (GAF) were signed on 5 October 2011 and 22 November 2011. The purpose of the borrowings is the development of Small and Medium Entrepreneurship (SME) sector in Armenia. Maturity of the agreements is 5 October 2016 and 23 November 2016 respectively.

The borrowing agreement between the Company and Jinishian Memorial Foundation was signed on 1 September 2011. In accordance with the agreement maximum amount of the borrowings should not exceed AMD 140 million. The borrowing was granted at 3% per annum. The purpose of the borrowings is to issue farm loans at the interest rate not exceeding 11% per annum. The Company's borrowings are denominated in AMD. Maturity of the agreement is 1 December 2012.

The borrowing agreement between the Company and the CARD Foundation was signed on 3 May 2011. Maturity of the agreement is 5 March 2012.

The borrowings are unsecured**.**

15 Share Capital

At 31 December 2011 the total authorised number of ordinary shares is 465 thousand shares (31 December 2010: 465 thousand shares) with a par value of AMD 1,300 per share (31 December 2010: AMD 1,300 per share) aggregating to AMD 604,500 thousand (31 December 2010: AMD 604,500 thousand). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

16 Interest Income and Expenses

In thousands of Armenian Drams	2011	2010
Interest income		
Loans to customers	227,583	172,282
Short-term deposits at bank	2,475	2,429
Finance lease receivables	1,995	1,609
Total interest income	**232,053**	**176,320**
Interest expense		
Borrowings	(37,136)	(26,466)
Total interest expense	**(37,136)**	**(26,466)**
Net interest income	**194,917**	**149,854**

Interest income includes AMD 4,127 thousand (2010: AMD 450 thousand) interest income recognised on impaired loans to customers.

17 Administrative and Other Operating Expenses

In thousands of Armenian Drams	Note	2011	2010
Staff costs		85,711	37,518
Professional and consulting expenses		10,102	7,255
Utilities and communication expenses		4,332	2,612
Depreciation	11	4,285	3,814
Rent expenses		1,703	379
Insurance		1,312	544
Business trip expenses		1,309	3,246
Staff trainings costs		1,279	1,343
Marketing expenses		1,139	1,089
Taxes other than on income		646	1,265
Gains less losses from foreign exchange translations (other than on borrowings)		339	489
Entrance fees for professional associations		-	748
Other		5,032	2,387
Total administrative and other operating expenses		**117,189**	**62,689**

Included in staff costs are of AMD 6,803 thousand pension fund contributions (2010: AMD 3,618 thousand). Employees receive pension benefits from the State pension fund of the Republic of Armenia in accordance with the laws and regulations of the country. Contributions are made by the Company to the Government's Pension fund at the statutory rates in force during the year. Such contributions which are included in Staff costs are expensed as incurred.

18 Income Taxes

(a) Components of income tax expense

Income tax expense comprises the following:

In thousands of Armenian Drams	2011	2010
Current tax	14,117	14,699
Deferred tax		
- Origination and reversal of temporary differences	(1,801)	173
Income tax expense for the year	**12,316**	**14,872**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Company's 2011 income is 20% (2010: 20%). Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Armenian Drams	2011	2010
Profit before tax	**61,537**	**68,645**
Theoretical tax charge at statutory rate	12,307	13,729
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(4,555)	(9,263)
- Non-deductible expenses	4,564	10,406
Income tax expense for the year	**12,316**	**14,872**

The effective tax rate for the year 2011 is 20% (2010: 22%).

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Republic of Armenia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20%.

In thousands of Armenian Drams	1 January 2011	(Charged)/Credited to profit or loss	31 December 2011
Tax effect of deductible temporary differences			
Loans to customers	679	480	1,159
Other financial liabilities	1,080	940	2,020
Other liabilities	338	381	719
Net deferred tax asset	**2,097**	**1,801**	**3,898**

18 Income Taxes (Continued)

In thousands of Armenian Drams	1 January 2010	(Charged)/Credited to profit or loss	31 December 2010
Tax effect of deductible temporary differences			
Loans to customers	1,278	(599)	679
Other financial liabilities	800	280	1,080
Other liabilities	192	146	338
Net deferred tax asset	**2,270**	**(173)**	**2,097**

19 Financial Risk Management

The risk management function within the Company is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's lending and other transactions with counterparties giving rise to financial assets.

The Company's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and personal guarantees.

In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures against customers with deteriorating creditworthiness are reported to and reviewed by Management Board. The Company does not use formalised internal credit ratings to monitor exposures to credit risk. Management monitors and follows up on past due balances.

The Company's credit department reviews ageing analysis of outstanding loans and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 9.

Collateral and other credit enhancements. Exposure to credit risk is also assessed and managed, in part, by obtaining, controlling and monitoring collateral in the form of mortgage interests over property, pledge of assets and securities and other collateral including personal guarantees as disclosed in Note 9.

While collateral is an important mitigating factor in assessing the credit risk, it is the Company policy to establish that loans are within the customer's capacity to repay rather to rely solely on security. Collateral is considered as a secondary source of repayment. In limited cases, depending on the customer's standing or on the type of product or amounts, the facilities may be unsecured.

19 Financial Risk Management (Continued)

The principal types of collateral accepted by the Company are as follows:

- Commercial real estate
- Residential real estate
- Land
- Personal guarantees

Allowance for loan losses – reserve policy. The Company establishes an allowance for loan losses that represents its estimate of losses incurred in its risk exposures. The Company utilises the loan loss methodology in its financial statements contained in *IAS 39 Financial Instruments: Recognition of Measurement.*

Credit risks concentration. The Company is exposed to concentrations of credit risk. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to counterparties with aggregated balances in excess of AMD 20,000 thousand. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Concentration of credit risk for Loans to customers is disclosed in Note 9.

The Company's bank deposits are held with 3 banks (31 December 2010: 3 banks).

Market risk. The Company is exposed to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Company's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2011			**At 31 December 2010**		
In thousands of Armenian Drams	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
US Dollars	68,631	(58,018)	**10,613**	96,708	-	**96,708**
Total	**68, 631**	**(58,018)**	**10,613**	**96,708**	**-**	**96,708**

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Credit organisation entities, with all other variables held constant:

In thousands of Armenian Drams	**At 31 December 2011**	**At 31 December 2010**
US Dollar strengthening by 5% (31 December 2010: strengthening by 5%)	531	4,835
US Dollar weakening by 5% (31 December 2010: weakening by 5%)	(531)	(4,835)

19 Financial Risk Management (Continued)

Interest rate risk. The Company takes on exposure 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 reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Company's exposure to interest rate risks. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of Armenian Drams	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
31 December 2011					
Total financial assets	87,683	345,135	501,325	813,026	1,747,169
Total financial liabilities	(10,612)	(58,018)	(70,529)	(907,503)	(1,046,662)
Net interest sensitivity gap at 31 December 2011	**77,071**	**287,117**	**430,796**	**(94,477)**	**700,507**
31 December 2010					
Total financial assets	94,356	297,640	409,336	611,996	1,413,328
Total financial liabilities	(7,578)	(7,431)	(14,621)	(730,810)	(760,440)
Net interest sensitivity gap at 31 December 2010	**86,778**	**290,209**	**394,715**	**(118,814)**	**652,888**

The Company's debt instruments reprice maximum within 8 years (31 December 2010: all reprice within 5 years). The Company monitors interest rates for its financial instruments. The table below summarises interest rates based on the reports reviewed by key management personnel:

	31 December 2011		**31 December 2010**	
In % p.a.	**AMD**	**USD**	**AMD**	**USD**
Assets				
Cash and cash equivalents	0-3	4	0-3	-
Short-term deposits at banks	7-8	4	-	-
Loans to customers	11-22	14-19	11-22	16-19
Finance lease receivables	15-20	-	14-16	-
Liabilities				
Borrowings	3-9	4	4	-

The sign "-" in the table above means that the Company does not have the respective assets or liabilities in the corresponding currency.

Geographical risk concentrations. All financial assets and liabilities are located within the Republic of Armenia as at 31 December 2011 and 2010.

19 Financial Risk Management (Continued)

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. The Company did not have such significant risk concentrations at 31 December 2011 and 2010.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company seeks to maintain a stable funding base primarily consisting of amounts due to other financial institutions. The Company held's the funds in deposits, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The tables below show liabilities at 31 December 2011 and 2010 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial instruments at 31 December 2011 is as follows:

In thousands of Armenian Drams	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Borrowings	10,958	65,414	94,466	360,898	843,192	1,374,928
Other financial liabilities	-	11,729	-	-	-	11,729
Total potential future payments for financial obligations	**10,958**	**77,143**	**94,466**	**360,898**	**843,192**	**1,386,657**

The maturity analysis of financial instruments at 31 December 2010 is as follows:

In thousands of Armenian Drams	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Borrowings	7,590	7,529	15,057	873,641	-	903,817
Other financial liabilities	-	5,791	-	-	-	5,791
Total potential future payments for financial obligations	**7,590**	**13,320**	**15,057**	**873,641**	**-**	**909,608**

19 Financial Risk Management (Continued)

The management of the Company does not anticipate significant differences between expected and contractual maturities of financial instruments.

20 Management of Capital

The Company's objectives when managing capital are: (a) to comply with the capital requirements set by the CBA, (b) to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The amount of capital that the Company managed as of 31 December 2011 was AMD 711,194 thousand (31 December 2010: AMD 661,973 thousand).

21 Contingencies and Commitments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Company may be received. On the basis of its own estimates and both internal professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Tax legislation. 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 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. A tax year remains open for review by the tax authorities during the three subsequent calendar years.

These circumstances may create tax risks in the Republic of 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.

Capital expenditure commitments. At 31 December 2011 the Company had no contractual capital expenditure commitments in respect of premises and equipment.

Compliance with the CBA regulations. The Company is subject to certain statutory regulations set by the CBA related primarily to its operations. Non-compliance with such regulations may result in negative consequences for the Company including penalties imposed by the CBA. The Company was in compliance with these regulations as at 31 December 2011.

Compliance with covenants. The Company is subject to certain covenants related primarily to its borrowings from MCA. Non-compliance with such covenants may result in negative consequences for the Company including growth in the cost of borrowings and declaration of default. The Company was in compliance with covenants as at 31 December 2011.

22 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Armenia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

22 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments at amortised cost are as follows:

	31 December 2011		31 December 2010	
In thousands of Armenian Drams	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Cash and cash equivalents	17,298	17,298	104,919	104,919
Short-term deposits at banks	60,121	60,121	-	-
Loans to customers	1,658,667	1,658,667	1,295,530	1,295,530
Finance lease receivables	11,083	11,083	12,879	12,879
Other financial liabilities	11,729	11,729	5,791	5,791
Borrowings	1,046,662	1,046,662	760,440	760,440

Loans and receivables carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

23 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

All of the Company's financial assets fall into loans and receivables category which are carried at amortised cost. All of the Company's financial liabilities are carried at amortised cost.

24 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The outstanding balances with related parties were as follows:

	Other related parties	
In thousands of Armenian Drams	**31 December 2011**	**31 December 2010**
Gross amount of loans to customers (contractual interest rate: 16%, maturity 18 June 2012)	420	419
Gross amount of borrowings received from ultimate parent (contractual interest rate: 4%, maturity 5 March 2012)	58,018	-

Other related party represents the entity, which is managed by a member of the Board of Trustees of the CARD Foundation (immediate and ultimate parent company).

24 Related Party Transactions (Continued)

The income and expense items with related parties were as follows:

	Other related parties	
In thousands of Armenian Drams	**2011**	**2010**
Interest income	68	3,235
Interest expense	1,509	-

Key management compensation is presented below:

	2011	**2010**
In thousands of Armenian Drams	Expense	Expense
Short-term benefits:		
- Salaries	24,985	8,465
- Short-term bonuses	8,169	2,980
Total	**33,154**	**11,445**

All related party transactions were made on an arm's length basis.