FARM CREDIT ARMENIA
UNIVERSAL CREDIT ORGANIZATION
COMMERCIAL COOPERATIVE

FINANCIAL STATEMENTS

In Armenian Drams

31 DECEMBER 2011

BAKER TILLY ARMENIA

YEREVAN 2012

CONTENT

Independent Auditor’s Report	
Comprehensive statement of financial results	5
Statement of financial position	6
Statement of changes in the equity	7
Cash flow statement	8
Notes attached to financial statements	9
1. Principal activity	9
2. Armenian business environment	9
3. Basis of the reports preparation	9
4. Summary of significant accounting policies	10
5. Critical accounting estimates and judgments	16
6. Interest and similar income and expense	17
7. Net gains (Losses) received from foreign currency transactions	17
8. Other income	17
9. Impairment (expense)/income as regards financial assets	17
10. Staff costs	18
11. Other expenses	18
12. Profit tax expense	18
13. Cash and Accounts Due From Banks	19
14. Deposits in Banks	20
15. Loans and advances to customers	20
16. Amounts receivable as regards leasing	21
17. Property, plant and equipment	22
18. Intangible assets	23
19. Other assets	23
20. Borrowings	24
21. Other Liabilities	24
22. Equity	24
23. Contingent liabilities	24
24. Transactions with related parties	25
25. The fair value of financial instruments	26
26. Maturity analysis of assets and liabilities	26
27. Risk management	27
28. Capital adequacy	32

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INDEPENDENT AUDITOR'S REPORT

To Shareholders of
Farm Credit Armenia UCO CC

We have audited the accompanying financial statements of "Farm Credit Armenia" Universal Credit Organization Commercial Cooperative (further in the text - the Organization) as of December 31, 2011, which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flow, as well as the summary of the accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards. This responsibility includes development, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements free from material misstatement due to fraud or error, selection and implementation of appropriate accounting policies, as well as preparation of reasonable accounting estimates relevant to present circumstances.

Auditor’s Responsibility

Our responsibility is to express an opinion of the given financial statements based on the conducted audit. We have carried out the audit according to the International Standards on Auditing. These standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures presented in the financial statements. The choice of the procedures depends on the auditor’s judgment, including the assessment of the risks arising from the misstatements in the financial statements whether due to fraud or an error. In making those risk assessments, the auditor considers the internal control of the “Farm Credit Armenia” UCO CC over the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the present circumstances, but not for the purpose of expression of an opinion regarding the effectiveness of the Organization’s internal control. The audit also includes evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates carried out by the management, as well as evaluation of the overall presentation of financial statements.

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

Auditor’s Opinion on the Financial Statements

In our opinion, the financial statements give a true and fair view of the financial position of “Farm Credit Armenia” Universal Credit Organization Commercial Cooperative as at December 31, 2011, and of its financial performance and cash flows for the period then ended. The Accounting records are kept in “Farm Credit Armenia” Universal Credit Organization Commercial Cooperative in accordance with the requirements of RA Law «On accounting» and the International Financial Reporting Standards.

Auditor
M.Mkrtchyan

COMPREHENSIVE STATEMENT OF FINANCIAL RESULTS

31, December 2011

(thousand AMD)

Description	Notes	31 December 2011(audited)	31 December 2010 (audited)
Interest and similar income		296,165	113,182
Interest and similar expenses		(98,359)	(25,463)
Net interest and similar income and expenses	6	**197,806**	**87,719**
Net profit /(loss) from foreign currency revaluation	7	322	5,104
Other income	8	200,240	231,077
Impairment (expense)/income as regards financial assets	9	(32,855)	(11,837)
Staff costs	10	(209,619)	(168,455)
Depreciation of property and equipment	17	(17,586)	(16,688)
Amortization of intangible assets	18	(746)	(747)
Other expenses	11	(75,689)	(68,198)
Profit before taxation		**61,873**	**57,975**
Profit tax expense	12	(12,925)	(12,394)
Profit (Loss) of after tax- period		**48,948**	**45,581**
Other comprehensive financial result			
Total comprehensive financial result for the period		**48,948**	**45,581**

Armen Gabrielyan
Chief Executive Director
Of Credit Company

Nelli Kirakosyan
Chief Accountant

STATEMENT OF FINANCIAL POSITION

31, December 2011 *(thousand AMD)*

Description	Notes	December 31, 2011 (audited)	December 31, 2010 (audited)
Assets			
Cash resources and bank accounts	13	105,382	123,306
Deposits with banks	14	147,166	38,448
Loans and other lending provided to the clients	15	2,489,751	1,107,188
Amounts receivable as regards leasing	16	160,555	112,757
Property, plant and equipment	17	67,883	43,124
Intangible assets	18	6,261	6,467
Deferred tax assets	12	1,655	1,200
Other assets	19	50,570	40,024
Total Assets		**3,029,223**	**1,472,514**
LIABILITIES AND EQUITY			
Borrowings	20	2,404,442	928,363
Current profit tax liabilities		13,380	12,527
Other liabilities	21	94,240	82,687
Total liabilities		**2,512,062**	**1,023,577**
Equity			
Chartered capital	22	390,957	371,681
Retained earnings		126,204	77,256
Total equity		**517,161**	**448,937**
TOTAL LIABILITIES AND EQUITY		**3,029,223**	**1,472,514**

The presented financial statements were approved by the Management of Organization in 01.03. 2012, and were signed by CEO and Chief Accountant of Organization. The attached notes 1-28 represent an integral part of these financial statements

Armen Gabrielyan
Chief Executive Director
Of the Credit Company

Nelli Kirakosyan
Chief Accountant

(thousand AMD)

STATEMENT OF CHANGES IN THE EQUITY				
For the financial year ended in 31 December, 2011				
	Share Capital	**Fair Value Reserve**	**Retained Earnings**	**Total**
Balance as at 31 December, 20010	**371,681**	**-**	**77,256**	**448,937**
Overall results of changes in the accounting policy and adjustment of material errors.	-	-	-	-
Profit for the period		-	48,948	48,948
Increase in share capital	19,276	-	-	19,276
Balance as at 31 December, 2011 (audited)	**390,957**	**-**	**126,204**	**517,161**

Armen Gabrielyan Chief Executive Director Of the Credit Company	Nelli Kirakosyan Chief Accountant

CASH FLOW STATEMENT

for the financial year ended 31 December 2011

(Thousand AMD)

Description	31.12.2011(audited)	31.12.2010 (audited)
Cash flow from operating activities		
Interests received	207,845	95,196
Interests paid	(48,597)	(24,175)
Deposition decrease (increase)	108,718	
Net commissions received	20,673	6,419
Salaries and other payments equal to it	(157,847)	(127,012)
Paid taxes	(60,423)	(45,397)
Net cash flows from operating activities before changes in operating assets and liabilities	**70,369**	**(94,969)**
Net cash flows from other operating activities	114,844	196,609
Decrease (increase) in the amounts receivable as regards financial lease	102,640	59,066
Decrease (increase) in the means distributed	(1,402,766)	(646,371)
Net cash flows from operating activities before profit tax	**(1,114,959)**	**(485,665)**
Paid profit tax	(18,729)	(1,380)
Net cash flows from operating activities	**(1,133,688)**	**(487,045)**
Cash flows from investing activities		
Purchase of property & equipment	(182,327)	(173,401)
Purchase of intangible assets	(540)	
Net cash flows from other investing activities	19,167	19,043
Net cash flows from investing activities	**(163,700)**	**(154,358)**
Cash flows from financial activities		
Increase (decrease) in other borrowings	1,426,316	575,821
Net cash flows from financial activities	**1,426,316**	**575,821**
Net increase of cash and cash equivalents	**128,928**	**(65,582)**
Cash and cash equivalents at the beginning of the year	**123,306**	**183,043**
Effect of exchange rate changes on cash and cash equivalents	**314**	**5,845**
Cash and cash equivalents at the end of the year **(Note 13, 14)**	**252,548**	**123,306**

Armen Gabrielyan

Chief Executive Director
Of the Credit Company

Nelli Kirakosyan

Chief Accountant

NOTES ATTACHED TO FINANCIAL STATEMENTS

1. Principal activity

“Farm Credit Armenia” Universal Credit Organization CC was registered (founded) on the 18th of September, 2007 according to Decision № 43 of the Central Bank of the Republic of Armenia. The Organization has been registered and conducts its business at the address 18 Kadzhaznuni, Yerevan, Armenia.
The Organization makes borrowings from its participants and legal persons. According to the item 3.3 of its Charter, the Organization does not involve loans through public quotations.
According to the item 3.1, point (i), of the Charter, the Organization conducts its transactions through non-cash settlements.

2. Armenian business environment

The Republic of Armenia still undergoes political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure generally existing in a more mature free market economy. Consequently, operations carried out in Armenia involve certain risks that are not typically associated with those in developed countries.
The Organization may be affected by these risks and their consequences in the foreseeable future. The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Similar adjustments, if any, will be reported in the Organization’s financial statements in the period when they become known and estimable.

In addition, economic conditions continue to limit the volume of activity in the financial markets. Market quotations in generally illiquid markets may not be reflective of the fair values for financial instruments, which would be determined in an efficient, active market involving many willing buyers and willing sellers.

3. Basis of the reports preparation

Statement of compliance

The financial statements of the Organization have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as approved and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). The comparative information and financial statements include the results of the Organization’s financial performance and cash flow for the year ended 31 December, 2011.

Basis of measurement

The financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except for those assets, for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at their amortized cost, and non-financial assets and liabilities are stated at their historical cost.

Functional and presentation currency

The Organization’s functional currency is the currency of the primary economic environment in which the Organization operates. The Organization’s functional and presentation currency is Armenian Drams (AMD), since this currency best reflects the economic substance of the Organization’s underlying events and transactions. The Organization prepares statements for regulatory purposes in accordance with legislative requirements and Accounting Standards of the Republic of Armenia. These financial statements are based on the Organization’s books and records as adjusted and reclassified in order to comply with the IFRS. The financial statements are presented in thousands of AMD, which is not freely convertible outside Armenia.

Reclassifications
Where necessary, the comparative figures have been adjusted to conform to the changes in presentation which are reflected in the current year.

4. Summary of significant accounting policies

The following significant accounting policies have been consistently applied in preparation of the financial statements.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Organization and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow out of the Organization, and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized.

Interest income and expense
Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading purposes or accounted for at fair value and adjusted through profit or loss, are recognised within 'interest income' and 'interest expense' in the statement of financial results.

When carrying value of financial assets or similar group of financial assets decreases due to impairment losses, interest income is still recognized by applying the initial effective rate to the new carrying value.

Income and expense from commissions and similar payments

Fees, commissions and other income and expense items are generally recorded on an accrual basis during provision of the service.

Income and Loss from Foreign Currency transactions
Include the net income (loss) from the buy & sale of foreign currency and the income (loss) from the revaluation of the foreign currency actives and liabilities. Transactions in foreign currencies are recalculated to the functional currency using the rate of exchange ruling at the transaction date. Gain and loss resulting from translation of assets and liabilities denominated in foreign currency and kept for trading purposes is recognised in the statement of income in net trading income, while gain or loss resulting from translation of non-trading assets is recognized in the statement of income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the rate of exchange ruling at the balance sheet date.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate as of the transaction date are included in gains less losses from trading in foreign currencies in net trading income.

The exchange rates at the year-end used by the Organization in the preparation of the financial statements are as follows:

	31, December 2011	31, December 2010
AMD/ 1 US Dollar	385.77	363.44
AMD/ 1 Euro	498.72	481.16

Taxation

Profit tax on the profit for the year is comprised of current and deferred taxes. Profit tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Differed taxes are calculated according to the method of liabilities of the financial statement. Differed taxes are provided for all time differences arising between the carrying values of assets and liabilities reflected in the financial reports except for those cases when the differed profit tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available in future against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied at the period when the assets are realized or the liabilities are settled, based on tax rates enacted within that period or within the reporting period.
Deferred profit tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Republic of Armenia also has various operating taxes, which are assessed according to the activity of the Organization. These taxes are included in the statement of financial results as «other expenses».

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and accounts in banks, which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value.
Cash and cash equivalents are carried at amortised cost.

Amounts due from banks

In the normal course of business, the Organization maintains advances or deposits for various periods of time with banks. Deposits to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management.

Financial instruments

The Organization recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

When financial assets and liabilities are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

After initial recognition all financial liabilities, other than liabilities at fair value through profit or loss (including held for trading) are measured at amortized cost using effective interest rate method. After initial recognition financial liabilities at fair value through profit or loss are measured at fair value.

The Organization classified its financial assets into the following categories: loans and receivables, financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. After initial recognition, where allowed and appropriate, the Organization can reclassify its financial assets at each financial year-end.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments, which arise when the Organization provides money directly to a debtor with no intention of trading the receivable.

Subsequently, the loan's carrying value is measured using the effective interest method. Loans to provide to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans provided to customers are carried net of any allowance for impairment losses.

Available-for-sale financial instruments

Investments available for sale represent debt and equity investments that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of income. However, interest calculated using the effective interest method is recognised in the statement of income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Organization's right to receive payment is established.
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques.
Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis. Otherwise, the investments are stated at cost less any allowance for impairment.

Impairment of financial assets

The Organization assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost
A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Criteria used to determine that there is an objective evidence of an impairment loss may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty (for example, equity ratio, net income percentage of sales), default or delinquency in interest or principal payments, breach of loan covenants or conditions, deterioration in the value of collateral, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Organization first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets 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 an objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Organization may measure impairment on the basis of an instrument's fair value using an observable market price.

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 the foreclosure is probable

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Organization's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Organization to reduce any differences between loss estimates and actual loss experience.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Organization. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If future write-off is later recovered, the recovery is credited to the allowance account.

De-recognition of financial assets and liabilities

Financial assets

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Organization has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and

- the Organization either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Organization has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Organization's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Organization could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

Leases

Operating - Organization as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Property, plant and equipment

Items of Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

	Useful Life (years)	Rate (%)
Buildings	20	5
Computers	5	20
Computers (Server)	1	100
Other fixed assets	5	20
Fixed assets up to AMD 50,000	1	100

Repairs and maintenance are charged to the income statement during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Organization. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

When revalued assets are sold, the amounts attributed to disposed item of assets and included in the revaluation reserve are transferred to retained earnings.

Intangible assets

Intangible assets include computer software. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

Borrowings

Borrowings, which include amounts due to financial institutions and due to founder party are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the liabilities are derecognised as well as through the amortisation process.

Contributions to the Social Insurance Fund

The Organization does not have any pension arrangements separate from the State pension system of the Republic of Armenia, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Organization has no post-retirement benefits or significant other compensated benefits requiring accrual.

Provisions

Provisions are recognised when the Organization has a present legal or constructive obligation as a result of past events, and 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 obligation can be made.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Offsetting
Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the balance sheet 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.

5. Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires that the management make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.
Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.
The most significant areas of judgments and estimates with regards to these financial statements are presented below.

Related party transactions
In the normal course of business the Organization enters into transactions with its related parties.
These transactions are priced predominantly at market rates. 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.
Allowance for impairment of loans and receivables

The Organization reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Organization also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Tax legislation
Armenian tax legislation is subject to varying interpretations. Refer to Note 23.

6. Interest and similar income and expense

(thousand AMD

	2011	2010
Loans and advances to customers	288,925	107,738
Amounts due from banks	7,240	5,444
Total interest and similar income	**296,165**	**113,182**
Interest expense as regards borrowings	98,359	25,463
Other interest expense	-	-
Total interest and similar expense	**98,359**	**25,463**
Total interest and similar income and expense	**197,806**	**87,719**

7. Net gains (Losses) received from foreign currency transactions

(thousand AMD)

	2011	2010
Gaines or losses received from foreign currency trading	(288)	(537)
Positive or negative exchange rate difference received from foreign currency revaluation	610	5,641
Total net gains (losses) received from foreign currency transactions	**322**	**5,104**

8. Other income

(thousand AMD)

	2011	2010
Fines and penalties received	1,789	371
Income from grants	195,410	230,669
Other income	3,041	37
Total other income	**200,240**	**231,077**

9. Impairment (expense)/income as regards financial assets

(thousand AMD)

	2011	2010
Impairment expense as regards loans	30,854	10,785
Impairment expense as regards leasing	1,621	1,052
Social Reserve of receivables and other actives	380	-
Total Impairment expense as regards financial actives	**32,855**	**11,837**

10. Staff costs

	2011	2010
		(thousand AMD)
Salary and wages equalized to it	193,166	154,173
Social Security Contributions	14,368	12,307
Staff training costs	2,085	1,975
Total staff costs	**209,619**	**168,455**

11. Other expenses

	2011	2010
		(thousand AMD)
Advertising costs	3,918	4,078
Entertainment expenses	2,404	1,415
Business trip expenses	5,666	6,041
Communications	5,117	4,918
Operating lease	18,481	14,080
Taxes, other than profit tax, dues	1,925	1,730
Audit and other consulting expenses	6,934	4,683
Security	617	420
Car maintenance expenses	9,699	8,414
Office supplies	3,274	3,367
Insurance expenses	751	1,852
Welfare	-	1,887
Commissions	1,393	-
Other expenses	15,510	15,313
Total other expense	**75,689**	**68,198**

12. Profit tax expense

	2011	2010
		(thousand AMD)
Current tax expense	13,380	12,527
Deferred tax	(455)	(133)
Total profit tax expense	**12,925**	**12,394**

The corporate profit tax within the Republic of Armenia is levied at the rate of 20% (2011 - 20%).

Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred profit tax is calculated using the principal tax rate of 20%. Below is provided reconciliation between the tax expenses and accounting profit:

(thousand AMD)

	2011	Effective Rate (%)	2010	Effective Rate (%)
Profit before tax	61,873		57,975	
Profit tax at the rate of 20 %	12,375	20%	11,595	20%
Non-deductible expenses	2,844		1,877	
positive/ negative foreign exchange differences	(123)		(1,128)	
Previous period expenses	(1,543)		-	
Difference between national and international accounting	(173)		183	
Total profit tax expense	**13,380**		**12,527**	

Deferred tax calculation in respect of temporary differences:

	2010	Recognized in statement of financial results	2011
Accrued expenses and other liabilities	2,208	(380)	1,828
Impairment Reserves	(325)	325	-
Total deferred tax assets	**1,883**	**(55)**	**1,828**
Impairment and Bank Account Reserves	(683)	510	(173)
Total deferred tax liabilities	**(683)**	**510**	**(173)**
Net deferred tax assets	**1,200**	**455**	**1,655**

	2009	Recognized in statement of financial results	2010
Accrued expenses and other liabilities	2,208	-	2,208
Impairment Reserves	(801)	476	(325)
Total deferred tax assets	**1,407**	**476**	**1,883**
Impairment and Bank Account Reserves	(340)	(343)	(683)
Total Differed Tax Liabilities	**(340)**	**(343)**	**(683)**
Net Differed Tax Assets	**1,067**	**133**	**1,200**

13. Cash and Accounts Due From Banks

(thousand AMD)

	2011	2010
Bank Accounts	105,382	123,306
Total Cash and Cash equivalents	**105,382**	**123,306**

14. Deposits in Banks

(thousand AMD)

	2011	2010
Time-deposits	147,004	38,161
Accumulated Interest	162	287
Total Cash and Cash Equivalents	**147,166**	**38,448**

15. Loans and advances to customers

(thousand AMD)

	2011	2010
Loans to Customers	2,520,605	1,123,307
Less Loans Impairment Reserve	(30,854)	(16,119)
Total Loans and advances to customers	**2,489,751**	**1,107,188**

As of 31 December 2011, the accrued interest income included in loans and advances to customers amounted to AMD 17,326 thousand and future period income amounts to AMD 4,608 thousand.

Reconciliation of allowance account for losses on loans and advances by classes is as follows:

(thousand AMD)

	Private Companies	Natural persons	Sole proprietors	2011 Total
As at 1January2011	1,134	14,331	654	16,119
Annual expenses	1,375	10,772	2,588	14,735
As at 31 December 2011	2,509	25,103	3,242	30,854
Individual Impairment	684	5,128	288	6,100
Collective Impairment	1,825	19,975	2,954	24,754
	2,509	25,103	3,242	30,854

	Private Companies	Natural persons	Sole proprietors	2010 Total
As at 1 January2010	651	4,680	25	5,356
Annual expenses	483	9,651	629	10,763
As at 31 December 2010	1,134	14,331	654	16,119
Individual Impairment	-	-	-	-
Collective Impairment	1,134	14,331	654	16,119
	1,134	14,331	654	16,119

Loans and accommodations by customer profile may be specified as follows:

(thousand AMD)

	2011	2010
Private companies	191,915	113,370
Natural persons	2,033,597	941,473
Sole proprietors	282,375	65,385
Accrued interest	17,326	4,934
Future period income	(4,608)	(1,855)
Less loan impairment reserve	(30,854)	(16,119)
Total loans and advances to customers	**2,489,751**	**1,107,188**

Loans provided to Natural Persons

(thousand AMD)

	2011	2010
Agricultural	1,989,659	916,357
Other	43,938	25,116
Total loans and accommodations to customers (Gross)	**2,033,597**	**941,473**

As at 31 December 2010 and 2011, the estimated fair value of loans and advances approximates to their carrying value. Refer to Note 25.

The information on related party balances is disclosed in Note 24.

16. Amounts receivable as regards leasing

(thousand AMD)

	2011	2010
Amounts receivable as regards leasing	197,216	140,581
Non-recognized interest income	(35,040)	(26,692)
Impairment reserve	(1,621)	(1,132)
Total loans and accommodations to customers	**160,555**	**112,757**

Impairment Reserve as regards leasing by classes is as follows:

	Private companies	Natural Persons	Sole proprietors	2011 Total
As at 1 January2011	81	1,051	-	1,132
Annual Expenses	(40)	529	-	489
As at 31 December 2011	41	1,580	-	1,621
Individual Impairment	-	-	-	-
Collective Impairment	41	1,580	-	1,621
	41	1,580	-	1,621

	Private Companies	Natural Persons	Sole proprietors	2010 Total

As at1 January2010	-	80	-	80
Annual expenses	81	971	-	1,052
As at 31 December 2010	81	1,051	-	1,132
Individual impairment	-	-	-	-
Collective impairment	81	1,051	-	1,132
	81	1,051	-	1,132

Analysis of allocated leasing operations by customer

(thousand AMD)

	2011	2010
Private Companies	4,112	8,073
Natural persons	157,903	105,139
Accumulated interest	161	677
Less impairment reserve	(1,621)	(1,132)
Total	**160,555**	**112,757**

17. Property, plant and equipment

(thousand AMD)

	Property and office equipment	Computer Equipment	Vehicles	Other PPE	Total
Carrying value (exploitable)					
End of previous year	13,144	15,598	50,167	5,036	83,945
Addition	1,295	1,721	27,970	2,523	33,509
Disposals (write-offs)	-	-	-	-	-
End of current year	14,439	17,319	78,137	7,559	117,454
Carrying value (not-exploitable)					
End of previous year	-	-	-	-	-
Addition	3,790	5,045			8,835
Disposals (write-offs)	-	-	-	-	-
End of current year	3,790	5,045	-	-	8,835*
Depreciation					
Initial balance	8,326	12,484	17,092	2,919	40,821
Accumulated depreciation	2,332	3,382	10,670	1,201	17,585
Utilization of accumulated. depreciation.(write-off)	-	-	-	-	-
Closing balance	10,658	15,866	27,762	4,120	58,406
Net Carrying Value					
End of previous year	**4,818**	**3,114**	**33,075**	**2,117**	**43,124**
End of current year	**7,571**	**6,498**	**50,375**	**3,439**	**67,883**

* The mentioned property and the computer equipment have been purchased by the company for the opening a new representative offices in the Marzes of Vayots Dzor and Ararat, but as of the end of the reporting da,y they were still in

the Head office in Yerevan. This means that they were not in the corresponding place and state for their utility as prescribed by Management. Therefore, no depreciation was calculated as regards the equipment.

18. Intangible assets

(thousand AMD)

	Not purchased computer software
COST	
As at January 01, 2010	7,468
Additions	
Disposals (write-offs)	
As at December 31, 2010	**7,468**
Additions	540
Disposals (write-offs)	-
As at 31 December 2011	**8,008**
Amortization	
As at January 01, 2010	255
Amortization charge	746
Disposals (write-offs)	
As at December 31, 2010	**1001**
Amortization contributions	746
Disposals (write-offs)	-
As at December 31, 2011	**1,747**
CARRYING AMOUNT	
As at December, 2011	**6,261**
As at December, 2010	**6,467**

19. Other assets

(thousand AMD)

	2011	2010
Prepayments for acquisition of property, plant and equipment	1,283	6,433
Prepayments to the budget	8,715	2,661
Warehouse	534	1,364
Tractors to be provided through leasing	35,884	25,982
Other prepayments and debtors	4,154	3,584
Total other assets	**50,570**	**40,024**

20. Borrowings

	2011	2010
		(thousand AMD)
MCA-Armenia SNCO	700,125	738,925
World Bank SME financial means availability project	1,645,816	180,700
Interest accrued	58,500	8,738
Total borrowings involved	**2,404,442**	**928,363**

21. Other Liabilities

(thousand AMD)

	2011	2010
Credit debts, payable amounts	65,415	33,149
Obligations towards personnel	3,852	2,593
Other liabilities	24,973	46,945
Total other liabilities	**94,240**	**82,687**

22. Equity

The share capital of the Organization comprises AMD 390,957, 000 which consists of participations of 1,133 members. The share capital of the Organization comprises AMD 371,681 thousand from 161 cooperative members' participation. The major participant is FLCA Trust Fund making up AMD 351,100 thousand.

23. Contingent liabilities

Tax and legal matters

The taxation system in Armenia is characterized by frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among various taxation authorities and jurisdictions.

Management believes that the Organization is carrying on its activity in compliance with all statutory requirements.

As of 31 December 2011, there were no legal actions and complaints taken against the Organization.

Therefore, the Organization has not made any respective provision related to similar tax and legal matters

Operating lease commitments – Organization as a lessee

In the normal course of business, the Organization has entered into commercial lease agreement for its office and garage facilities.

The future aggregate minimum lease payments under non-cancellable operating lease are as follows:

(thousand AMD)

	2011	2010
Up to 1 year		
From 1 to 2 years	201	-
From 3 to 4 years	-	491
Up to 1 year	46,535	46,955
Total operating lease commitments	**46,736**	**47,446**

Insurance
The Organization's movable property has been insured by APPA Insurance. The Organization has not currently obtained insurance coverage related to liabilities arising from errors or omissions.

24. Transactions with related parties

In accordance with IAS 24 "Related Party Disclosure", parties are considered to be related if a party has an ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of the Organization's Management as well as other persons and enterprises related with and controlled by them respectively.

The volume of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

(thousand AMD)

	2011		2010	
	Participants	Key Management and persons related to them	Participants	Key Management and persons related to them
Loans and advances to customers				
Loans outstanding at the beginning of the period (gross)	-	56,737	-	17,450
Loans issued during the period	-	21,300	-	59,076
Loan repayments during the period	-	(28,430)	-	(19,789)
Loans outstanding at December 31, (gross)	-	49,607	-	56,737
Less allowance for loan impairment	-	(503)	-	(567)
Loans outstanding at December 31	-	49,104	-	56,170
Interest income on loans	-	143	-	279
Amounts due to financial institutions/participants				
At the beginning of the period	-	-	-	-
Increase	-	-	-	-
Decrease	-	-	-	-
As at December 31	-	-	-	-
Commitments and guarantees received	-	-	-	-
Income statement items	-	-	-	-
Interest expense on borrowings	-	-	-	-

Compensation of key management personnel was comprised of the following:

(thousand AMD)

	2011	2010
Salaries and other short-term benefits	82,324	70,215
Social security costs	4,872	4,151
Compensation to Board members	2,184	620
Total key management compensation	**89,380**	**74,986**

The loans issued to key management personnel during the reporting year of AMD 16,673 thousand are repayable monthly at the rates of 8-20-% (average rate: 16.05%).

25. The fair value of financial instruments

Financial instruments not measured at fair value

The fair value of financial assets and liabilities, not presented in the Organization's Statement of Financial Position at their fair value, does not differ significantly from their carrying amounts.

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates their fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing within the period exceeding one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year - end market rates.

Loans and advances to customers

The estimated fair value of the fixed interest rate instruments is based on the fair value of expected future cash flows for new instruments with similar credit risk and remaining maturity, discounted at current interest rates.

Borrowings

The estimated fair value of fixed interest-bearing borrowings not quoted in an active market and zero interest rate borrowings is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The fair value of borrowings, not presented in the Organization's Statement of Financial Position at their fair value, does not differ significantly from their carrying amounts.

26. Maturity analysis of assets and liabilities

The table below shows the assets and liabilities analysis according to their expected settlement periods.

(thousand AMD)

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 3 years	More than 3 years	Total
ASSETS							
Cash and cash equivalents	105,382	-	-	105,382	-	-	105,382
Deposits with banks	147,166	-	-	147,166	-	-	147,166
Loans and advances to customers	77,742	92,380	937,199	1,107,321	1,328,453	214,532	2,650,306
Amounts due from the	250	-	8,465	8,715	-	-	8,715

RA Government							
Other amounts due		361	2,831	3,192	400	-	3,592
	330,378	**92,741**	**948,495**	**1,371,614**	**1,328,853**	**214,532**	**2,914,999**
LIABILITIES							
Amounts due to participants	-	-	19,069	19,069	-	-	19,069
Amounts due to resident Legal persons and institutions	1,038	-	4,250	5,288	-	-	5,288
Amounts due to the RA Government	61662	-	13,380	75,042	-	2,408,195	2,483,237
Other Liabilities	4,468	-	-	4,468	-		4,468
	67,168	**-**	**36,699**	**103,867**	**-**	**2,408,195**	**2,512,062**
Net position	**263,210**	**92,741**	**911,796**	**1,267,747**	**1,328,853**	**(2,193,663)**	**402,937**
Accumulated gap	**263,210**	**355,951**	**1,267,747**	**-**	**2,596,600**	**402,937**	

27. Risk management

The Organization's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Taking risk is core to the financial activity, and the operational risks are an inevitable consequence of being in business. The Organization's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Organization's financial performance.

The Organization's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

Risk management is carried out by Management under policies approved by the Board. The Management identifies, evaluates and hedges financial risks in close co-operation with the Organization's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

Credit risk

The Organization takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Organization by failing to discharge an obligation. 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. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below presents the worst case scenario of credit risk exposure to the Organization as at 31 December 2011 and 2010, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

(thousand AMD)

	Notes	Gross maximum exposure as of December 31, 2011	Gross maximum exposure as of December 31 2010
Cash and cash equivalents	13	105,382	123,306
Deposits with banks	14	147,166	38,448
Loans and advances to customers	15	2,489,751	1,107,188
Leasing	16	160,555	112,757
Total credit risk		**2,902,854**	**1,381,699**

Risk concentrations of the maximum exposure to credit risk

Geographical sectors

All of the Organization's assets are located in Armenia.

Industry sectors

The following table breaks down the Organization's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December.

(thousand AMD)

	Financial institutions	Manufacture	Agriculture	Service	Hypothecs	Consumer sector	Other	Total
Cash and cash equivalents	105,382	-	-	-	-	-	-	105,382
Deposits with banks	147,166	-	-	-	-	-	-	147,166
Loans and advances to customers	-	146,344	2,043,226	295,773	-	-	22,544	2,507,887*
Leasing	-	-	162,015	-	-	-	-	162,015
As at 31 December 2011	252,548	146,344	2,205,241	295,773	-	-	22,544	2,922,450
As at 31 December 2010	161,754	81,144	1,037,329	-	-	-	114,968	1,395,195

*T**he mentioned amount doesn't include the net interest income of AMD 12, 718 thousand calculated in the loans and advances provided to the customers as of 31 December 2011 as well as the expense as regards impairment in amount AMD 30,854 thousand .**

Risk limit control and mitigation policies

The Organization manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries and countries.

The Organization structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers. Similar risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

Collateral

The Organization employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Organization implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential property;
- Organization's operational assets such as premises inventory and accounts receivable.

The analysis of loan portfolio by collateral is presented as follows:

(thousand AMD)

	2011	**2010**
Real Estate	383,036	394,962
Movable property	-	12,977
Movable and immovable	-	337,808
Mixed	1,628,625	374,481
Guarantee	482,539	
*with no collaterals	13,687	
Accrued interest	12,718	3,079
Total loans and advances to customers (Gross)	**2,520,605**	**1,123,307**

*Loans provided to Employees thrice the amount of salary.

Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Organization addresses impairment assessment to individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Organization determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not significant (residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment.

Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Loans and advances neither past due or impaired

The table below shows the credit quality by class of asset for loans and advances neither past due or impaired, based on the historical counterparty default rates.

		(thousand AMD)
	2011	**2010**
Loans and advances to customers		
Private companies	1%	1%
Natural persons	1%	1%
Solo proprietors	1%	1%

Past due and impaired loans

As of 31 December 2011, the Organization's past due and individually impaired loans are as follows:

		2011	**2010**
Past due loans		27,866	19,791
	Reserve	(6,001)	(2,286)
Other impaired loans		4,665	31,435
	Reserve	(100)	(3,143)
Total past due and impaired loans		**32,531**	**51,226**
	Total reserve	(6,101)	(5,429)
Net past due and impaired loans		**26,430**	**45,797**

As of December 31, 2011 the written off loans are as follows:

		2011	**2010**
Written off loans		17,100	
	Expense	(17,100)	
Total written of loans		**17,100**	

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Organization has no funds received and loans disbursed with floating interest rate. Except for the concentrations within foreign currency, the Organization has no other significant concentration of market risk.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Positions are monitored on a daily basis.

The Organization's exposure to foreign currency exchange risk is as follow:

(thousand AMD)

	AMD	Freely Convertible Currencies	Total
Assets			
Cash and cash equivalents	104,704	678	105,382
Loans and advances to customers	2,520,605	-	2,520,605
Leasing	162,176	-	162,176
Prepayments to suppliers	5,437	-	5,437
Deposits with banks	120,039	27,127	147,166
Total financial assets	2,912,961	27,805	2,940,766
Liabilities			
Amounts due to other financial institutions	-	-	-
Borrowings	2,404,442	-	2,404,442
Total financial liabilities	2,404,442	-	2,404,442
Net position as of 31 December 2011	508,519	27,805	536,324
Net position as of 31 December 2010	399,199	77,821	477,020

Freely convertible currencies represent mainly EUR and US dollar amounts.

Liquidity risk

Liquidity risk is the risk that the Organization will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily bases. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The liquidity management of the Organization requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios.

The table below summarizes the maturity profile of the Organization's financial liabilities at 31 December 2010 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

(thousand AMD)

2011	On 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	Total
FINANCIAL LIABILITIES	-	-	-	-	-	-
Amounts due to other financial institutions	-	-	-	-	-	-
Borrowing	58,500	-	-	1,645,817	700,125	2,404,442
Total undiscounted financial liabilities	**58,500**	**-**	**-**	**1,645,817**	**700,125**	**2,404,442**

2010	On 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	Total
FINANCIAL LIABILITIES	-	-	-	-	-	-
Amounts due to other financial institutions	-	-	-	-	-	-
Borrowing	8,738	-	-	919,625	-	928,363
Total undiscounted financial liabilities	**8,738**	**-**	**-**	**919,625**	**-**	**928,363**

28. Capital adequacy

The primary objectives of the Organization's capital management are to ensure that the Organization complies with externally imposed capital requirements and that the Organization maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize participant's value.

The Organization manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, police and processes from the previous years.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

The Central Bank of Armenia has set the minimal required total capital at AMD 150,000 thousand. The Organization has complied with all externally imposed capital requirements through the period.