Farm Credit Armenia
Universal Credit Organization
Commercial Cooperative

Financial Statements

for the year ended 31 December 2012

Contents

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Independent Auditors' Report

To the Shareholders
Farm Credit Armenia Uiversal Credit Organization Commercial Cooperative

We have audited the accompanying financial statements of Farm Credit Armenia Universal Credit Organization Commercial Cooperative (the Organization), which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organization as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The financial statements of the Organization as at and for the year ended 31 December 2011 were audited by other auditors whose report dated 24 March 2012 expressed an unmodified opinion on those statements.

Andrew Coxshall
Director

Tigran Gasparyan
Head of Audit Department

KPMG Armenia cjsc

KPMG Armenia cjsc
30 April 2013

	Notes	2012 AMD'000	2011 AMD'000
Interest income	4	552,764	296,165
Interest expense	4	(225,393)	(98,359)
Net interest income		**327,371**	**197,806**
Income from grants received	5	347,441	195,685
Net foreign exchange gain		6,632	322
Net other operating income		5,018	1,129
Operating income		**686,462**	**394,942**
Impairment losses	6	(13,559)	(32,855)
Personnel expenses	7	(265,916)	(209,619)
Other general administrative expenses	8	(128,998)	(90,595)
Profit before income tax		**277,989**	**61,873**
Income tax expense	9	(56,381)	(12,925)
Profit and total comprehensive income for the year		**221,608**	**48,948**

The financial statements as set out on pages 5 to 41 were approved by management on 30 April 2013 and were signed on its behalf by:

Armen Gabrielyan
Chief Executive Director

Nelli Kirakosyan
Chief Accountant

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

	Notes	2012 AMD'000	2011 AMD'000
ASSETS			
Cash and cash equivalents	10	753,637	252,548
Loans to customers	11	3,676,611	2,489,751
Receivables from finance leases	12	167,882	160,555
Property, equipment and intangible assets	13	105,755	74,144
Deferred tax asset	9	-	1,655
Other assets		15,411	42,207
Total assets		**4,719,296**	**3,020,860**
LIABILITIES			
Loans and borrowings	14	3,727,561	2,404,442
Grants related to assets		59,960	62,254
Current tax liability		40,348	5,017
Deferred tax liability	9	4,342	-
Other liabilities		50,490	31,986
Total liabilities		**3,882,701**	**2,503,699**
EQUITY			
Share capital	15	488,783	390,957
Retained earnings		347,812	126,204
Total equity		**836,595**	**517,161**
Total liabilities and equity		**4,719,296**	**3,020,860**

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

	Notes	2012 AMD'000	2011 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		566,549	289,095
Interest payments		(166,657)	(45,597)
Net receipts (payments) from foreign exchange		13,298	(288)
Other income receipts		351,895	196,813
Personnel and other general administrative expenses payments		(363,590)	(280,622)
(Increase) decrease in operating assets			
Loans to customers		(1,227,250)	(1,401,133)
Recevables under finance leases		(7,586)	(55,014)
Other assets		26,475	(4,346)
Increase in operating liabilities			
Other liabilities		16,169	6,265
Net cash used in operating activities before income tax paid		**(790,697)**	**(1,294,827)**
Income tax paid		(15,053)	(18,729)
Cash flows used in operations		**(805,750)**	**(1,313,556)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and intangible assets		(62,608)	(42,383)
Sales of property and equipment and intangible assets		237	-
Cash flows used in investing activities		**(62,371)**	**(42,383)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of other borrowed funds		1,074,374	1,236,970
Repayment of other borrowed funds		189,346	188,845
Proceeds from issuance of charter capital		97,827	19,276
Cash flows from financing activities		**1,361,547**	**1,445,091**
Net increase in cash and cash equivalents		**493,426**	**89,152**
Effect of changes in exchange rates on cash and cash equivalents		7,663	1,642
Cash and cash equivalents as at the beginning of the period		252,548	161,754
Cash and cash equivalents as at the end of the period	10	**753,637**	**252,548**

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

AMD'000	**Share capital**	**Retained earnings**	**Total**
Balance as at 1 January 2011	371,681	77,256	448,937
Total comprehensive income for the year			
Profit and total comprehensive income for the year	-	48,948	48,948
Transactions with owners, recorded directly in equity			
Increase in share capital	19,276	-	19,276
Balance as at 31 December 2011	**390,957**	**126,204**	**517,161**
Balance as at 1 January 2012	390,957	126,204	517,161
Total comprehensive income for the year			
Profit and total comprehensive income for the year	-	221,608	221,608
Transactions with owners, recorded directly in equity			
Increase in share capital	97,826	-	97,826
Balance as at 31 December 2012	**488,783**	**347,812**	**836,595**

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

1 Background

(a) Organisation and operations

Farm Credit Armenia Universal Credit Organization Commercial Cooperative (the Organization) was established in the Republic of Armenia as a Universal Credit Organization Commercial Cooperative in 2007. The principal activity of the Organization is provision of micro and medium size agricultural loans to individuals and legal entities in the Republic of Armenia. The activities of the Organization are regulated by the Central Bank of Armenia (CBA). The Organization has a credit organization license.

The Organization has four branches from which it conducts business throughout the Republic of Armenia. All assets and liabilities are located in the Republic of Armenia. The registered office of the Organization is 18 Kajaznuni Street, Yerevan 0018, Republic of Armenia.

The Organization is governed by the principle of one member - one vote. Each member of the cooperative has the right of one vote regardless of its share of participation. Related party transactions are detailed in note 19.

(b) Business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

The functional currency of the Organization is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The AMD is also the presentation currency for the purposes of these financial statements.

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

(d) Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 11 “Loans to customers”.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Organization at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include current accounts and short-term deposits with banks. Short-term deposits are deposits with an initial maturity of less than three months. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold them for the foreseeble future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Organization has the positive intention and ability to hold to maturity, other than those that:

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

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) ***Recognition***

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

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(v) Fair value measurement principles

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

When available, the Organization measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

If a market for a financial instrument is not active, the Organization establishes fair value using a valuation technique. Valuation techniques include using recent arm’s length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Organization, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Organization has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Organization and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Organization believes a third-party market participant would take them into account in pricing a transaction.

(vi) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss
- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

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

(vii) Derecognition

The Organization derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Organization neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Organization is recognised as a separate asset or liability in the statement of financial position. The Organization derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Organization enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Organization neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Organization continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

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

The Organization writes off assets deemed to be uncollectible.

(viii) Offsetting

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

(d) Property and equipment

(i) Owned assets

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

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Leased assets

Leases under which the Organization assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

- computer equipment	1 year
- fixtures and fittings	5 years
- motor vehicles	5 years

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful live is 10 years.

(f) Impairment

(i) Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Organization reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Organization would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Organization first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Organization determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Organization uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Organization writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Provisions

A provision is recognised in the statement of financial position when the Organization has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(h) Share capital

Share capital comprises members shares.

(i) Dividends

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

(i) Taxation

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) Income and expense recognition

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

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

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

(k) Grant received

Grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Organization will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Organization for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

(l) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2012, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Organization plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Organization recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Organization's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Organization does not intend to adopt this standard early.

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

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

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

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

4 Net interest income

	2012 AMD'000	2011 AMD'000
Interest income		
Cash and cash equivalents	24,518	7,240
Loans to customers	503,228	266,737
Receivables from finance leases	25,018	22,188
	552,764	**296,165**
Interest expense		
Loans and borrowings	225,393	98,359
	225,393	**98,359**
Net interest income	**327,371**	**197,806**

5 Income from grants received

	2012 AMD'000	2011 AMD'000
Grants related to income	326,121	184,360
Grants related to assets	21,320	11,325
	347,441	**195,685**

Grants related to income represent grants received through U.S. Department of Agriculture (USDA).

6 Impairment losses

	2012 AMD'000	2011 AMD'000
Loans to customers	11,970	31,835
Receivables from finance leases	1,589	1,020
	13,559	**32,855**

7 Personnel expenses

	2012 AMD'000	2011 AMD'000
Employee compensation	248,466	195,251
Payroll related taxes	17,450	14,368
	265,916	**209,619**

8 Other general administrative expenses

	2012 AMD'000	2011 AMD'000
Depreciation and amortization	30,760	18,332
Operating lease expense	19,315	18,481
Travel expenses	15,300	5,666
Repairs and maintenance	10,459	9,948
Professional services	10,332	6,934
Representative expenses	8,570	5,067
Advertising and marketing	8,369	3,918
Communications and information services	6,449	5,117
Expenses for loan disbursement	4,292	3,217
Office supplies	3,488	3,275
Utilities	2,510	2,680
Taxes other than on payroll and income	2,044	1,925
Other	7,110	6,035
	128,998	**90,595**

9 Income tax expense

	2012 AMD'000	2011 AMD'000
Current tax expense		
Current year	50,384	13,380
Deferred tax expense		
Deferred taxation movement due to origination and reversal of temporary differences	5,997	(455)
Total income tax expense	**56,381**	**12,925**

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

Reconciliation of effective tax rate:

	2012 AMD'000	%	2011 AMD'000	%
Profit before tax	277,989		61,873	
Income tax at the applicable tax rate	55,598	20.0	12,375	20.0
Non-deductible costs	783	0.3	550	0.9
	56,381	**20.3**	**12,925**	**20.9**

(a) Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities and assets as at 31 December 2012 and 2011 respectively.

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

Movements in temporary differences during the years ended 31 December 2012 and 2011 are presented as follows:

2012 **AMD'000**	**Balance** **1 January 2012**	**Recognised** **in profit or loss**	**Balance** **31 December 2012**
Cash and cash equivalents	(173)	(839)	(1,012)
Loans to customers	-	(6,161)	(6,161)
Other liabilities	1,828	1,003	2,831
	1,655	**(5,997)**	**(4,342)**

2011 **AMD'000**	**Balance** **1 January 2011**	**Recognised** **in profit or loss**	**Balance** **31 December 2011**
Cash and cash equivalents	(683)	510	(173)
Other assets	(325)	325	-
Other liabilities	2,208	(380)	1,828
	1,200	**455**	**1,655**

10 Cash and cash equivalents

	2012 **AMD'000**	**2011** **AMD'000**
Current accounts		
- Largest 5 Armenian Banks	43,900	93,200
- Medium size Armenian Banks	120,620	12,182
Total current accounts	**164,520**	**105,382**
Deposits		
- Largest 5 Armenian Banks	242,148	120,039
- Medium size Armenian Banks	346,969	27,127
Total deposits with banks	**589,117**	**147,166**
Total cash and cash equivalents	**753,637**	**252,548**

No cash and cash equivalents are impaired or past due.

As at 31 December 2012 the Organization has three banks (2011: two banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 is AMD 706,598 thousand (2011: AMD 202,261 thousand).

11 Loans to customers

	2012 AMD'000	2011 AMD'000
Business loans		
Small companies	267,037	192,220
Sole enterpreneurs	478,512	303,878
Total business loans	**745,549**	**496,098**
Loans to individuals		
Crop production	1,553,129	1,335,438
Cattle breeding	1,242,673	645,924
Other	172,397	43,145
Total loans to individuals	**2,968,199**	**2,024,507**
Gross loans to customers	**3,713,748**	**2,520,605**
Impairment allowance	(37,137)	(30,854)
Net loans to customers	**3,676,611**	**2,489,751**

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

	Business loans AMD'000	Loans to individuals AMD'000	Total AMD'000
Balance at the beginning of the year	5,751	25,103	30,854
Net charge (reversal)	(11,624)	23,594	11,970
(Write-offs)/recoveries	13,328	(19,015)	(5,687)
Balance at the end of the year	**7,455**	**29,682**	**37,137**

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

	Business loans AMD'000	Loans to individuals AMD'000	Total AMD'000
Balance at the beginning of the year	1,788	14,331	16,119
Net charge	12,772	19,063	31,835
Write-offs	(8,809)	(8,291)	(17,100)
Balance at the end of the year	**5,751**	**25,103**	**30,854**

(a) Credit quality of loans to customers

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

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Business loans				
Small companies				
Loans without individual signs of impairment	267,037	2,670	264,367	1.0%
Total loans to small companies	**267,037**	**2,670**	**264,367**	**1.0%**
Sole enterpreneurs				
Loans without individual signs of impairment	474,679	4,747	469,932	1.0%
Overdue or impaired loans:				
- overdue less than 90 days	3,833	38	3,795	1.0%
Total overdue or impaired loans	3,833	38	3,795	1.0%
Total loans to sole enterpreneurs	**478,512**	**4,785**	**473,727**	**1.0%**
Total business loans	**745,549**	**7,455**	**738,094**	**1.0%**
Loans to individuals				
Crop production				
- not overdue	1,514,635	14,426	1,500,209	1.0%
- overdue less than 30 days	18,452	184	18,268	1.0%
- overdue 30-89 days	9,743	97	9,646	1.0%
- overdue 90-179 days	6,451	65	6,386	1.0%
- overdue 180-360 days	3,848	759	3,089	19.7%
Total loans to crop production	**1,553,129**	**15,531**	**1,537,598**	**1.0%**
Cattle breeding				
- not overdue	1,226,302	12,155	1,214,147	1.0%
- overdue less than 30 days	14,704	147	14,557	1.0%
- overdue 30-89 days	1,667	125	1,542	7.5%
Total loans to cattle breeding	**1,242,673**	**12,427**	**1,230,246**	**1.0%**
Other				
- not overdue	172,397	1,724	170,673	1.0%
Total other loans	**172,397**	**1,724**	**170,673**	**1.0%**
Total loans to individuals	**2,968,199**	**29,682**	**2,938,517**	**1.0%**
Total loans to customers	**3,713,748**	**37,137**	**3,676,611**	**1.0%**

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

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Business loans				
Small companies				
Loans without individual signs of impairment	188,712	1,885	186,827	1.0%
Overdue or impaired loans:				
- overdue more than 90 days and less than 1 year	3,508	575	2,933	16.4%
Total overdue or impaired loans	3,508	575	2,933	16.4%
Total loans to small companies	**192,220**	**2,460**	**189,760**	**1.3%**
Sole enterpreneurs				
Loans without individual signs of impairment	302,271	3,002	299,269	1.0%
Overdue or impaired loans:				
- overdue more than 90 days and less than 1 year	1,607	289	1,318	18.0%
Total overdue or impaired loans	1,607	289	1,318	18.0%
Total loans to sole enterpreneurs	**303,878**	**3,291**	**300,587**	**1.1%**
Total business loans	**496,098**	**5,751**	**490,347**	**1.2%**
Loans to individuals				
Crop production				
- not overdue	1,306,521	13,120	1,293,401	1.0%
- overdue less than 30 days	3,103	305	2,798	9.8%
- overdue 90-179 days	25,814	4,832	20,982	18.7%
Total Loans to crop production	**1,335,438**	**18,257**	**1,317,181**	**1.4%**
Loans for cattle breeding				
- not overdue	645,924	6,417	639,507	1.0%
Total loans for cattle breeding	**645,924**	**6,417**	**639,507**	**1.0%**
Other				
- not overdue	43,145	429	42,716	1.0%
Total other loans	**43,145**	**429**	**42,716**	**1.0%**
Total loans to individuals	**2,024,507**	**25,103**	**1,999,404**	**1.2%**
Total loans to customers	**2,520,605**	**30,854**	**2,489,751**	**1.2%**

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

(i) Loans to corporate customers

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for business loans include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in business environment, negative changes in the borrower's markets.

The Organization estimates loan impairment for business loans based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment have been identified.

In determining the impairment allowance for business loans, the Organization creates a collective provision of 1% considering the economic environment and industry average loss experience.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on business loans as at 31 December 2012 would be up to AMD 7,381 thousand lower/higher (2011: AMD 4,902 thousand lower/higher).

(ii) Loans to individuals

The Organization reviewed its current loan portfolio to individuals and did not identify any significant loans that display indications of impairment. The significant assumptions used by management in determining the impairment losses for loans to individuals is based on historical losses of similar companies. The Organization created 1.0% (2011: 1.2%) allowance for impairment on loans to individuals.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to retail customers as at 31 December 2012 would be AMD 88,156 thousand lower/higher (2011: AMD 59,985 thousand).

(c) Analysis of collateral

(i) Business loans

The following tables provides information on collateral and other credit enhancements securing busines loans, net of impairment, by types of collateral:

31 December 2012 **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral assessed as of loan inception date**
Loans without individual signs of impairment		
Real estate	697,762	697,762
Motor vehicles	4,081	4,081
Guarantees	32,456	-
Total loans without individual signs of impairment	**734,299**	**701,843**
Overdue or impaired loans		
Real estate	3,134	3,134
Guarantees	661	-
Total overdue or impaired loans	**3,795**	**3,134**
Total business loans	**738,094**	**704,977**

31 December 2011 **AMD'000**	**Loans to customers, carrying amount**	**Fair value of collateral assessed as of loan inception date**
Loans without individual signs of impairment		
Real estate	470,363	470,363
Guarantees	15,733	-
Total loans without individual signs of impairment	**486,096**	**470,363**
Overdue or impaired loans		
Real estate	4,251	4,251
Total overdue or impaired loans	**4,251**	**4,251**
Total business loans	**490,347**	**474,614**

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

Business loans which are neither past due nor impaired, the fair value of collateral was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Organization does not necessarily update the valuation of collateral as at each reporting date.

(ii) Loans to individuals

Loans to individuals are secured by real estate and by individual guarantees. The Organization's policy is to issue loans to individual customers with a loan-to-value ratio of up to 90%.

The fair values of the collateral were estimated at inception of the loans and were not adjusted for subsequent changes to the reporting date.

(d) Industry and geographical analysis of the loan portfolio

Loans to customers as at 31 December are issued to customers located within the Republic of Armenia who operate in the following sectors:

	2012 AMD'000	**2011 AMD'000**
Crop production	1,583,437	1,347,071
Cattle breeding	1,266,350	676,054
Retail trade	354,753	292,615
Pisciculture	222,808	30,963
Other	286,400	173,902
	3,713,748	**2,520,605**
Impairment allowance	(37,137)	(30,854)
	3,676,611	**2,489,751**

(e) Significant credit exposures

As at 31 December 2012 the Organization has no borrowers or groups of connected borrowers (2011: none), whose loan balances exceed 10% of equity.

(f) Loan maturities

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

12 Receivables from finance leases

	2012 AMD'000	2011 AMD'000
Gross investment in finance leases receivables:		
Less than one year	67,272	61,711
Between one and five years	139,336	135,505
	206,608	**197,216**
Unearned finance income	(35,300)	(35,040)
Impairment allowance	(3,426)	(1,621)
Net investment in finance leases	**167,882**	**160,555**
The net investment in finance leases comprises:		
Less than one year	65,333	60,633
Between one and five years	102,549	99,922
	167,882	**160,555**

As at 31 December 2012 and 31 December 2011 there are no contractually overdue finance lease receivables.

(a) Concentration of receivables from finance leases

As at 31 December 2012 the Organization has no customer whose balances exceed 10% of equity (2011: nil).

(b) Finance lease maturities

The maturity of the Bank's finance lease portfolio is presented in note 16 (d), which shows the remaining period from the reporting date to the contractual maturity of the receivables from finance leases.

(c) Geographical analysis of the finance lease portfolio

The finance leases are with customers located within the Republic of Armenia and operating in the agricultural sector. The leased assets represent mainly agricultural equipment.

13 Property, equipment and intangible assets

AMD'000	Computer equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost					
Balance at 1 January 2012	22,365	25,787	78,138	8,008	134,298
Additions	5,148	13,707	38,446	5,307	62,608
Transfers	3,179	(3,179)	-	-	-
Disposals/Write-off	(1,930)	(394)	(2,019)	-	(4,343)
Balance at 31 December 2012	**28,762**	**35,921**	**114,565**	**13,315**	**192,563**
Depreciation and amortization					
Balance at 1 January 2012	15,866	14,778	27,762	1,748	60,154
Depreciation and amortization for the year	5,312	6,398	17,936	1,114	30,760
Transfers	357	(357)	-	-	-
Disposals/Write-off	(1,911)	(394)	(1,801)	-	(4,106)
Balance at 31 December 2012	**19,624**	**20,425**	**43,897**	**2,862**	**86,808**
Carrying amount					
At 31 December 2012	**9,138**	**15,496**	**70,668**	**10,453**	**105,755**

AMD'000	Computer equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost					
Balance at 1 January 2011	16,078	18,201	50,168	7,468	91,915
Additions	6,287	7,586	27,970	540	42,383
At 31 December 2011	**22,365**	**25,787**	**78,138**	**8,008**	**134,298**
Depreciation and amortization					
Balance at 1 January 2011	12,484	11,245	17,092	1,001	41,822
Depreciation and amortization for the year	3,382	3,533	10,670	747	18,332
Balance at 31 December 2011	**15,866**	**14,778**	**27,762**	**1,748**	**60,154**
Carrying amounts					
At 31 December 2011	**6,499**	**11,009**	**50,376**	**6,260**	**74,144**

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

14 Loans and borrowings

	2012 AMD'000	2011 AMD'000
Secured loan from the CBA	2,711,625	1,704,316
Secured loans from state non-commercial organizations	1,015,936	700,126
	3,727,561	**2,404,442**

(a) Borrowings from the CBA

According to the agreement the CBA provides loans to the Organization, which in turn grants loans to qualifying borrowers. The monitoring and administration of the loans is performed by the "Directing Office of the "German Armenian Foundation" program".

The loans are in AMD, bear interest rates of 8-9%, are granted for period of up to five years and are to be repaid at maturity.

As at 31 December 2012, loans to customers with a gross value of AMD 2,674,733 thousand (2011: AMD 1,765,208 thousand) serve as collateral for borrowings from the CBA.

(b) Borrowings from the state non-commercial organizations

As at 31 December 2012 the secured loans from a state non-commercial organizations comprise loans received from Foreign Financing Projects Management Centre (former Millenium Challenge Account – Armenia SNCO) and "Rural Finance Facility – Project Imlementation Unit" State Institution.

The loans are provided for the purpose of lending to agricultural sector and are secured by the total amount of loans provided by the Organization to sub-borrowers and all interest paid by sub-borrowers on their loans. As at 31 December 2012 the total gross amount of such loans is AMD 846,512 thousand (2011: AMD 576,628 thousand).

(c) Concentrations of loans and borrowings

As at 31 December 2012 the Organization has three institutions (2011: two) whose balances exceed 10% of equity. These balances as at 31 December 2012 are AMD 836,596 thousand (2011: AMD 517,159 thousand).

15 Share capital

As at 31 December 2012 the Organization had 1,221 members (2011: 336 members) with a share capital of AMD 488,783 thousand (2011: AMD 390,957 thouasnd). Each member of the Organization has the right of one vote at annual and general meetings of shareholders regardless of its share of participation.

(a) Dividends

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

16 Risk management

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

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Organization, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Management has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

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

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committee and an Asset and Liability Management Committee (ALCO).

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

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Organization is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

AMD '000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2012							
ASSETS							
Cash and cash equivalents	748,195	-	-	-	-	5,442	753,637
Loans to customers	233,895	483,217	1,168,512	1,790,987	-	-	3,676,611
Receivables from finance leases	18,750	16,729	29,854	102,549			167,882
	1,000,840	**499,946**	**1,198,366**	**1,893,536**	**-**	**5,442**	**4,598,130**
LIABILITIES							
Loans and borrowings	392,567	9,841	35,041	2,709,125	580,987	-	3,727,561
	392,567	**9,841**	**35,041**	**2,709,125**	**580,987**	**-**	**3,727,561**
Net position	**608,273**	**490,105**	**1,163,325**	**(815,589)**	**(580,987)**	**5,442**	**870,569**
31 December 2011							
ASSETS							
Cash and cash equivalents	237,933	-	-	-	-	14,615	252,548
Loans to customers	134,846	240,229	658,292	1,456,384	-	-	2,489,751
Receivables from finance leases	15,524	16,471	28,638	99,922	-	-	160,555
	388,303	**256,700**	**686,930**	**1,556,306**	**-**	**14,615**	**2,902,854**
LIABILITIES							
Loans and borrowings	58,501	-	-	1,645,816	700,125	-	2,404,442
	58,501	**-**	**-**	**1,645,816**	**700,125**	**-**	**2,404,442**
Net position	**329,802**	**256,700**	**686,930**	**(89,510)**	**(700,125)**	**14,615**	**498,412**

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2012 and 2011. These interest rates are an approximation of the yields to maturity of these assets and liabilities, except for a loan included in loans and borrowings of AMD 272,999 thousand (2011: nil), the interest rates on which are re-priced on a semi-annual basis based on CBA refinancing rate.

	2012 Average effective interest rate, %		2011 Average effective interest rate, %	
	AMD	**USD**	**AMD**	**USD**
Interest bearing assets				
Deposits with banks	9.0%	4.2%	6.0%	4.3%
Loans to customers	16.8%	11.9%	15.9%	-
Receivables from finance leases	13.5%	-	14.6%	-
Interest bearing liabilities				
Loans and borrowings	8.2%	4.0%	9.2%	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is suplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2012 and 2011 is as follows:

	2012 AMD'000	**2011 AMD'000**
100 bp parallel fall	10,862	4,614
100 bp parallel rise	(10,862)	(4,614)

(ii) Currency risk

The Organization has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

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

	USD AMD'000	**Other currencies AMD'000**	**Total AMD'000**
ASSETS			
Cash and cash equivalents	472,072	237	472,309
Loans to customers	152,392	-	152,392
Total assets	**624,464**	**237**	**624,701**
LIABILITIES			
Loans and borrowings	(155,624)	-	(155,624)
Total liabilities	**(155,624)**	**-**	**(155,624)**
Net position	**468,840**	**237**	**469,077**

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

	USD AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS			
Cash and cash equivalents	27,563	242	27,805
Net position	**27,563**	**242**	**27,805**

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

	2012 AMD'000	2011 AMD'000
10% appreciation of USD against AMD	46,884	2,756

A strengthening of the AMD against the above currencies at 31 December 2012 and 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

Credit risk is the risk of financial loss to the Organization if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Organization has policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Board of Directors.

The credit policy establishes:

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

Credit applications are originated by the relevant credit officers and are then passed on to the Credit Committee, which is responsible for the loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The Credit Committee reviews the loan credit applications which are subject to final approval of the Credit Committee.

The Organization continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers.

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

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

	2012 AMD'000	2011 AMD'000
ASSETS		
Cash and cash equivalents	753,637	252,548
Loans to customers	3,676,611	2,489,751
Receivables from finance lease	167,882	160,555
Total maximum exposure	**4,598,130**	**2,902,854**

The Organization holds collateral against loans and advances to customers in the form of mortgage interests over property and guarantees. Estimates of value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

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

As at 31 December 2012 the Organization has no debtors or groups of connected debtors (2011: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

(d) Liquidity risk

Liquidity risk is the risk that the Organization will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Organization maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

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

The maturity analysis for financial liabilities as at 31 December 2012 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Loans and borrowings	120,155	10,661	40,062	207,198	4,504,875	4,882,951	3,727,561
Total liabilities	**120,155**	**10,661**	**40,062**	**207,198**	**4,504,875**	**4,882,951**	**3,727,561**

The maturity analysis for financial liabilities as at 31 December 2011 is as follows:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Loans and borrowings	58,500	-	7,001	88,667	3,147,128	3,301,296	2,404,442
Total liabilities	**58,500**	**-**	**7,001**	**88,667**	**3,147,128**	**3,301,296**	**2,404,442**

The following tables provide an analysis, by expected maturities, of amounts recognised in the statement of financial position.

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	753,637	-	-	-	-	-	-	753,637
Loans to customers	69,201	164,694	1,651,729	1,783,070	-	-	7,917	3,676,611
Receivables from finance leases	6,803	11,947	46,583	102,549	-	-	-	167,882
Property, equipment and intangible assets	-	-	-	-	-	105,755	-	105,755
Other assets	3,198	-	7,961	-	-	4,252	-	15,411
Total assets	**832,839**	**176,641**	**1,706,273**	**1,885,619**	**-**	**110,007**	**7,917**	**4,719,296**
Non-derivative liabilities								
Loans and borrowings	120,155	5,094	89,324	2,932,003	580,985	-	-	3,727,561
Grants received	-	-	-	-	-	59,960	-	59,960
Current tax liability	40,348	-	-	-	-		-	40,348
Deferred tax liability	-	-	-	-	-	4,342	-	4,342
Other liabilities	8,908	1,647	39,935	-	-	-	-	50,490
Total liabilities	**169,411**	**6,741**	**129,259**	**2,932,003**	**580,985**	**64,302**	**-**	**3,882,701**
Net position	**663,428**	**169,900**	**1,577,014**	**(1,046,384)**	**(580,985)**	**45,705**	**7,917**	**836,595**

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	252,548	-	-	-	-	-	-	252,548
Loans to customers	55,009	79,837	898,521	1,447,974	-	-	8,410	2,489,751
Receivables from finance lease	4,793	10,731	45,109	99,922	-	-	-	160,555
Property, equipment and intangible assets						74,144		74,144
Deferred tax asset						1,655		1,655
Other assets	535	-	5,788			35,884		42,207
Total assets	**312,885**	**90,568**	**949,418**	**1,547,896**	**-**	**111,683**	**8,410**	**3,020,860**
Non-derivative liabilities								
Loans and borrowings	58,500	-	-	1,645,816	700,126	-	-	2,404,442
Grants received	-	-	-	-	-	62,254	-	62,254
Current tax liability	5,017	-	-	-	-	-	-	5,017
Other liabilities	894	1,038	30,054	-	-	-	-	31,986
Total liabilities	**64,411**	**1,038**	**30,054**	**1,645,816**	**700,126**	**62,254**	**-**	**2,503,699**
Net position	**248,474**	**89,530**	**919,364**	**(97,920)**	**(700,126)**	**49,429**	**8,410**	**517,161**

17 Capital management

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

The Organization defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, credit organizations have to maintain a minimum total capital of AMD 150,000 thousand. The Organization is in compliance with the statutory capital requirements during the years ended 31 December 2012 and 2011.

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

18 Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Organization does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Organization obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

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

(c) Taxation contingencies

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

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

19 Related party transactions

(a) Transactions with the members of Board of Directors and the Management

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

	2012 AMD'000	2011 AMD'000
Employee compensation	118,883	83,378
Payroll related taxes	6,645	4,872
	125,528	**88,250**

The outstanding balances and average interest rates as at 31 December 2012 and 2011 for transactions with the members of the Board of Directors and Management are as follows:

	2012 AMD'000	Average interest rate, %	2011 AMD'000	Average interest rate, %
Statement of financial position				
Loans issued (gross)	32,725	14.3%	32,422	14.6%
Loan impairment allowance	327		323	
Recevables from finance lease	8,254	14.5%	12,613	15.1%

The loans are in Armenian Drams and USD and repayable by 2017.

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

	2012 AMD'000	2011 AMD'000
Profit or loss		
Interest income	6,886	7,592
Other general and administrative expenses	3,421	1,130

(b) Transactions with other related parties

Other related parties include close family members of management and entities under control of management. The outstanding balances and the related average interest rates as at 31 December 2012 and 2011 and related profit or loss amounts of transactions for the year ended 31 December with other related parties are as follows.

	2012 AMD'000	Average interest rate, %	2011 AMD'000	Average interest rate, %
Statement of financial position				
ASSETS				
Loans to customers				
- Principal balance	15,258	12.69%	22,049	13.34%
- Impairment allowance	(153)		(220)	
Profit (loss)				
Interest income	1,971		2,134	

20 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

AMD'000	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	753,637	-	753,637	753,637
Loans to customers:				
Business loans	738,094	-	738,094	738,094
Loans to individuals	2,938,517	-	2,938,517	2,938,517
Receivable from finance leases	167,882	-	167,882	167,882
	4,598,130	**-**	**4,598,130**	**4,598,130**
Loans and borrowings	-	3,727,561	3,727,561	3,727,561
	-	**3,727,561**	**3,727,561**	**3,727,561**

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

AMD'000	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	252,548	-	252,548	252,548
Loans to customers:				
Business loans	490,238	-	490,238	490,238
Loans to individuals	1,999,513	-	1,999,513	1,999,513
Receivable from finance leases	160,555	-	160,555	160,555
	2,902,854	**-**	**2,902,854**	**2,902,854**
Loans and borrowings	-	2,404,442	2,404,442	2,404,442
	-	**2,404,442**	**2,404,442**	**2,404,442**

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