

**FARM CREDIT ARMENIA
UNIVERSAL CREDIT ORGANIZATION
COMMERCIAL COOPERATIVE**

FINANCIAL STATEMENTS

In Armenian Drams

31 DECEMBER 2009



**BAKER TILLY
ARMENIA**

YEREVAN 2010



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26 March, 2010

N10110

CONFIRMED BY:

P. GEVORGYAN

**Managing Partner
Baker Tilly Armenia CJSC**

**License for auditing N054 awarded by Ministry of Finance
and Economy of the Republic of Armenia**

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), which are comprised of the balance sheet as at December 31, 2009, and the income statement, statement of changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 risk 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 preparation and fair presentation of the Organization's 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 Organization'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 give a true and fair view of the financial position of "Farm Credit Armenia" Universal Credit Organization Commercial Cooperative as of December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

M. Mkrtchyan

Auditor



COMPREHENSIVE STATEMENT OF FINANCIAL RESULTS

for the financial year ended 31 December 2009

Description	Notes	Reporting Period 2009 (audited)	<u>AMD ths.</u> Previous Period 2008 (audited)
Interest and similar income	6	37,785	15,577
Interest and similar expenses	6	(7,426)	(1,666)
Net interest income		30,359	13,911
Net trading profit /(loss)	7	(1,252)	(556)
Net profit /(loss) from foreign currency revaluation		32,780	(386)
Other income	8	182,270	144,322
Impairment charge for credit losses	9	(3,592)	(1,594)
Impairment charge for leasing	16	(80)	-
Staff costs	10	(143,796)	(98,177)
Depreciation of property and equipment	17	(9,904)	(12,834)
Amortization of intangible assets	18	(224)	(66)
Other expenses	11	(51,735)	(41,461)
Profit before taxation		34,826	3,159
Profit tax expense	12	(3,090)	(2,056)
Net profit for the year		31,736	1,103

Armen Gabrielyan
CEO & President

Andranik Mosinyan
Chief Accountant



BALANCE SHEET

As at 31 December, 2009

Description	Notes	<u>AMD ths.</u>	
		Reporting. Period 2009 (audited)	Previous Period 2008 (audited)
Assets			
Cash resources	13	183,043	47,671
Deposits with banks	14	37,988	51,834
Loans and other lending provided to the clients	15	470,642	175,873
Amounts receivable as regards leasing	16	7,923	-
Property, plant and equipment	17	47,509	26,816
Intangible assets	18	7,213	678
Deferred tax assets	12	1,067	2,317
Other assets	19	69,776	6,003
		-	-
Total Assets		825,161	311,192
LIABILITIES AND EQUITY			
Liabilities			
Borrowings	20	346,926	91,865
Current profit tax liabilities		1,840	3,494
Other liabilities	21	73,039	45,546
Total liabilities		421,805	140,905
Equity			
Chartered capital	22	371,681	170,348
Retained earnings		31,675	(61)
Total equity		403,356	170,287
TOTAL LIABILITIES AND EQUITY		825,161	311,192

The presented financial statements have been approved by the Organization's Management as at 11.03.2010 and signed by the Organization's CEO and Chief Accountant. The attached notes 1-28 represent an integral part of these financial statements

Armen Gabrielyan
CEO & President

Andranik Mosinyan
Chief Accountant



STATEMENT OF CHANGES IN THE EQUITY

For the financial year ended 31 December 2009

Titles of components of the equity capital	Share Capital	Fair Value Reserve	Retained Earnings	<u>AMD ths.</u>
				Total
Balance as at 31 December, 2008	170,348	-	(61)	170,287
Overall results of changes in the accounting policy and adjustment of material errors.	-	-	-	-
Profit for the period		-	31,736	31,736
Increase in share capital	201,333	-		201,333
Balance as at 31 December, 2009 (audited)	371,681	-	31,675	403,356

Armen. Gabrielyan
CEO & President

Andranik. Mosinyan
Chief Accountant



CASH FLOW STATEMENT

for the financial year ended 31 December 2009

AMD ths.

Description	2009	2008
1. Net cash flow from operating activities	(295,494)	(88,646)
Net cash flow from operating activities before changes in operating assets and liabilities	(114,932)	(88,047)
Interests received	31,999	11,826
Interests paid	(5,219)	(742)
Net commissions received	4,650	2,223
Salaries and benefits paid	(103,574)	(71,318)
Taxes paid	(42,788)	(30,036)
Net cash flow from changes in operating assets and liabilities	(180,562)	(599)
Decrease (increase) in the means distributed	(284,281)	(95,366)
Decrease (increase) in the amounts receivable as regards financial lease	3,950	-
Net cash flow from other operating activities	99,769	94,767
2. Cash flows from investing activities	(53,486)	4,762
Decrease (increase) of capital investments in property, equipment and intangible assets	(450)	-
Purchase of property, equipment and intangible assets	(54,064)	(2,837)
Net cash flow from other investing activities	1,028	7,599
3. Cash flow from financing activities	454,477	91,630
Dividends paid	-	-
Increase (decrease) in loans received from banks	290	-
Increase (decrease) in other borrowings received	252,854	90,950
Shareholders' investments in chartered capital	201,333	680
Effect of exchange rate changes on cash and cash equivalents	29,875	(941)
Net cash flow	135,372	6,805
Cash and cash equivalents at the beginning of the year	47,671	40,866
Cash and cash equivalents at the end of the year	183,043	47,671

Armen. Gabrielyan
CEO & President

Andranik. Mosinyan
Chief Accountant

NOTES ATTACHED TO THE ANNUAL FINANCIAL STATEMENTS

1. Principal activities

“Farm Credit Armenia” Universal Credit Organization CC (the “Organization”) was registered (founded) on 18 September, 2007 according to the Decision № 43 of the Central Bank of the Republic of Armenia. The Organization is registered and conducts its business at the address Khajaznuni 18, 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

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, 08.

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



Farm Credit Armenia UCO CC

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, comparative figures have been adjusted to conform to the changes in presentations which are reflected in the current year.

4. Summary of significant accounting policies

The following significant accounting policies have been consistently applied in the 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 from 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 income statement.

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

Net trading income

Net trading income includes gains less losses from trading in foreign currencies.

Foreign currency translation

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets are recognised in the statement of income in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency 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 on the date of the transaction 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:

	December 31, 2009	December 31, 2008
AMD/ 1 US Dollar	377.89	306,73
AMD/ 1 Euro	542.23	435

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.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method.

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values reflected in the financial reports, except where the deferred income 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 or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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 on the Organization's activities. These taxes are included as a component of other expenses in the statement of income.

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. The Organization determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation 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 customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans 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.

Derecognition 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

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	1	100
Computers (Server)	5	20
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.

Share capital

Share capital

External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

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

	2009	<u><i>AMD ths.</i></u> 2008
Loans and advances to customers	33,720	9,216
Amounts due from banks	4,065	6,361
Total interest and similar income	37,785	15,577
Interest expense as regards borrowings	7,266	1,656
Other interest expense	160	10
Total interest and similar expense	7,426	1,666



7. Net trading income

	2009	<u>AMD ths.</u> 2008
Gains less losses from trading in foreign currency	(1,252)	(556)
Net trading income	(1,252)	(556)

8. Other income

	2009	<u>AMD ths.</u> 2008
Fines and penalties received	64	7
Income from grants	182,206	142,752
Other income	-	1,563
Total other income	182,270	144,322

9. Impairment charge for credit losses

	2009	<u>AMD ths.</u> 2008
Loans and advances to customers	3,593	1,594
Total impairment charge for credit losses	3,593	1,594

10. Staff costs

	2009	<u>AMD ths.</u> 2008
Wages and salaries	130,508	89,017
Social security contributions	10,169	7,278
Staff training costs	3,119	1,882
Total staff costs	143,796	98,177

11. Other expenses

	2009	<u>AMD ths.</u> 2008
Advertising costs	742	1,312
Entertainment expenses	2,767	3,653
Business trip expenses	5,158	2,337
Communications	5,385	4,359
Operating lease	12,394	12,962
Taxes, other than profit tax, duties	1,432	1,833
Audit and other consulting expenses	4,200	4,800
Security	420	420
Car maintenance expenses	6,779	3,653
Office supplies	3,635	3,647
Insurance expenses	1,077	462
Welfare	949	486
Other expenses	6,797	1,537
Total other expense	51,735	41,461



12. Profit tax expense

AMD ths

	2009	2008
Current tax expense	1,840	3,494
Deferred tax	1,250	(1,438)
Total profit tax expense	3,090	2,056

The corporate profit tax within the Republic of Armenia is levied at the rate of 20% (2008 - 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:

	2009	Effective Rate (%)	2008	Effective Rate (%)
Profit before tax	34,826		3,159	
Profit tax at the rate of 20 %	6,965	20%	632	20%
Non-deductible expenses	2,731		1,809	
Foreign exchange differences [(gains)/ losses]	(6,556)		(385)	
Previous period expenses	(960)		-	
Difference between national and international accounting	(340)		-	
Total profit tax expense	1,840		2,056	

Deferred tax calculation in respect of temporary differences:

	2008	Recognized in income statement	2009
Accrued expenses and other liabilities	2,208	(910)	1,298
Allowances for impairment	109	-	109
Total deferred tax assets	2,317	(910)	1,407
Allowances for impairment and provisions for bank accounts	-	(340)	(340)
Total deferred tax liabilities	-	(340)	(340)
Net deferred tax assets	2,317	(1,250)	1,067

	2007	Recognized in income statement	2008
Accrued expenses and other liabilities	878	1,330	2,208
Allowances for impairment	-	109	109
Total deferred tax assets	878	1,439	2,317
Allowances for impairment and provisions for bank accounts	-	-	-
Total deferred tax liabilities	-	-	-
Net deferred tax assets	878	1,439	2,317



13. Cash and amounts due from banks

	2009	<u>AMD ths.</u> 2008
Bank accounts	183,043	47,671
Total cash and cash equivalents	183,043	47,671

14. Deposits with banks

	2009	<u>AMD ths.</u> 2008
Time deposits	37,789	51,000
Accumulated interest	199	834
Total deposits	37,988	51,834

15. Loans and advances to customers

	2009	<u>AMD ths.</u> 2008
Loans to customers	475,998	177,637
Less allowances for loan impairment	(5,356)	(1,764)
Total loans and advances to customers	470,642	175,873

As of 31 December 2009, the accrued interest income included in loans and advances to customers amounted to AMD 2,366 thousand and future period income amounts AMD 225 thousand.

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

	Privately held companies	Natural persons	Sole proprietors	<u>AMD ths.</u> 2009 Total
As at 1 January 2009	509	1,255	-	1,764
Charge for the year	142	3,425	25	3,592
As at 31 December 2009	651	4,680	25	5,356
Individual impairment	-	-	-	-
Collective impairment	651	4,680	25	5,356
	651	4,680	25	5,356
	Privately held companies	Natural persons	Sole proprietors	2008 Total
As at 1 January 2008	-	170	-	170
Charge for the year	509	1,085	-	1,594
As at 31 December 2008	509	1,255	-	1,764
Individual impairment	-	-	-	-
Collective impairment	509	1,255	-	1,764
	509	1,255	-	1,764



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

	2009	<u>AMD ths.</u> 2008
Privately held companies	65,141	50,834
Natural persons (agriculture)	406,216	125,532
Sole proprietors	2,500	-
Accrued interest	2,366	1,271
Future period income	(225)	-
Less allowances for loan impairment	(5,356)	(1,764)
Total loans and advances to customers	470,642	175,873

Loans to individuals comprise the following:

	2009	<u>AMD ths.</u> 2008
Agricultural	380,150	124,918
Other	26,066	1,661
Total loans and advances to individuals (gross)	406,216	126,579

As at 31 December 2009 and 2008, the estimated fair value of loans and advances approximates to their carrying value. Refer to Note 25.

Credit, currency, liquidity and interest rate analyses of loans and advances to customers are presented in Note 27. The information on related party balances is disclosed in Note 24.

16. Amounts receivable as regards leasing

	2009	<u>AMD ths.</u> 2008
Amounts receivable as regards leasing	9,374	-
Non-recognized interest income	(1,371)	-
Allowance for impairment	(80)	-
Total loans and advances to customers	7,923	-

Allowance for leasing impairment by class is as follows:

	Privately held companies	Natural persons	Sole proprietors	2009 Total
As at 1 January 2009	-	-	-	-
Charge for the year	-	80	-	80
As at 31 December 2009	-	80	-	80
Individual impairment	-	-	-	-
Collective impairment	-	80	-	80
	-	80	-	80

17. Property, plant and equipment

AMD ths.

Assets in operation	Land and Buildings	Computer Equipment	Vehicles	Other PPE	Total
Carrying amount	-----	-----	-----	-----	-----
End of previous year	10,337	10,703	16,081	4,013	41,134
Additions	1,609	1,882	26,562	591	30,644
Disposals (write-offs)	(70)	-	-	(66)	(136)
End of current year	11,876	12,585	42,643	4,538	71,642
DEPRECIATION					
Opening balance	4,504	6,999	1,785	1,030	14,318
Accumulated depreciation	1,777	1,877	5,320	930	9,904
Utilization of acc. depr.(write-off)	(70)	-	-	(19)	(89)
Closing balance	6,211	8,876	7,105	1,941	24,133
Net Carrying Value					
End of previous year	5,833	3,704	14,296	2,983	26,816
End of current year	5,665	3,709	35,538	2,597	47,509

18. Intangible assets

AMD ths.

Acquired software

COST	
As at January 01, 2008	179
Additions	568
As at December 31, 2008	747
Additions	6,900
Disposal (write-off)	(179)
As at December 31, 2009	7,468
AMORTIZATION	
As at January 01, 2008	3
Amortization charge	66
As at December 31, 2008	69
Amortization charge	224
Disposal (write-off)	(38)
As at December 31, 2009	255
CARRYING VALUE	
As at December, 2009	7,213
As at December, 2008	678



19. Other assets

	2009	<u>AMD ths.</u> 2008
Prepayments for acquisition of property, plant and equipment	48,096	-
Prepayments and other debtors	5,625	4,035
Warehouse	16,055	1,968
Total other assets	69,776	6,003

20. Borrowings

The Organization signed a loan agreement with MCA-Armenia SNCO as of 09 April 2008. The contracted interest is at 4% per annum, and the agreement is effective until 15 September 2015. The loan balance as of

31 December 2009 makes up AMD 343,804 ths., and the accrued interest is AMD 3,122 ths.

21. Other liabilities

	2009	<u>AMD ths.</u> 2008
Amounts payable	12,142	5,199
Obligations towards personnel	3,122	1,752
Other payables	57,775	38,595
Total other liabilities	73,039	45,546

22. Equity

The share capital of the Organization comprises AMD 371,681 ths. from 161 cooperative members participation. The major participant is FLCA Trust making up AMD 351,100 ths.

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 2009, 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 garage facilities.

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

	2009	<u>AMD ths.</u> 2008
Up to 1 year	-	268
From 1 to 2 years	24,272	16,125
Total operating lease commitments	24,272	16,393

Insurance

The Organization’s movable property has been insured for AMD 120,000 thousand. The Organization has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Armenia at present.

24. Transactions with related parties

In accordance with IAS 24 “Related Party Disclosures”, 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 volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2009		<u>AMD ths.</u> 2008	
	Participants	Key Management Personnel	Participants	Key Management Personnel
Loans and advances to customers				
Loans outstanding at the beginning of the period, gross	-	15,650	-	7,000
Loans issued during the period	-	17,000	-	13,700
Loan repayments during the period	-	(15,200)	-	(5,050)
Loans outstanding at December 31, gross	-	17,450	-	15,650
Less allowance for loan impairment	-	(175)	-	(156)
Loans outstanding at December 31	-	17,275	-	15,494
Interest income on loans	-	252	-	127
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:

	2009	<u>AMD ths.</u> 2008
Salaries and other short-term benefits	58,529	30,828
Social security costs	3,598	1,916
Compensation to Board members	357	312
Total key management compensation	62,484	33,056

The loans issued to key management personnel during the reporting year of AMD 11,000 thousand are repayable monthly at the rates of 12%, 15% and 10%.

25. Fair value of financial instruments

Financial instruments not measured at fair value

The fair value of financial assets and liabilities, not presented on the Organization's balance sheet at their fair value, does not differ significantly from their carrying values:

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over 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 fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

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 on the Organization's balance sheet at their fair value, does not differ significantly from their carrying amounts.

26. Maturity analysis of assets and liabilities

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

AMD ths.

	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	183,043	-	-	183,043	-	-	183,043
Deposits with banks	37,988	-	-	37,988	-	-	37,988
Loans and advances to customers	8,080	13,459	128,599	150,138	233,662	100,398	484,198
Amounts due from legal persons and institutions	-	-	-	-	-	-	-
Amounts due from the RA Government	29	-	2,621	2,650	-	-	2,650
Other receivables	-	-	53,721	53,721	-	-	53,721
	229,140	13,459	184,941	427,540	233,662	100,398	761,600
LIABILITIES							
Amounts due to resident legal persons and institutions	-	-	-	-	-	-	-
Amounts due to the RA Government	1997	-	1,840	3,837	-	-	3,837
Borrowings	-	3122	-	3,122	-	343,804	346,926
Other liabilities	6192	395	6945	13,532	11,271	46239	71,042
	8,189	3,517	8,785	20,491	11,271	390,043	421,805
Net position	220,951	9,942	176,156	407,049	222,391	(289,645)	339,795
Accumulated gap	220,951	230,893	407,049		629,440	339,795	

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 business, 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 a 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 2009 and 2008, 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.

	Notes	Gross maximum exposure as of December 31, 2009	Gross maximum exposure as of December 31, 2008	<u>AMD ths.</u>
Cash and cash equivalents	13	183,043	47,671	
Deposits with banks	14	37,988	51,834	
Loans and advances to customers	15	470,642	175,873	
Total credit risk		691,673	275,378	

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.

	Financial institutions	Manufact	Agricult.	Service	Hypothecs	Consumer sector	Other	Total	<u>AMD ths.</u>
Cash and cash equivalents	183,043	-	-	-	-	-	-	183,043	
Deposits with banks	37,988	-	-	-	-	-	-	37,988	
Loans and advances to customers	-	70,403	375,616	-	-	-	27,838	473,857	
As at 31 December 2009	221,031	70,403	375,616	-	-	-	27,838	694,888	
As at 31 December 2008	99,505	44,058	123,679	-	-	-	8,136	275,378	



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 represented as follows:

	2009	<u>AMD ths.</u> 2008
Loans collateralized by real estate	-	60,475
Loans collateralized by movable property	-	12,750
Movables and Immovables	272,891	46,665
Mixed	200,966	56,476
Accrued interest	2,366	1,271
		-
Total loans and advances to customers (gross)	476,223	177,637

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.

	2009	<u>AMD ths.</u> 2008
Loans and advances to customers		
Privately held companies	1%	1%
Individuals	1%	1%
Sole proprietors	1%	1%

Past due and impaired loans

As of 31 December 2009, the Organization has no past due and individually impaired loans, but has an individually classified loan; loan amount is AMD 3,250 ths. and provision makes up AMD 650 ths.

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:

	Armenian Drams	Freely Convertible Currencies	<u>AMD ths.</u> Total
ASSETS			
Cash and cash equivalents	19,730	163,313	183,043
Loans and advances to customers	476,223	-	476,223
Deposits with banks	-	37,988	37,988
Total financial assets	495,953	201,301	697,254
LIABILITIES			
Amounts due to financial institutions	-	-	-
Borrowings	346,926	-	346,926
Total financial liabilities	346,926	-	346,926
Net position as at 31 December 2009	149,027	201,301	350,328
Net position as at 31 December 2008	-	7	7

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 summarises the maturity profile of the Organization's financial liabilities at 31 December 2009 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

	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	<u>AMD ths.</u> 2009 Total
FINANCIAL LIABILITIES						
Amounts due to financial institutions	-	-	-	-	-	-
Borrowing	3,122	-	-	-	343,804	346,926
Total undiscounted financial liabilities	3,122	-	-	-	343,804	346,926

	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 financial institutions	-	-	-	-	-	-
Borrowing	915	-	-	-	90,950	91,865
Total undiscounted financial liabilities	915	-	-	-	90,950	91,865

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 maximise 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, policies 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.

The financial statements presented from 4 to 30 pages have been signed by the Chief Executive Officer and Chief Accountant of the Organization on March 11, 2010.