

**Kilikia Universal Credit Organization LLC**

**Financial Statements**

**for the year ended 31 December 2012**

## Contents

Independent Auditors' Report .....	3
Statement of comprehensive income .....	4
Statement of financial position .....	5
Statement of cash flows .....	6
Statement of changes in equity .....	7
Notes to the financial statements .....	8



*Kilika Universal Credit Organization LLC*  
*Statement of Comprehensive Income for the year ended 31 December 2012*

	Notes	2012 AMD'000	2011 AMD'000
Interest income	4	96,401	26,957
Interest expense	4	(31,223)	(1,091)
<b>Net interest income</b>		<b>65,178</b>	<b>25,866</b>
Fee and commission income		1,279	2,422
Fee and commission expense		(1,379)	(120)
<b>Net fee and commission (expense)/income</b>		<b>(100)</b>	<b>2,302</b>
Net foreign exchange income		1,036	7,871
Other operating income/(expenses)		254	(677)
<b>Operating income</b>		<b>66,368</b>	<b>35,362</b>
Impairment losses	5	(7,785)	(2,264)
Personnel expenses	6	(39,247)	(22,478)
Other general administrative expenses	7	(16,543)	(8,639)
<b>Profit before income tax</b>		<b>2,793</b>	<b>1,981</b>
Income tax expense	8	(286)	(33)
<b>Profit and total comprehensive income for the year</b>		<b>2,507</b>	<b>1,948</b>

The financial statements as set out on pages 4 to 38 were approved by the Board of Directors on 26 June 2013 and were signed on its behalf by management:

Arsen Katvalyan  
 Executive Director



Varduhi Khachatryan  
 Chief Accountant

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

***Kilika Universal Credit Organization LLC***  
*Statement of Financial Position as at 31 December 2012*

	Notes	2012 AMD'000	2011 AMD'000
<b>ASSETS</b>			
Cash and cash equivalents	9	5,043	11,923
Loans to customers	10	833,441	184,081
Held-to-maturity investments			
- Held by the Organization	11	15,817	-
- Pledged under sale and repurchase agreements	11	449,406	-
Property, equipment and intangible assets	12	10,091	8,232
Other assets		1,833	608
<b>Total assets</b>		<b>1,315,631</b>	<b>204,844</b>
<b>LIABILITIES</b>			
Amounts payable under repurchase agreements		464,206	-
Loans and borrowings	13	410,435	-
Other liabilities		3,589	470
<b>Total liabilities</b>		<b>878,230</b>	<b>470</b>
<b>EQUITY</b>			
Share capital		434,520	204,000
Retained earnings		2,881	374
<b>Total equity</b>		<b>437,401</b>	<b>204,374</b>
<b>Total liabilities and equity</b>		<b>1,315,631</b>	<b>204,844</b>

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

**Kilika Universal Credit Organization LLC**  
*Statement of Cash Flows for the year ended 31 December 2012*

	Notes	2012 AMD'000	2011 AMD'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest receipts		74,679	26,997
Interest payments		(28,851)	(1,143)
Fee and commission receipts		1,279	2,295
Fee and commission payments		(1,379)	-
Net payments from foreign exchange		(255)	-
Other income/(expense) receipts/(payments)		254	(857)
Personnel and other general administrative expenses payments		(53,337)	(22,547)
<b>(Increase) decrease in operating assets</b>			
Loans to customers		(659,701)	(143,945)
Other assets		(934)	-
<b>Increase (decrease) in operating liabilities</b>			
Amounts payable under sale and repurchase agreements		464,206	-
Other liabilities		2,038	-
<b>Net cash used in operating activities before income tax paid</b>		<b>(202,001)</b>	<b>(139,200)</b>
Income tax paid		(884)	(796)
<b>Cash flows used in operations</b>		<b>(202,885)</b>	<b>(139,996)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of held-to-maturity investments		(441,161)	-
Purchases of property and equipment and intangible assets		(3,785)	(4,000)
<b>Cash flows used in investing activities</b>		<b>(444,946)</b>	<b>(4,000)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Receipts of loans and borrowings		640,791	-
Repayment of loans and borrowings		-	(9,746)
Proceeds from issuance of share capital		-	54,000
<b>Cash flows from financing activities</b>		<b>640,791</b>	<b>44,254</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(7,040)</b>	<b>(99,742)</b>
Effect of changes in exchange rates on cash and cash equivalents		160	477
Cash and cash equivalents as at the beginning of the year		11,923	111,188
<b>Cash and cash equivalents as at the end of the year</b>	9	<b>5,043</b>	<b>11,923</b>

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

**Kilika Universal Credit Organization LLC**  
*Statement of Changes in Equity for the year ended 31 December 2012*

<b>AMD'000</b>	<b>Share capital</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>Balance as at 1 January 2011</b>	150,000	(1,574)	148,426
<b>Total comprehensive income</b>			
Profit for the year		1,948	1,948
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>1,948</b>	<b>1,948</b>
<b>Transactions with owners, recorded directly in equity</b>			
Shares issued	54,000	-	54,000
<b>Total transactions with owners</b>	<b>54,000</b>	<b>-</b>	<b>54,000</b>
<b>Balance as at 31 December 2011</b>	<b>204,000</b>	<b>374</b>	<b>204,374</b>
Balance as at 1 January 2012	204,000	374	204,374
<b>Total comprehensive income</b>			
Profit for the year	-	2,507	2,507
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>2,507</b>	<b>2,507</b>
<b>Transactions with owners, recorded directly in equity</b>			
Shares issued	230,520	-	230,520
<b>Total transactions with owners</b>	<b>230,520</b>	<b>-</b>	<b>230,520</b>
<b>Balance as at 31 December 2012</b>	<b>434,520</b>	<b>2,881</b>	<b>437,401</b>

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

## **1 Background**

### **(a) Organization and operations**

Kilika Universal Credit Organization LLC (the Organization) was established in the Republic of Armenia as a limited liability company and was granted its credit organization license on 17 August 2010. The Organization's registered office is 50 Teryan Street, Yerevan, Republic of Armenia.

The principal activity of the Organization is lending. The activities of the Organization are regulated by the Central Bank of the Republic of Armenia (CBA). The majority of the Organization's assets and liabilities are located in the Republic of Armenia.

As at 31 December 2012 the Organization is wholly-owned and ultimately controlled by a single individual, Vardan Danghyan. As at 31 December 2011, the Organisation was owned and ultimately controlled by a single individual, Hrayr Hakobyan. Related party transactions are detailed in note 19.

### **(b) Armenian business environment**

The Organization's operations are 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 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, except when otherwise indicated.

**(d) Use of estimates and judgments**

The preparation of financial statements in conformity with IFRS 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 recognized 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 10 “Loans to customers” in relation to loan impairment estimates.

### **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 currency of the Organization at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. 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 notes and coins on hand, unrestricted current accounts and short-term deposits held with banks. The short-term deposits are deposits with an initial maturity of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Organization in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

**(c) Financial instruments**

**(i) Classification**

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

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

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

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

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

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

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

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

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

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

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

**(ii) Recognition**

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

**(iii) Measurement**

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

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

- loans and receivables 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) Amortized cost**

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

**(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) 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:

- Computers and communication equipment      3 years
- Fixtures and fittings                                      5 years

**(e) Intangible assets**

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life of computer software 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.

**(j) Credit related commitments**

In the normal course of business, the Organisation enters into credit related commitments, comprising undrawn loan commitments.

Loan commitments are not recognised, except for the followings:

- loan commitments that the Organisation designates as financial liabilities at fair value through profit or loss
- if the Organisation has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- commitments to provide a loan at a below-market interest rate.

**(h) Share capital**

**(i) Ordinary shares**

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

**(ii) Dividends**

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

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

**(i) Taxation**

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

**(j) Income and expense recognition**

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

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

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

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

**(k) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 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 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 this pronouncement on its financial position or performance.
- 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

	<b>2012</b> <b>AMD'000</b>	<b>2011</b> <b>AMD'000</b>
<b>Interest income</b>		
Loans to customers	72,320	26,351
Held-to-maturity investments	24,062	-
Cash and cash equivalents	19	606
	<b>96,401</b>	<b>26,957</b>
<b>Interest expense</b>		
Amounts payable under repurchase agreements	17,253	-
Loans and borrowings	13,970	1,091
	<b>31,223</b>	<b>1,091</b>

## 5 Impairment losses

	<b>2012</b> <b>AMD'000</b>	<b>2011</b> <b>AMD'000</b>
Loans to customers	7,476	2,334
Other assets	309	(70)
	<b>7,785</b>	<b>2,264</b>

## 6 Personnel expenses

	<b>2012</b> <b>AMD'000</b>	<b>2011</b> <b>AMD'000</b>
Employee compensation	36,285	20,517
Payroll related taxes	2,962	1,961
	<b>39,247</b>	<b>22,478</b>

## 7 Other general administrative expenses

	<b>2012</b> <b>AMD'000</b>	<b>2011</b> <b>AMD'000</b>
Operating lease expense	6,976	1,043
Communications and information services	2,525	2,380
Depreciation and amortization	1,926	955
Taxes other than on income	1,333	1,060
Advertising and marketing	845	226
Security	770	720
Office supplies	685	388
Repairs and maintenance	228	37
Professional services	-	1,055
Other	1,255	775
	<b>16,543</b>	<b>8,639</b>

## 8 Income tax expense

	<b>2012</b> <b>AMD'000</b>	<b>2011</b> <b>AMD'000</b>
Current year tax expense	286	33
Origination and reversal of temporary differences	-	-
<b>Total income tax expense</b>	<b>286</b>	<b>33</b>

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

### Reconciliation of effective tax rate for the year ended 31 December:

	<b>2012</b> <b>AMD'000</b>	<b>%</b>	<b>2011</b> <b>AMD'000</b>	<b>%</b>
Profit before tax	2,793		1,981	
Income tax at the applicable tax rate	559	20.0	396	20.0
Non-taxable income	(273)	(9.8)	(363)	(18.3)
	<b>286</b>	<b>10.2</b>	<b>33</b>	<b>1.7</b>

## 9 Cash and cash equivalents

	2012 AMD'000	2011 AMD'000
<b>Cash on hand</b>	<b>1,786</b>	<b>2,038</b>
<b>Current accounts with banks</b>		
Largest 10 Armenian banks	246	9,885
Other Armenian banks	3,011	-
<b>Total current accounts</b>	<b>3,257</b>	<b>9,885</b>
<b>Total cash and cash equivalents</b>	<b>5,043</b>	<b>11,923</b>

No cash and cash equivalents are impaired or past due.

As at 31 December 2012 and 2011 the Organization has no banks, whose balances exceed 10% of equity.

## 10 Loans to customers

	2012 AMD'000	2011 AMD'000
<b>Business loans</b>		
Small companies and sole entrepreneurs	350,334	-
<b>Loans to retail customers</b>		
Consumer loans secured by real estate	85,224	97,809
Auto loans	71,968	-
Mortgage loans	41,982	25,504
Consumer loans secured by gold	39,991	36,294
Other consumer loans	253,752	26,808
<b>Total loans to retail customers</b>	<b>492,917</b>	<b>186,415</b>
<b>Gross loans to customers</b>	<b>843,251</b>	<b>186,415</b>
Impairment allowance	(9,810)	(2,334)
<b>Net loans to customers</b>	<b>833,441</b>	<b>184,081</b>

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 retail customers AMD'000	Total AMD'000
Balance at the beginning of the year	-	2,334	2,334
Net charge	4,878	2,598	7,476
<b>Balance at the end of the year</b>	<b>4,878</b>	<b>4,932</b>	<b>9,810</b>

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

	<b>Business loans AMD'000</b>	<b>Loans to retail customers AMD'000</b>	<b>Total AMD'000</b>
Balance at the beginning of the year	-	-	-
Net charge	-	2,334	2,334
<b>Balance at the end of the year</b>	<b>-</b>	<b>2,334</b>	<b>2,334</b>

**(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:

	<b>Gross loans AMD'000</b>	<b>Impairment allowance AMD'000</b>	<b>Net loans AMD'000</b>	<b>Impairment allowance to gross loans, %</b>
<b>Business loans</b>				
<b>Loans to small companies and sole entrepreneurs</b>				
- loans without individual signs of impairment	350,334	(4,878)	345,456	1.4%
<b>Total corporate loans</b>	<b>350,334</b>	<b>(4,878)</b>	<b>345,456</b>	<b>1.4%</b>
<b>Loans to retail customers</b>				
<b>Consumer loans secured by real estate</b>				
- not overdue	85,224	(851)	84,373	1.0%
<b>Total consumer loans secured by real estate</b>	<b>85,224</b>	<b>(851)</b>	<b>84,373</b>	<b>1.0%</b>
<b>Auto loans</b>				
- not overdue	71,968	(721)	71,247	1.0%
<b>Total auto loans</b>	<b>71,968</b>	<b>(721)</b>	<b>71,247</b>	<b>1.0%</b>
<b>Mortgage loans</b>				
-not overdue	41,982	(419)	41,563	1.0%
<b>Total mortgage loans</b>	<b>41,982</b>	<b>(419)</b>	<b>41,563</b>	<b>1.0%</b>
<b>Consumer loans secured by gold</b>				
- not overdue	39,991	(399)	39,592	1.0%
<b>Total consumer loans secured by gold</b>	<b>39,991</b>	<b>(399)</b>	<b>39,592</b>	<b>1.0%</b>
<b>Other consumer loans</b>				
- not overdue	253,752	(2,542)	251,210	1.0%
<b>Total other consumer loans</b>	<b>253,752</b>	<b>(2,542)</b>	<b>251,210</b>	<b>1.0%</b>
<b>Total loans to retail customers</b>	<b>492,917</b>	<b>(4,932)</b>	<b>487,985</b>	<b>1.0%</b>
<b>Total loans to customers</b>	<b>843,251</b>	<b>(9,810)</b>	<b>833,441</b>	<b>1.2%</b>

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

	<b>Gross loans</b>	<b>Impairment allowance</b>	<b>Net loans</b>	<b>Impairment allowance to gross loans,</b>
	<b>AMD'000</b>	<b>AMD'000</b>	<b>AMD'000</b>	<b>%</b>
<b>Loans to retail customers</b>				
<b>Consumer loans secured by real estate</b>				
- not overdue	97,809	(968)	96,841	1.0%
<b>Total consumer loans secured by real estate</b>	<b>97,809</b>	<b>(968)</b>	<b>96,841</b>	<b>1.0%</b>
<b>Mortgage loans</b>				
-not overdue	21,156	(211)	20,945	1.0%
-impaired, not overdue	4,348	(521)	3,827	12.0%
<b>Total mortgage loans</b>	<b>25,504</b>	<b>(732)</b>	<b>24,772</b>	<b>2.9%</b>
<b>Consumer loans secured by gold</b>				
- not overdue	36,294	(362)	35,932	1.0%
<b>Total consumer loans secured by gold</b>	<b>36,294</b>	<b>(362)</b>	<b>35,932</b>	<b>1.0%</b>
<b>Other consumer loans</b>				
- not overdue	26,808	(272)	26,536	1.0%
<b>Total other consumer loans</b>	<b>26,808</b>	<b>(272)</b>	<b>26,536</b>	<b>1.0%</b>
<b>Total loans to retail customers</b>	<b>186,415</b>	<b>(2,334)</b>	<b>184,081</b>	<b>1.3%</b>
<b>Total loans to customers</b>	<b>186,415</b>	<b>(2,334)</b>	<b>184,081</b>	<b>1.3%</b>

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

**(i) Business loans**

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 the past loss experience of similar financial institutions for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for business loans, management makes the following key assumption:

- for non-impaired business loans the Organization creates a collective provision of 1.4% considering the economic environment and industry average loss experience.

Changes in the estimate could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment allowance on business loans as of 31 December 2012 would be AMD 3,455 thousand lower/higher.

**(ii) Loans to retail customers**

The Organization estimates loan impairment for loans to individuals based on the past historical loss experience of similar financial institutions on each type of loan. The Organization created 1.0% allowance for all types of loans to retail customers (2011: 1.0%) considering the economic environment and industry average loss experience.

Changes in the estimate could affect 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 loan impairment allowance on loans to retail customers as of 31 December 2012 would be AMD 14,640 thousand lower/higher (2011: AMD 5,522 thousand lower/higher).

**(c) Analysis of collateral and other credit enhancements**

**(i) Business loans**

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

**31 December 2012**

<b>AMD'000</b>	<b>Loans to customers, carrying amount</b>	<b>Fair value of collateral assessed as of loan inception date</b>
Loans without individual signs of impairment		
Real estate	161,325	161,325
Motor vehicles	95,810	95,810
Corporate guarantees	11,665	-
Other collateral	4,408	4,408
Guarantees provided by individuals	72,248	-
<b>Total business loans</b>	<b>345,456</b>	<b>261,543</b>

The table above is presented on the basis of excluding overcollateralization. For loans secured by multiple type collateral, collateral that is most relevant for impairment assessment is disclosed.

Guarantees received from individuals, such as shareholders of small companies and sole entrepreneurs, are not considered for impairment assessment purposes.

For 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 retail customers**

Mortgage loans and auto loans are secured by underlying housing real estate and cars accordingly. Consumer loans are secured by real estate and gold.

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

**31 December 2012**

<b>AMD'000</b>	<b>Loans to customers, carrying amount</b>	<b>Fair value of collateral assessed as of loan inception date</b>
Not overdue		
Motor vehicles	57,577	57,577
Corporate guarantees	82,618	-
Other collateral	1,759	1,759
Guarantees provided by individuals	101,550	-
No collateral	7,706	-
<b>Total other consumer loans</b>	<b>251,210</b>	<b>59,336</b>

**31 December 2011**

<b>AMD'000</b>	<b>Loans to customers, carrying amount</b>	<b>Fair value of collateral assessed as of loan inception date</b>
Not overdue		
Motor vehicles	17,926	17,926
Corporate guarantees	1,641	-
Other collateral	3,992	3,992
No collateral	2,977	-
<b>Total other consumer loans</b>	<b>26,536</b>	<b>21,918</b>

The table above is presented on the basis of excluding overcollateralization. For loans secured by multiple type collateral, collateral that is most relevant for impairment assessment is disclosed.

Guarantees received from individuals in a possession of a real estate or other property, are not considered for impairment assessment purposes.

As at 31 December 2012 other consumer loans secured by corporate guarantees include loans of AMD 81,818 thousand secured by the corporate guarantee of a large Armenian entity. The Organisation does not expect the entity to fail to meet its obligations if due.

Management estimates that the fair value of collateral estimated at the inception of the loans, is at least equal to the carrying amounts for mortgage loans, auto loans and and property covered consumer loans as at 31 December 2012 and 2011 excluding the effect of overcollateralization. The Organization may obtain specific individual valuation of collateral at each reporting date in case there are indications of impairment or and in the event of negative movements in market prices.

**(d) Industry and geographical analysis of the loan portfolio**

Loans to customers were issued primarily to customers located within the Republic of Armenia who operate in the following economic sectors:

	<b>2012</b> <b>AMD'000</b>	<b>2011</b> <b>AMD'000</b>
Trade	174,872	-
Services	98,628	-
Construction	23,627	-
Manufacturing	22,092	-
Other	31,115	-
Loans to retail customers	492,917	186,415
	<b>843,251</b>	<b>186,415</b>
Impairment allowance	(9,810)	(2,334)
	<b>833,441</b>	<b>184,081</b>

**(e) Significant credit exposures**

As at 31 December 2012 the Organization has no borrowers or groups of connected borrowers (2011: three borrowers), whose loan balances exceed 10% of equity. The gross value of these loans at 31 December 2011 is AMD 79,440 thousand.

**(f) Loan maturities**

The maturity of the loan portfolio is presented in note 15 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

## 11 Held-to-maturity investments

	<b>2012</b> <b>AMD'000</b>	<b>2011</b> <b>AMD'000</b>
<b>Held by the Organisation</b>		
<b>Debt and other fixed-income instruments</b>		
- Government securities of the Republic of Armenia	15,817	-
	<b>15,817</b>	<b>-</b>
<b>Pledged under sale and repurchase agreements</b>		
<b>Debt and other fixed-income instruments</b>		
- Government securities of the Republic of Armenia	449,406	-
	<b>449,406</b>	<b>-</b>

The Organisation has transactions to lend securities and to sell securities under agreements to repurchase and to purchase securities under agreements to resell.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Organization receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Organization, but the counterparty has an

obligation to return the securities at the maturity of the contract. The Organization has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. The Organization recognises a financial liability for cash received as amounts payable under repurchase agreements.

## 12 Property, equipment and intangible assets

AMD'000	Computers and communication equipment	Fixtures and fittings	Computer software	Total
<b>Cost</b>				
Balance at 1 January 2012	2,520	1,730	5,000	9,250
Additions	838	2,147	800	3,785
<b>Balance at 31 December 2012</b>	<b>3,358</b>	<b>3,877</b>	<b>5,800</b>	<b>13,035</b>
<b>Depreciation</b>				
Balance at 1 January 2012	366	120	532	1,018
Depreciation for the year	879	545	502	1,926
<b>Balance at 31 December 2012</b>	<b>1,245</b>	<b>665</b>	<b>1,034</b>	<b>2,944</b>
<b>Carrying amount</b>				
<b>At 31 December 2012</b>	<b>2,113</b>	<b>3,212</b>	<b>4,766</b>	<b>10,091</b>
<b>AMD'000</b>				
AMD'000	Computers and other equipment	Fixtures and fittings	Computer software	Total
<b>Cost</b>				
Balance at 1 January 2011	250	-	5,000	5,250
Additions,	2,270	1,730	-	4,000
<b>Balance at 31 December 2011</b>	<b>2,520</b>	<b>1,730</b>	<b>5,000</b>	<b>9,250</b>
<b>Depreciation</b>				
Balance at 1 January 2011	21	-	42	63
Depreciation for the year	345	120	490	955
<b>Balance at 31 December 2011</b>	<b>366</b>	<b>120</b>	<b>532</b>	<b>1,018</b>
<b>Carrying amount</b>				
At 31 December 2011	2,154	1,610	4,468	8,232
<b>At 1 January 2011</b>	<b>229</b>	<b>-</b>	<b>4,958</b>	<b>5,187</b>

## 13 Loans and borrowings

This note provides information about the contractual terms of the Organization's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Organization's exposure to interest rate, foreign currency and liquidity risk, see note 15.

	2012 AMD'000	2011 AMD'000
<b>Non-current liabilities</b>		
Secured loans from a resident bank	107,433	-
Unsecured borrowings from Armenian non-financial organisations	50,000	-
	<b>157,433</b>	-
<b>Current liabilities</b>		
Unsecured borrowings from shareholder	148,107	-
Secured loans from a resident bank	54,319	-
Unsecured borrowings from Armenian non-financial organisations	50,576	-
	<b>253,002</b>	-
	<b>410,435</b>	-

### (a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 AMD	Currency	Nominal interest rate	Year of maturity	31 December 2012	
				Face value	Carrying amount
Secured loans from a resident bank	USD	12%	2015	161,752	161,752
Unsecured borrowings from Armenian non-financial organisations	AMD	13%	2013	50,281	50,281
Unsecured borrowings from Armenian non-financial organisations	AMD	8%	2017	50,295	50,295
Unsecured borrowings from shareholder	USD	8%-9%	On demand	81,499	81,499
Unsecured borrowings from shareholder	USD	8%	2013	52,763	52,763
Unsecured borrowings from shareholder	AMD	0%	On demand	8,825	8,825
Unsecured borrowings from shareholder	AMD	10%	On demand	5,020	5,020
				<b>410,435</b>	<b>410,435</b>

### (b) Concentrations of loans and borrowings

As of 31 December 2012 the Organization has four counterparties, including the shareholder, whose balances exceed 10% of total equity. These balances as of 31 December 2012 are AMD 410,435 thousand.

### (c) Security

The secured loans from a resident bank are secured by the Organisation's share capital of AMD 434,520 thousand (see note 14(a)).

## **14 Share capital**

### **(a) Issued capital**

As at 31 December 2012 the authorised, issued and outstanding share capital comprises 213 shares (2011: 100). All shares have a nominal value of AMD 2,040 thousand. During 2012, 113 shares (2011: 26) were issued at nominal value resulting in increase of share capital by AMD 230,520 thousand (2011: AMD 54,000 thousand). The new shares were paid for by converting AMD 230,520 thousand of borrowings from shareholder.

The holders of shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Organization.

As at 31 December 2012 the Organisation's share capital is pledged under secured loans from a resident bank. The details of collateral are presented in note 13(c).

### **(b) Dividends**

Dividends payable are restricted to the maximum retained earnings of the Organization, which are determined according to legislation of the Republic of Armenia. In accordance with the legislation of the Republic of Armenia, as at the reporting date, reserves available for distribution amounted to AMD 2,658 thousand (2011: AMD 277 thousand).

As at 31 December 2012 and 2011 and as of the date these financial statements were authorised for issue no dividends were declared by the Organisation.

## **15 Risk management**

Management of risk is fundamental to the business of banking 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**

Overall responsibility for the risk management resides with the Board of Directors.

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

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through the Management and the Board of Directors.

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

**(b) Market risk**

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

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

The Organization manages its market risk by setting open position limits in relation to interest rate maturity and currency positions. These are monitored on a regular basis and reviewed and approved by the Board of Directors.

**(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
<b>31 December 2012</b>							
<b>ASSETS</b>							
Cash and cash equivalents	1,268	-	-	-	-	3,775	5,043
Loans to customers	73,037	69,659	117,381	567,793	5,571	-	833,441
Held-to-maturity investments	28,596	-	26,616	156,266	253,745	-	465,223
	<b>102,901</b>	<b>69,659</b>	<b>143,997</b>	<b>724,059</b>	<b>259,316</b>	<b>3,775</b>	<b>1,303,707</b>
<b>LIABILITIES</b>							
Amounts payable under sale and repurchase	464,206	-	-	-	-	-	464,206
Loans and borrowings	106,399	67,352	79,251	157,433	-	-	410,435
	<b>570,605</b>	<b>67,352</b>	<b>79,251</b>	<b>157,433</b>	<b>-</b>	<b>-</b>	<b>874,641</b>
<b>Interest rate gap</b>	<b>(467,704)</b>	<b>2,307</b>	<b>64,746</b>	<b>566,626</b>	<b>259,316</b>	<b>3,775</b>	<b>429,066</b>
<b>31 December 2011</b>							
<b>ASSETS</b>							
Cash and cash equivalents	-	-	-	-	-	11,923	11,923
Loans to customers	54,365	14,113	36,386	79,217	-	-	184,081
	<b>54,365</b>	<b>14,113</b>	<b>36,386</b>	<b>79,217</b>	<b>-</b>	<b>11,923</b>	<b>196,004</b>
<b>Interest rate gap</b>	<b>54,365</b>	<b>14,113</b>	<b>36,386</b>	<b>79,217</b>	<b>-</b>	<b>11,923</b>	<b>196,004</b>

***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.

	<b>2012</b>		<b>2011</b>	
	<b>Average effective interest rate</b>		<b>Average effective interest rate</b>	
	<b>AMD</b>	<b>USD</b>	<b>AMD</b>	<b>USD</b>
<b>Interest bearing assets</b>				
Cash and cash equivalents	1.0%	-	-	-
Loans to customers	21.4%	21.1%	20.8%	18.3%
Held-to-maturity investments	15.4%	-	-	-
<b>Interest bearing liabilities</b>				
Amounts payable under sale and repurchase	10.4%	-	-	-
Loans and borrowings	10.2%	10.9%	-	-

***Interest rate sensitivity analysis***

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest 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:

	<b>2012</b>	<b>2011</b>
	<b>AMD'000</b>	<b>AMD'000</b>
100 bp parallel fall	3,389	(541)
100 bp parallel rise	(3,389)	541

**(ii) *Currency risk***

The Organization has assets and liabilities denominated in USD.

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:

	<b>AMD</b>	<b>USD</b>	<b>Total</b>
	<b>AMD'000</b>	<b>AMD'000</b>	<b>AMD'000</b>
<b>ASSETS</b>			
Cash and cash equivalents	4,841	202	5,043
Loans to customers	563,594	269,847	833,441
Held-to-maturity investments	465,223	-	465,223
Other financial assets	141	-	141
<b>Total assets</b>	<b>1,033,799</b>	<b>270,049</b>	<b>1,303,848</b>

	AMD AMD'000	USD AMD'000	Total AMD'000
<b>LIABILITIES</b>			
Amounts payable under sale and repurchase agreements	464,206	-	464,206
Loans and borrowings	114,421	296,014	410,435
Other financial liabilities	2,228	-	2,228
<b>Total liabilities</b>	<b>580,855</b>	<b>296,014</b>	<b>876,869</b>
<b>Net position as at 31 December 2012</b>	<b>452,944</b>	<b>(25,965)</b>	<b>426,979</b>

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

	AMD AMD'000	USD AMD'000	Other currencies AMD'000	Total AMD'000
<b>ASSETS</b>				
Cash and cash equivalents	10,496	760	667	11,923
Loans to customers	159,309	24,772	-	184,081
<b>Total assets</b>	<b>169,805</b>	<b>25,532</b>	<b>667</b>	<b>196,004</b>
<b>Net position as at 31 December 2011</b>	<b>169,805</b>	<b>25,532</b>	<b>667</b>	<b>196,004</b>

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

	2012 AMD'000	2011 AMD'000
10% appreciation of USD against AMD	(2,597)	2,553

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

**(c) Credit risk**

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

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- 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 clients and are then passed on to loan officers, who are responsible for the preparation of credit application reports based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then reviewed and approved by the Management.

The Organization continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Organization.

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

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

	<b>2012</b>	<b>2011</b>
	<b>AMD'000</b>	<b>AMD'000</b>
<b>ASSETS</b>		
Cash and cash equivalents	3,257	9,885
Loans to customers	833,441	184,081
Held-to-maturity investments	465,223	-
Other assets	141	-
<b>Total maximum exposure</b>	<b>1,302,062</b>	<b>193,966</b>

The Organization holds collateral against loans and advances to customers in the form of mortgage interests over property, other collateral 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.

Collateral generally is not held against cash and cash equivalents and investments in securities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 10.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 17.

As at 31 December 2012 the Organization has no debtors or groups of connected debtors (2011: none), 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 honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board of Directors.

The Organization seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from shareholder, banks and other lending institutions, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

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

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

AMD'000	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Total gross amount outflow</b>	<b>Carrying amount</b>
<b>Non-derivative liabilities</b>							
Amounts payable under sale and repurchase agreements	466,080	-	-	-	-	466,080	464,206
Loans and borrowings	100,151	12,221	76,183	90,902	171,181	450,638	410,435
Other financial liabilities	-	2,228	-	-	-	2,228	2,228
<b>Total liabilities</b>	<b>566,231</b>	<b>14,449</b>	<b>76,183</b>	<b>90,902</b>	<b>171,181</b>	<b>918,946</b>	<b>876,869</b>
<b>Credit related commitments</b>	<b>3,247</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,247</b>	<b>3,247</b>

The table below shows an analysis, by contractual 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	Total
<b>Non-derivative assets</b>							
Cash and cash equivalents	5,043	-	-	-	-	-	5,043
Loans to customers	26,543	46,494	187,040	567,793	5,571	-	833,441
Held-to-maturity investments	-	28,596	26,616	156,266	253,745	-	465,223
Property, equipment and intangible assets	-	-	-	-	-	10,091	10,091
Other assets	141	-	1,692	-	-	-	1,833
<b>Total assets</b>	<b>31,727</b>	<b>75,090</b>	<b>215,348</b>	<b>724,059</b>	<b>259,316</b>	<b>10,091</b>	<b>1,315,631</b>
<b>Non-derivative liabilities</b>							
Amounts payable under sale and repurchase agreements	464,206	-	-	-	-	-	464,206
Loans and borrowings	99,071	7,328	146,603	157,433	-	-	410,435
Other liabilities	-	3,589	-	-	-	-	3,589
<b>Total liabilities</b>	<b>563,277</b>	<b>10,917</b>	<b>146,603</b>	<b>157,433</b>	<b>-</b>	<b>-</b>	<b>878,230</b>
<b>Net position</b>	<b>(531,550)</b>	<b>64,173</b>	<b>68,745</b>	<b>566,626</b>	<b>259,316</b>	<b>10,091</b>	<b>437,401</b>

The Organisation plans to extend the term of repurchase agreements in order to finance its liquidity position in a short term. Subsequent to the reporting date the Organisation extended the term of the repurchase agreements.

The table below shows an analysis, by contractual 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	No maturity	Total
<b>Non-derivative assets</b>						
Cash and cash equivalents	11,923	-	-	-	-	11,923
Loans to customers	7,323	47,042	50,499	79,217	-	184,081
Property, equipment and intangible assets	-	-	-	-	8,232	8,232
Other assets	-	-	608	-	-	608
<b>Total assets</b>	<b>19,246</b>	<b>47,042</b>	<b>51,107</b>	<b>79,217</b>	<b>8,232</b>	<b>204,844</b>
<b>Net position</b>	<b>19,246</b>	<b>47,042</b>	<b>51,107</b>	<b>79,217</b>	<b>8,232</b>	<b>204,844</b>

## 16 Capital management

The CBA sets and monitors capital requirements for the Organization.

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

Under the current capital requirements set by the CBA, credit organizations conducting foreign exchange transactions in cash other than for the purpose of accepting loan repayments have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2012, this minimum level is 10% (2011: 10%). The Organization is in compliance with the statutory capital ratio during the years ended 31 December 2012 and 2011.

The calculation of capital adequacy based on requirements set by the CBA as at 31 December is as follows:

	<b>2012</b> <b>AMD'000</b>	<b>2011</b> <b>AMD'000</b>
	<b>Unaudited</b>	<b>Unaudited</b>
Primary capital	258,529	205,108
Additional capital	-	-
<b>Total capital</b>	<b>258,529</b>	<b>205,108</b>
<b>Risk-weighted assets</b>	<b>960,291</b>	<b>241,925</b>
<b>Capital adequacy ratio (%)</b>	<b>26.9%</b>	<b>84.8%</b>

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

## 17 Commitments

The Organization has outstanding commitments to extend loans. These commitments take the form of approved loans and credit lines.

The Organization applies the same credit risk management policies and procedures when granting credit commitments as it does for granting loans to customers. The contractual amounts of commitments are set out in the following table. The amounts reflected in the table for commitments assume that amounts are fully advanced.

	<b>2012</b> <b>AMD'000</b>	<b>2011</b> <b>AMD'000</b>
<b>Contracted amount</b>		
Loan and credit line commitments	3,247	-
	<b>3,247</b>	<b>-</b>

## 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 and business interruption. Until the Organization obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

### (b) Litigation

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

### (c) Taxation contingencies

The taxation system in Armenia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties. 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 Armenia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

## 19 Related party transactions

### (a) Control relationships

As at 31 December 2012, the 100% shareholder and the party with ultimate control over the Organization is Vardan Danghyan. As at 31 December 2011 the sole shareholder and ultimate controlling party of the Organisation was Hrayr Hakobyan.

### (b) Transactions with the members of the Board of Directors and Management

Total remuneration for members of the Board of Directors and Management included in personnel expenses for the years ended 31 December 2012 and 2011 is as follows:

	2012 AMD'000	2011 AMD'000
Employee compensation	23,205	15,211
Payroll related taxes	1,526	1,097
	<b>24,731</b>	<b>16,308</b>

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 the Management are as follows:

	<b>2012</b>	<b>Average</b>	<b>2011</b>	<b>Average</b>
	<b>AMD'000</b>	<b>interest rate, %</b>	<b>AMD'000</b>	<b>interest rate, %</b>
<b>Statement of financial position</b>				
Loans issued (gross)	22,205	9.1%	3,667	12.7%
Loan impairment allowance	(222)		(37)	

The loans are in Armenian Drams and US Dollars and repayable in 2013-2022.

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

	<b>2012</b>	<b>2011</b>
	<b>AMD'000</b>	<b>AMD'000</b>
<b>Profit or loss</b>		
Interest income	<b>791</b>	<b>106</b>

**(c) Transactions with the shareholder**

The outstanding balances and the related average interest rates as at 31 December 2012 and related profit or loss amounts of transactions for the year ended 31 December 2012 with the shareholder are as follows:

	<b>AMD'000</b>	<b>Average interest rate, %</b>
<b>Statement of financial position</b>		
<b>LIABILITIES</b>		
Loans and borrowings		
- In AMD	13,844	3.8%
- In USD	134,263	8.5%
<b>Profit or loss</b>		
Interest expense	(9,180)	

The loans from shareholder are payable either on demand or in 2013 (see note 13). During the year, the Organisation borrowed AMD 378,670 thousand from the shareholder. On 10 December 2012, borrowings of AMD 230,520 thousand were converted to share capital, see note 14.

## 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	Held-to-maturity	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	5,043	-	5,043	5,043
Loans to customers:					
- Business loans	-	345,456	-	345,456	345,456
- Loans to retail customers	-	487,985	-	487,985	487,985
Held-to-maturity investments:					
- Held by the Organization	15,817	-	-	15,817	15,817
- Pledged under sale and repurchase agreements	449,406	-	-	449,406	449,406
Other financial assets	-	141	-	141	141
	<b>465,223</b>	<b>838,625</b>	<b>-</b>	<b>1,303,848</b>	<b>1,303,848</b>
Amounts payable under sale and repurchase agreements	-	-	464,206	464,206	464,206
Loans and borrowings	-	-	410,435	410,435	410,435
Other financial liabilities	-	-	2,228	2,228	2,228
	<b>-</b>	<b>-</b>	<b>876,869</b>	<b>876,869</b>	<b>876,869</b>

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

AMD'000	Held-to-maturity	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	11,923	-	11,923	11,923
Loans to customers:					
- Loans to retail customers	-	184,081	-	184,081	184,081
<b>Total financial liabilities</b>	<b>-</b>	<b>196,004</b>	<b>-</b>	<b>196,004</b>	<b>196,004</b>

The estimated fair values of all financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 18.3% to 21.4% and 15.4% are used for discounting future cash flows from loans to customers and held-to-maturity investments, respectively;
- discount rates of 10.4% and 10.2% to 10.9% are used for discounting future cash flows from amounts payable under sale and repurchase agreements and loans and borrowings, respectively.

As at 31 December 2012 and 2011, the Organization does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

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

## **21 Events subsequent to the reporting date**

On 3 April 2013 the Organization issued 62 new shares at nominal value resulting in increase of share capital by AMD 126,480 thousand.