

“FINCA” UCO CJSC

Financial Statements
for the Year Ended 31 December 2010
and Independent Auditor’s Report

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Independent Auditor's Report

To the Shareholders and the Board of Directors of "FINCA" UCO CJSC

We have audited the accompanying financial statements of "FINCA" UCO CJSC, which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The financial statements for the year ended 31 December 2009 were verified by auditor Grant Thornton Amyot LLC who issued an unqualified report dated 5 February 2010.

Management's Responsibility for the Financial Statements

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of "FINCA" UCO CJSC as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Alexander I. Verenkov
Senior Partner
FCCA



8 February 2011
BDO Armenia CJSC



Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2010

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report is made with a view to distinguishing the respective responsibilities of management of "FINCA" UCO CJSC (the Company) and those of the independent auditor in relation to the Company's financial statements.

Management of the Company is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at 31 December 2010, the results of its operations and cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

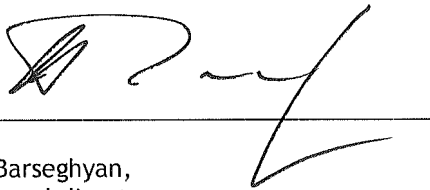
In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements;
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

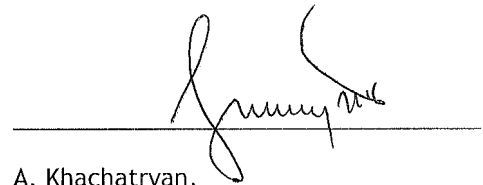
Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Company;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Armenia;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Detecting and preventing fraud and other irregularities.

On behalf of the Company's management the financial statements for the year ended 31 December 2010 were authorised for issue on 8 February 2011 by:



Y. Barseghyan,
General director



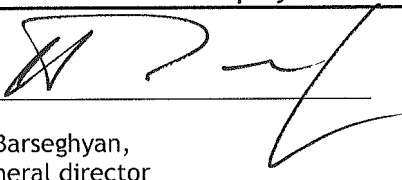
A. Khachatryan,
Chief Accountant

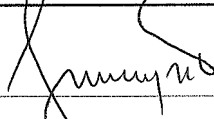
"FINCA" UCO CJSC
Yerevan, Republic of Armenia
8 February 2011



"FINCA" UCO CJSC
Statement of Financial Position as at 31 December 2010
(in United States Dollars)

	Note	2010	2009	2008
Assets				
Cash and cash equivalents	5	372 785	857 906	147 035
Amounts due from other financial institutions	6	1 166 730	2 534 690	600 489
Loans to customers	7	25 359 619	19 553 012	26 172 797
Property and equipment	8	614 983	511 204	421 990
Intangible assets	9	164 392	25 013	16 754
Other assets	10	90 162	99 308	189 584
Deferred tax assets	19	-	31 856	29 961
Total assets		27 768 671	23 612 989	27 578 610
Liabilities				
Amounts due to other financial institutions	11	18 164 828	15 055 855	21 385 489
Subordinated debt	12	2 528 285	2 518 572	1 591 924
Other liabilities	13	605 420	522 985	502 338
Current tax liabilities		94 915	177 978	197 979
Deferred tax liabilities	19	9 837	-	-
Total liabilities		21 403 285	18 275 390	23 677 730
Equity				
Share capital	14	3 251 918	3 251 918	2 000 000
Foreign currency translation difference		445 854	205 332	996 103
Retained earnings		2 667 614	1 880 349	904 777
Total equity		6 365 386	5 337 599	3 900 880
Total liabilities and equity		27 768 671	23 612 989	27 578 610


 Y. Barseghyan,
 General director


 A. Khachatryan,
 Chief Accountant

8 February 2011

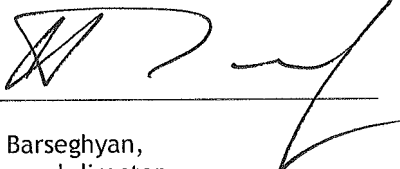


The notes set out on pages 9 to 41 are an integral part of these financial statements.

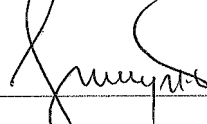
"FINCA" UCO CJSC
Statement of Comprehensive Income for the Year Ended 31 December 2010
(in United States Dollars)

	Note	2010	2009
Interest income	16	8 471 437	7 529 990
Interest expense	16	(2 234 538)	(2 204 528)
Net interest income		6 236 899	5 325 462
Provision for impairment of loans to customers	7	(62 936)	(215 437)
Net interest income after provision for impairment of loans to customers		6 173 963	5 110 025
Net results from financial instruments		4 884	172 437
Net foreign exchange translation (loss)/gain		(186 283)	359 670
Fee and commission expense		(26 275)	(29 291)
Staff costs	17	(3 207 414)	(3 139 198)
Depreciation of property and equipment	8	(143 579)	(116 530)
Amortization of intangible assets	9	(4 261)	(2 015)
Income from penalties		217 596	420 075
Other operating income		24 567	11 890
Operating income		2 853 198	2 787 063
Operating expenses	18	(1 187 651)	(1 159 808)
Profit before taxation		1 665 547	1 627 255
Income tax expense	19	(378 282)	(317 801)
Net profit		1 287 265	1 309 454
Other comprehensive income			
Exchange differences on translation of financial statements		240 522	(790 771)
Other comprehensive income/(loss)		240 522	(790 771)

Total comprehensive income **1 527 787** **518 683**



 Y. Barseghyan,
 General director



 A. Khachatryan,
 Chief Accountant

8 February 2011



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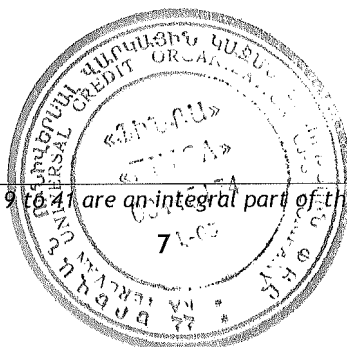
"FINCA" UCO CJSC
Statement of Cash Flows for the Year Ended 31 December 2010
(in United States Dollars)

	2010	2009
Cash flows from operating activities		
Profit before taxation	1 665 547	1 627 255
Non-cash adjustment to reconcile profit to net cash flows:		
Provision for impairment of loans to customers	62 936	215 437
Amortization and depreciation	147 840	118 545
Loss on sale of property and equipment	827	2 210
Non-cash interest receivable	(55 242)	88 390
Non-cash Interest payable	(102 303)	(34 272)
Foreign translation net gains	187 683	(321 694)
Cash flows from operating activities before changes in operating assets and liabilities	1 907 288	1 695 871
Net (increase)/decrease in operating assets		
Amounts due from other financial institutions	1 337 415	(1 964 408)
Loans to customers	(5 053 764)	4 843 098
Other assets	8 380	62 707
Net increase/(decrease) in operating liabilities		
Other liabilities	60 486	97 684
Cash flows from operating activities before taxation	(1 740 195)	4 734 952
Income tax paid	(419 561)	(345 642)
Cash flows from operating activities	(2 159 756)	4 389 310
Cash flows from investing activities		
Purchase of property and equipment (Note 8)	(225 582)	(283 654)
Purchase of intangible assets (Note 9)	(138 857)	(13 350)
Proceeds from disposal of property and equipment	-	2 895
Net cash flows from investing activities	(364 439)	(294 109)
Cash flows from financing activities		
Issue of shares (Note 14)	-	1 251 918
Loans received from other financial institutions	13 149 848	1 987 334
Loans redeemed from other financial institutions	(10 570 139)	(7 314 566)
Subordinated debt received (Note 12)	-	956 114
Dividends paid to the shareholders	(500 000)	(333 882)
Net cash flows from financing activities	2 079 709	(3 453 082)
Effect of exchange rate changes on cash and cash equivalents	(40 635)	68 752
Net change in cash and cash equivalents	(485 121)	710 871
Cash and cash equivalents at the beginning of the year	857 906	147 035
Cash and cash equivalents at the end of the year (Note 5)	372 785	857 906

Y. Barseghyan,
 General director

A. Khachatryan,
 Chief Accountant

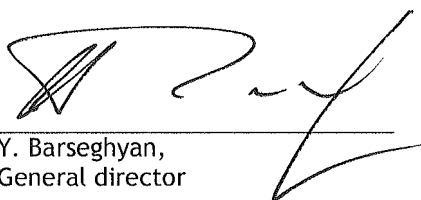
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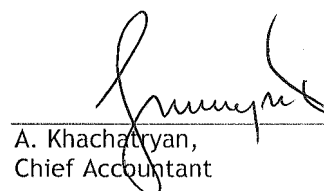


The notes set out on pages 9 to 41 are an integral part of these financial statements.

"FINCA" UCO CJSC
Changes in Equity for the Year Ended 31 December 2010
(in United States Dollars)

	Share capital	Foreign currency translation difference	Retained earnings	Total equity
Balance as at 1 January 2009	2 000 000	996 103	904 777	3 900 880
Issue of shares (Note 14)	1 251 918	-	-	1 251 918
Dividends to share-holders	-	-	(333 882)	(333 882)
Comprehensive income for 2009	-	(790 771)	1 309 454	518 683
Balance as at 31 December 2009	3 251 918	205 332	1 880 349	5 337 599
Dividends to share-holders	-	-	(500 000)	(500 000)
Comprehensive income for 2010	-	240 522	1 287 265	1 527 787
Balance as at 31 December 2010	3 251 918	445 854	2 667 614	6 365 386


 Y. Barseghyan,
 General director


 A. Khachatryan,
 Chief Accountant

8 February 2011



The notes set out on pages 9 to 41 are an integral part of these financial statements.

1. Principal Activities of the Company

FINCA International, Inc. (“FINCA”), a non-for-profit organization, is incorporated in the United States of America. The purpose of FINCA is to “Help the poor help themselves”. FINCA believes that world hunger and poverty cannot be cured simply by food handouts and grants but can be permanently affected by self-help and self-sufficiency of the poor.

FINCA provides self-help opportunity by establishing community revolving loan funds, or “village banks”, in impoverished communities through affiliated organizations (“affiliates”). The affiliates are typically separate legal entities that enter into affiliate agreements with FINCA. Small loans support investment in individual or community productive micro enterprises. Participants build self-reliance, self-esteem, and a savings fund that remains within the community as a permanent source of capital for continued investment.

In 2006 FINCA established a separate legal entity, “FINCA” UCO LLC, in the Republic of Armenia to provide lending and technical assistance targeting small entrepreneurs who need micro financing for the small enterprises.

“FINCA” UCO CJSC (the Company) is a closed joint-stock Company - 100% subsidiary of FINCA International, Inc. The Company is regulated by the legislation of Republic of Armenia and conducts its business under license number 13, granted on 28 March 2006 by the Central Bank of Armenia (the CBA).

The Company is involved in microfinance and provides individual business loans, solidarity group-based general and group-based agricultural micro credits. The Company headquarters in Yerevan, has 12 branches and 7 representative offices located throughout Armenia.

The Company’s head office is located in Yerevan, Republic of Armenia.

The Company’s legal and mailing address is at: 2a, Agatangeghos str., Yerevan, Republic of Armenia.

The average number of the Company’s employees in 2010 was 399 (2009: 350).

Below is the information about the Company’s sole shareholder.

Shareholder	Country of registration	Nature of business	2010	2009
			Ownership (%)	Ownership (%)
FINCA International, Inc.	United States of America	Investment	100.0	100.0
Total			100.0	100.0

FINCA International, Inc. is the parent and ultimate controlling party of the Company.

2. Operating Environment of the Company

General

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base, regional instability and international economic crisis.

The international economic crisis led to shortage of Republic of Armenia GDP, as well as the cash flow transfers from abroad upon which the economy of Armenia is significantly dependent. Though the Republic of Armenia Government and the CBA have undertaken a number of preventing procedures, still there are uncertainties on the capital availability and acquisition cost both for the Company and for its customers, and in times of more severe market stress the effects of the crisis may be significant both for the Armenian economy and for the Company. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Company may be affected.

The future economic direction of the Republic of Armenia is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Accordingly, the financial statements of the Company do not include the effects of adjustments, which might have been considered necessary.

Currency transactions

Foreign currencies, in particular the USD, EUR and RUR, play a significant role in measuring economic parameters of many business transactions in the Republic of Armenia.

The table below shows the exchange rates of Armenian Dram to USD:

Date	USD
31 December 2010	363.44
31 December 2009	377.89
31 December 2008	306.73
31 December 2007	304.22
31 December 2006	363.50

Financial market transactions

In 2010 the international rating agency Fitch Ratings revised the Republic of Armenia outlook for long-term ratings in local and foreign currencies: on 4 October 2010 Fitch Ratings confirmed the long term foreign and local currency outlook as “stable” and confirmed the respective ratings at BB-.

Moody’s Investors Service confirmed the long-term foreign and local currency issuer ratings of Republic of Armenia at Ba2.

As a result of the financial crisis in 2008 and 2009 Armenian enterprises and banks had difficulties in obtaining borrowings and refinancing debts on the international and domestic capital markets. The crisis also resulted in lower liquidity levels in the finance sector and very high uncertainty in the domestic and foreign equity markets. Access to funding remains restricted for enterprises due to tightened lending requirements and relatively high interest rates on borrowings, thereby hampering further economic development, and can affect their ability to meet their obligations to the Company.

3. Basis of Presentation

General principles

The financial statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRS). The Company maintains its accounting records in accordance with the applicable legislation of the Republic of Armenia. These financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

Functional and presentation currency

These financial statements are presented in USD which is the Company’s presentation currency. The functional currency of the Company is Armenian Dram (AMD).

Translation of financial statements denominated in functional currency into presentation currency is performed as follow:

- Assets and liabilities are translated at the exchange rate at the reporting date,
- Income and expense are translated at the average annual rate -Share capital and other reserve items of capital are translated at the historical rate
- The resulting differences are recognized directly into equity and are presented as a component of comprehensive income referred as the “ Foreign Currency Translation Difference”.

Estimates and assumptions

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements preparation, and the reported amounts of revenues and expenses during the reporting period. Issues that require best estimate and are most significant for the financial statements are disclosed in Notes 4 and 7.

Going concern

These financial statements reflect the Company's management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Company. The future economic direction of the Republic of Armenia is largely dependent upon the effectiveness of measures undertaken by the Government of the Republic of Armenia and other factors, including regulatory and political developments which are beyond the Company's control. The Company's management cannot predict the impact of the above factors on the financial position of the Company in future. The accompanying financial statements do not include the adjustments associated with this risk.

For prompt management of liquidity risk the Company regularly monitors external factors, which could influence the Company's liquidity level, and forecasts cash flows. For the medium- and long-term liquidity risk management the Company analyses maturity mismatches of assets and liabilities. To reduce its risk exposure the Company sets liquidity gap limits. The set limits are periodically reviewed due to the changing external and internal environment.

To maintain the required liquidity level the Company can attract additional funds from the international and local financial lending markets. Diversification of liquidity sources allows to minimise the Company's dependence on any source and ensure full satisfaction of its liabilities. A sufficient current liquidity cushion accumulated by the Company and the available sources of additional fund-raising allow the Company to continue its operations as a going concern on a long-term basis.

Changes in Accounting Policies

The accounting policies adopted are generally consistent with those of the previous financial year. The Company has changed its internal loan loss provision methodology since 1 January 2010. The new methodology utilizes migration analysis of loan losses during last two years (Note 7).

In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2010.

The standards and interpretations which have not effected on the financial statements are presented below:

Adoption of IFRS 3 *Business Combinations (Revised 2008)*

The revised standard on business combinations (IFRS 3R) introduced major changes to the accounting requirements for business combinations. It retains the major features of the purchase method of accounting, now referred to as the acquisition method. The most significant changes in IFRS 3R that had an impact on the acquisition in 2010 are as follows:

- acquisition-related costs of the combination are recorded as an expense in the income statement. Previously, these costs would have been accounted for as part of the cost of the acquisition;
- any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognized in profit or loss. Previously, contingent consideration was recognized only once its payment was probable and changes were recognized as an adjustment to goodwill;
- the measurement of assets acquired and liabilities assumed at their acquisition-date fair values is retained. However, IFRS 3R includes certain exceptions and provides specific measurement rules;
- There is a choice on the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets (choose as appropriate for an entity);
- The revised standard requires goodwill to be determined only at the acquisition date rather than at the previous stages.

Adoption of IAS 27 Consolidated and Separate Financial Statements (Revised 2008)

The adoption of IFRS 3R required that the revised IAS 27 (IAS 27R) is adopted at the same time. IAS 27R introduced changes to the accounting requirements for transactions with non-controlling (formerly called 'minority') interests and the loss of control of a subsidiary. This standard requires that the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. IAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests. These changes are applied prospectively (change as appropriate for the entity).

IFRS 2(Amendment) Share-based payment-Group Cash-settled Share-based Payment Transactions

The main purpose of the Amendments to IFRS 2 is to specify the accounting, in the financial statements of an entity that receives goods or services from its suppliers (including employees), for similar arrangements that are share-based and cash-settled when the entity itself does not have any obligation to make the required payments to its suppliers. IFRS 2 (Amendment) will be applied retrospectively for annual periods beginning on or after 1 January 2010.

IAS 39(Amendment) Financial Instruments: Recognition and Measurement-Eligible hedged items

The final amendments addressed only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situation. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. (effective from 1 July 2009).

Amendments to IFRIC 9 and IAS 39-Embedded derivatives. (effective from 1 July 2009).

The Amendment is consequential upon the changes made to IAS 39 in October and November 2008 permitting the reclassification of non-derivative financial assets out of the fair value through profit or loss category in some circumstances. The Amendment clarifies that:

- If an entity transfers a financial asset out of the fair value through profit or loss category in accordance with the previous IAS 39 amendments, it must assess whether the financial asset contains an embedded derivative that is required to be separated from the host contract;
- This assessment is based on circumstances that existed when the entity first became party to the contract (not the date of the reclassification);
- If the financial asset contains an embedded derivative that is required to be separated, but the entity is unable to measure the derivative reliably, it is prohibited from reclassifying the asset. (if applicable).

IFRIC 17 Distributions of Non-cash Assets to Owners

This Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to shareholders. This Interpretation is effective for annual periods beginning on or after 1 July 2009.

IFRIC 18 Transfers of Assets from Customers

Applies to agreements in which an entity receives an item of property and equipment from a customer that the entity must then use to connect the customer to a network, or to provide the customer with ongoing access to a supply of goods or services, or both. It also applies to agreements in which an entity receives cash that must be used only to construct or acquire property and equipment that must be used for those purposes. IFRIC 18 will be applied prospectively to transfers of assets received on or after 1 July 2009.

IFRSs and IFRIC interpretations which became effective

The accounting policies adopted are generally consistent with those of the previous financial year. Listed below are those amended standards and interpretations which became effective and which are or in the future could be relevant to the Company operations:

- IAS 1 “Presentation of Financial Statements” (effective for annual periods beginning on or after 1 January 2010). The main amendment is the change in classification of the liability component of a convertible instrument as current or non-current.
- IAS 7 “Statement of Cash Flows” (effective for annual periods beginning on or after 1 January 2010). The revised Standard (paragraph 16) requires that only expenditures that result in a recognised asset can be classified as a cash flow from investing activities.
- IAS 17 “Leases” (effective for annual periods beginning on or after 1 January 2010). The classification of the land and building elements as finance or operating lease should be made separately for each element and should follow the general lease classification guidance. For classification of land leases all factors provided for other lease contracts should be considered.
- IAS 36 “Impairment of assets” (effective for annual periods beginning on or after 1 January 2010). According to the revised Standard, each cash-generating unit or group of units to which goodwill is allocated shall not be larger than an operating segment before aggregation.
- IAS 39 “Financial Instruments: Recognition and Measurement” (effective for annual periods beginning on or after 1 January 2010). The key areas of amendments included treatment of loan prepayment penalties as closely related embedded derivatives, scope exemption for business combination contracts and cash flow hedge accounting.
- IFRS 2 “Share-based Payment” (effective for annual periods beginning on or after 1 January 2010). The changes relate to treatment of transactions involving share-based payments within the scope of this IFRS. Additional paragraphs were introduced to regulate share-based payments between the Group entities.
- IFRS 3 “Business Combinations” (effective for annual reporting periods beginning on or after 1 July 2009). The main amendments clarify measurement of goodwill and non-controlling interest.
- IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” (effective for annual periods beginning on or after 1 January 2010). The scope of IFRS 5 has been clarified to make it clear that only the disclosures specified in IFRS 5 are applicable to non-current assets (or disposal groups) classified as held for sale, and to discontinued operations.
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for annual periods beginning on or after 1 July 2010). This IFRIC provides guidance on treating settlement of a financial liability through additional issue of an entity’s own equity to the creditor.
- IAS 38 “Intangible Assets” (effective for annual periods beginning on or after 1 July 2009). Clarifies the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets.

IFRSs and IFRIC interpretations not yet effective

The Company has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

- IAS 1 “Presentation of Financial Statements” (effective for annual periods beginning on or after 1 January 2011). The main amendments clarify disclosures in the statement of changes in equity.
- IAS 24 (amended in 2009) “Related Party Disclosures” (effective for annual periods beginning on or after 1 January 2011). This standard is a revised version of IAS 24 (amended in 2003). The main objectives of this Standard are as follows:
 - disclosure exemption for entities that are controlled, jointly controlled or significantly influenced by the state or government bodies (government-related entities);

- clarification of definition of a related party and related party transaction to improve the understanding and remove contradictions.
- IFRS 7 "Financial Instruments: Disclosure" (effective for annual periods beginning on or after 1 January 2011). The changes refer to disclosure of qualitative and quantitative information about the nature and size of risks arising from financial instruments.
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013) was issued in November 2009 as the first part of phase 1 of the project to replace IAS 39 and replaces those parts of IAS 39 that relate to recognition and measurement of financial assets. The main principles of the Standard are as follows:
 - classification of financial assets on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset;
 - initial measurement of the financial asset at fair value, plus, in case of a financial asset not at fair value through profit or loss, particular transaction costs;
 - subsequent measurement of the financial asset at amortised cost or fair value.

The Company is currently assessing the adoption of this IFRS, the impact of application of this IFRS on the Company and the timing of its adoption.

- IFRIC 13 "Customer Loyalty Programs" (effective for annual periods beginning on or after 1 January 2011). This IFRIC addresses measurement of award credits by reference to fair value.
- IFRIC 14 "The Limit on a Defined Benefit Asset(s), Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on or after 1 January 2011). The main amendments address treatment of prepayments of minimum contributions.

Effect of changes in the presentation format

Reclassification

The following changes have been made by the Company in the corresponding figures of the statement of financial position as at 31 December 2009 to conform to the 2010 presentation format:

Item	Financial statement data for 2009	Adjusted data for 2009	Amount of adjustment	Comments
Amounts due from other financial institutions	4 454 474	2 534 690	(819 784)	Reclassification of bank current accounts to Cash and Cash Equivalents
Cash and cash equivalents	38 122	857 906	819 784	
Other assets	146 395	99 308	(57 071)	
Amounts due to other financial institutions	16 180 212	15 033 125	(57 071)	Netting of commissions against the loan principal amount, received from non-resident banks
Amounts due from other financial institutions	4 454 474	2 534 690	(1 090 016)	Netting of swap asset against liability
Amounts due to other financial institutions	16 180 212	15 033 125	(1 090 016)	
Amounts due from other financial institutions	4 454 474	2 534 690	(9 984)	Reclassification of swap asset from Amounts due from other financial institutions to Other assets
Other assets	146 395	99 308	9 984	
Share capital	3 275 580	3 251 918	(23 662)	Adjustment of the increase in share capital (due to changes of the currency translation rate: from the date of receipt of funds to CBA registration date)
Foreign currency translation reserve	181 670	205 332	23 662	

The data for the year 2009 in the statement of cash flows were adjusted to reflect the corrections in the comparative information for the year 2009 in the statement of financial position.

4. Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents are assets, which can be converted into cash within a day and consist of cash on hand, correspondent and current account balances of the Company, and balances on the exchanges' settlement accounts. All other interbank placements are included in amounts due from other financial institutions. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Financial assets

The Company classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables (this category includes due from other financial institutions and loans to customers).

The Company determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics.

Initial recognition of financial instruments

The Company recognises financial assets and financial liabilities in its statement of financial position when it becomes a party to the contractual obligation of the financial instrument. Regular way purchases and sales of the financial assets and liabilities are recognised using settlement date accounting.

All financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset.

Fair value measurement

The fair value of financial instruments traded on the active market as at the reporting date is determined based on the market or dealers' quotations including transaction costs.

If a quoted market price is not available, the fair value of financial assets and financial liabilities recorded in the statement of financial position is estimated using various valuation techniques, including mathematical models. Where mathematical models are used, inputs are based on observable market data or judgement.

Judgement is based on the time value of money, credit risk level, volatility of the instrument, market risk level and other applicable factors.

Amortised cost of financial instruments

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Company shall use the

contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Derecognition of 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 Company 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; and
- the Company either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. If the transferee has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer, the Company has retained control.

Where the Company 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 Company’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 Company could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company’s continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value. In this case the extent of the Company’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial assets at fair value through profit or loss

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, as well as other derivative financial instruments with positive fair value other than derivative instruments designated and effective as hedges are initially recorded in the statement of financial position at cost (including transaction costs) and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices, cash flow discounting models or option/swap price models at year end, depending on the type of transaction.

Changes in the fair value of derivative financial instruments are included in gains less losses from dealing in foreign currency.

Amounts due from other financial institutions

In the normal course of business, the Company places funds for various periods of time with banks. Amounts due from other financial institutions with a fixed maturity term are not intended for immediate or short-term trading and are measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at amortised cost calculated based on expected maturity.

Loans to customers

Loans to customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans to customers are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried at amortised cost using the effective interest method less provision for loan impairment.

Loans to customers are recorded when cash is advanced to borrowers.

The Company does not acquire loans from third parties.

Impairment of financial assets

The Company assesses on each closing date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. Impairment losses are recognised in the statement of comprehensive income as they are incurred as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Impairment of amounts due from other financial institutions and loans to customers

For amounts due from other financial institutions and loans to customers carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant.

Objective evidence that due from other financial institutions and loans to customers are impaired includes observable data about the following events in respect of individually significant financial assets:

- default in any payments due;
- significant financial difficulty of the borrower supported by financial information at the Company's disposal;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- worsening national or local economic environment affecting the borrower;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment.

If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics such as asset type, loan product type, payment status and other relevant factors. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the borrowers' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The main criterion used for determining objective evidence of loss from impairment of due from other financial institutions and loans to customers representing collectively measured financial assets is availability of observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

Such information may include adverse changes in the payment status of borrowers in the group (for example, an increased number of delayed payments) national or local economic conditions that correlate with defaults on the assets in the group (for example, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant

area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

If there is objective evidence that an impairment loss 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. The carrying amount of the asset is reduced through the use of the provision account and the amount of the loss is recognised in the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Loans that have not been individually assessed are then included in the group of loans that are collectively assessed for impairment. The collectively assessed loans are grouped based on similar credit risk characteristics and on their past-due status and assessed accordingly. The collectively assessment methodology strives to ensure the provision for impairment reflects the loss events that have occurred, but have not yet been identified on an individual loan basis.

The process uses a combination of historical data and current observable data that reflect the existing situation and how it may affect the current loan portfolio. Historical data used is a set of actual loss rates calculated using the historical loan loss migration analysis. Existing economical data includes actual rates. Using these data sets as inputs, the management then determines the new set of rates to be used for the next 6 month period.

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

Uncollectible assets are written off against the related allowance for impairment after all the necessary procedures to recover the asset in full or in part have been completed and the final amount of the loss has been determined. The carrying value of impaired financial assets is not reduced directly.

Financial liabilities

Financial liabilities are classified as financial liabilities carried at amortised cost.

Initially, a financial liability is measured by the Company at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial liability.

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 derecognition of the original liability and the recognition of a new liability, and the difference in the cost of the liability is recognised in the statement of comprehensive income.

Financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost include due to other financial institutions and Subordinated debt.

Due to other financial institutions. Due to other financial institutions are recorded when cash or other assets are advanced to the Company by counterparty financial institutions.

Subordinated debt. Subordinated debt include subordinated loans received by the Company and are recorded from the moment the funds are advanced to the Company.

Offsetting of financial instruments

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

Property and equipment

Property and equipment are stated at cost, as described below, less accumulated depreciation and impairment provision.

At each reporting date the Company assesses whether there is any indication of impairment of property and equipment. If any such indication exists, the Company estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell or its value in use. Where the carrying amount of property and equipment is greater than their estimated recoverable amount, it is written down to their recoverable amount and the difference is charged as impairment loss to the statement of comprehensive income.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and recorded as operating expenses in the statement of comprehensive income.

Repairs and maintenance are charged to the statement of comprehensive income when the expense is incurred.

Depreciation

Depreciation of property and equipment commences from the date the assets are ready for use. Depreciation is charged on a straight line basis over the estimated useful lives of the assets:

- Communication devices and computers – 3 years;
- Office equipment – 5 years;
- Vehicles – 5 years;
- Other fixed assets – 5 years.

Leasehold improvements are capitalized and depreciated over the period of ten years on a straight-line basis. Assets under the course of construction are not depreciated.

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

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization 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 amortized 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. Amortization 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 amortized, 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 programs are recorded as an expense as incurred.

Operating lease - the Company as lessee

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

Share capital

Ordinary shares are classified as share capital. The share capital is stated at original cost. Non-cash contributions in the share capital are recorded at fair value of contributed assets at the date the contribution is made. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds.

Dividends

Dividends are recognised as a liability and deducted from shareholders' equity at the reporting date only if they are declared before or on the reporting date. Information on dividends is disclosed in the subsequent events note. Net profit of the reporting year reflected in the statutory financial statements is the basis for payment of dividends and other appropriations.

Dividends are accrued upon their approval by the General Meeting of Shareholders and reflected in the financial statements as distribution of profit.

Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in comprehensive income, in which case it is recognized in comprehensive income.

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 for financial reporting purposes, 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 utilized. 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 income 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 Company's activities. These taxes are included as a component of other expenses in the statement of comprehensive income.

Income and expense recognition

Interest income and expense are recorded in the statement of comprehensive income for all financial instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all commissions and fees paid or received by the parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are recorded on an accrual basis after the service is provided.

Employee benefits and social insurance contributions

The Company pays social tax on the territory of the Republic of Armenia. These contributions are recorded on an accrual basis. Social tax comprises contributions to the state budget in respect of the Company's employees. These expenses are recognised as incurred and are included in staff costs. The Company does not have pension arrangements separate from the state pension system of the Republic

of Armenia. Wages, salaries, contributions to the Republic of Armenia state budget, paid annual leaves and paid sick leaves, bonuses and non-monetary benefits are accrued as the Company's employees render the related service

Foreign currency

Foreign currency transactions are initially translated into the functional currency at the Central Bank of Armenia exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the Central Bank of Armenia exchange rate ruling at the reporting date. Foreign exchange gains and losses resulting from translation are recorded in the statement of comprehensive income within foreign currency translation gains less losses. Non-monetary items denominated in foreign currency and carried at cost are restated at the exchange rate of Central Bank of Armenia in effect at the transaction date. Non-monetary items denominated in foreign currency and carried at fair value are restated at the exchange rate in effect at the date the fair value is determined.

Gains and losses from purchase and sale of foreign currency are determined as a difference between the selling price and the carrying value at the transaction date.

5. Cash and Cash Equivalents

Cash and Cash Equivalents comprise cash on hand and amounts due from other financial institutions, which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value.

	2010	2009	2008
Placements with financial institutions	368 831	819 784	132 990
Cash on hand	3 954	38 122	14 045
Total cash and cash equivalents	372 785	857 906	147 035

Placements with financial institutions are represented by the current accounts with banks. As at 31 December 2010 the Company had current accounts opened in 4 banks: HSBC Bank Armenia, ACBA - Credit Agricole Bank, Ardshininvestbank and Armswissbank(2009: 5 banks).

6. Amounts due from other financial institutions

	2010	2009	2008
Deposits with banks	1 166 226	2 534 690	600 381
Other amounts	504	-	108
Total due from other financial institutions	1 166 730	2 534 690	600 489

Amounts due from other financial institutions as at 31 December 2010 were represented by deposits placed with local bank: ACBA-Credit Agricole Bank (2009: deposits placed with ACBA-Credit Agricole Bank).

The credit quality analysis of due from other financial institutions as at 31 December 2010 and 2009 has shown that all the above classes of due from other financial institutions have similar characteristics and low credit risk.

7. Loans to customers

	2010	2009
Individual loans	11 218 752	8 821 826
Rural loans	7 994 221	6 216 868
Group loans	6 319 102	4 147 751
Loans to FINCA International, Inc.	-	704 372
Less allowance for loan impairment	(172 456)	(337 805)
Total loans to customers	25 359 619	19 553 012

As of 31 December 2010 accrued interest income included in loans amounted to USD 471 585 (2009: USD 166 188).

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Loan to FINCA International, Inc. is a short term loan provided in 2009 to the Company's shareholder at 9.5% interest rate p.a.

Movements in the provision for impairment of loans to customers for 2010 and 2009 are as follows:

	Individual loans	Rural loans	Group loans	Total
Provision for impairment of loans to customers as at 1 January 2009	142 815	68 663	103 199	314 677
Provision for impairment during 2009	176 310	41 593	(2 466)	215 437
Loans written off during 2009 as uncollectible	(128 174)	(20 555)	(50 925)	(199 654)
Recoveries	24 677	7 765	37 471	69 913
Currency translation effect	(29 708)	(14 044)	(18 816)	(62 568)
Provision for impairment of loans to customers as 31 December 2009	185 920	83 422	68 463	337 805
Provision for impairment during 2010	25 532	35 414	1 990	62 936
Loans written off during 2010 as uncollectible	(163 558)	(74 854)	(47 176)	(285 588)
Recoveries	31 465	1 950	15 348	48 763
Currency translation effect	4 394	2 263	1 883	8 540
Provision for impairment of loans to customers as 31 December 2010	83 753	48 195	40 508	172 456

The Company has changed its internal loan loss provision methodology since 1 January 2010. The new methodology utilizes migration analysis of loan losses during last two years. The initial statistical analysis of the data for the last two years produced a set of historical loss rates. These historical loss rates served as a basis for loss provisioning rate setting and resulted in some recovery of provision in 2010.

As at 31 December 2010 and 31 December 2009 there were no impaired loans, that should be assessed for impairment on an individual basis.

Below is the credit quality analysis of loans as at 31 December 2010:

	Loans before impairment provision	Impairment provision	Loans less impairment provision	Ratio of impairment provision to total loans before impairment provision
Individual loans				
<i>Collectively impaired loans</i>				
Current loans (not past due)	11 165 439	69 073	11 096 366	0.6%
1 to 30 days overdue	10 772	562	10 210	5.2%
30 to 60 days overdue	3 372	404	2 968	12.0%
60 to 90 days overdue	3 385	484	2 901	14.3%
90 to 180 days overdue	18 774	3 235	15 539	17.2%
over 180 days overdue	17 010	9 995	7 015	58.8%
Total Individual loans	11 218 752	83 753	11 134 999	0.7%

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	Loans before impairment provision	Impairment provision	Loans less impairment provision	Ratio of impairment provision to total loans before impairment provision
Rural loans				
<i>Collectively impaired loans</i>				
Current loans (not past due)	7 979 498	46 042	7 933 456	0.6%
1 to 30 days overdue	3 511	171	3 340	4.9%
30 to 60 days overdue	5 457	610	4 847	11.2%
60 to 90 days overdue	1 970	263	1 707	13.3%
90 to 180 days overdue	2 491	400	2 091	16.1%
over 180 days overdue	1 294	709	585	54.8%
Total rural loans	7 994 221	48 195	7 946 026	0.6%
Group loans				
<i>Collectively impaired loans</i>				
Current loans (not past due)	6 304 242	36 840	6 267 402	0.6%
1 to 30 days overdue	1 943	96	1 847	4.9%
30 to 60 days overdue	3 625	411	3 214	11.3%
90 to 180 days overdue	5 090	828	4 262	16.3%
over 180 days overdue	4 202	2 333	1 869	55.5%
Total group loans	6 319 102	40 508	6 278 594	0.6%
Total loans to customers	25 532 075	172 456	25 359 619	0.7%

Below is the credit quality analysis of loans as at 31 December 2009:

	Loans before impairment provision	Impairment provision	Loans less impairment provision	Ratio of impairment provision to total loans before impairment provision
Individual loans				
<i>Collectively impaired loans</i>				
Current loans (not past due)	8 609 902	86 874	8 523 028	1.0%
1 to 30 days overdue	22 420	2 261	20 159	10.1%
30 to 60 days overdue	12 776	1 289	11 487	10.1%
60 to 90 days overdue	12 204	1 230	10 974	10.1%
90 to 180 days overdue	47 926	9 666	38 260	20.2%
over 180 days overdue	116 598	84 600	31 998	72.6%
Total Individual loans	8 821 826	185 920	8 635 906	2.1%

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	Loans before impairment provision	Impairment provision	Loans less impairment provision	Ratio of impairment provision to total loans before impairment provision
Rural loans				
<i>Collectively impaired loans</i>				
Current loans (not past due)	6 114 514	58 469	6 056 045	1.0%
1 to 30 days overdue	8 754	837	7 917	9.6%
30 to 60 days overdue	31 186	2 982	28 204	9.6%
60 to 90 days overdue	11 691	1 118	10 573	9.6%
90 to 180 days overdue	27 268	5 215	22 053	19.1%
over 180 days overdue	23 455	14 801	8 654	63.1%
Total rural loans	6 216 868	83 422	6 133 446	1.3%
Group loans				
<i>Collectively impaired loans</i>				
Current loans (not past due)	4 074 884	42 175	4 032 709	1.0%
1 to 30 days overdue	11 647	1 205	10 442	10.3%
30 to 60 days overdue	5 830	603	5 227	10.3%
60 to 90 days overdue	2 030	210	1 820	10.3%
90 to 180 days overdue	25 581	5 295	20 286	20.7%
over 180 days overdue	27 779	18 975	8 804	68.3%
Total group loans	4 147 751	68 463	4 079 288	1.7%
Loans to FINCA International, Inc.				
<i>Unimpaired loans</i>				
Current loans (not past due)	704 372	-	704 372	-
Total loans to FINCA International, Inc.	704 372	-	704 372	-
Total loans to customers	19 890 817	337 805	19 553 012	1.7%

Collectively impaired loans include loans grouped in homogeneous pools of claims sharing common characteristics in respect of risk exposure collectively assessed by the Company.

The Company's policy requires that all loans over 270 days past due should be written off. Write-offs should occur on a quarterly basis; however, write-offs should never be automatically applied prior to the designed approval process write-offs should never occur less frequently than each quarter.

Below is the information on the collateral held as security:

	2010	2009
Loans collateralized by group guarantees	17 066 817	12 523 348
Loans collateralized by movable property	8 264 790	6 452 562
Loans collateralized by real estate	200 468	210 535
Not collateralized	-	704 372
Total loans to customers	25 532 075	19 890 817

8. Property and Equipment

	Leasehold improve- ments	Communication devices and computers	Office equipement	Vehicles	Other fixed assets	Total
Net book value as at 31 December 2009	245 195	77 100	79 891	65 296	43 722	511 204
Cost						
Balance as at 1 January 2010	271 841	155 715	114 888	79 509	68 446	690 399
Additions	86 975	76 356	42 156	-	20 095	225 582
Disposals	-	(883)	-	-	-	(883)
Currency translation difference	13 255	8 312	5 753	3 162	3 283	33 765
Balance as at 31 December 2010	372 071	239 500	162 797	82 671	91 824	948 863
Accumulated depreciation						
Balance as at 1 January 2010	26 646	78 615	34 997	14 213	24 724	179 195
Depreciation charge	32 634	52 821	27 490	16 081	14 553	143 579
Disposals	-	(56)	-	-	-	(56)
Currency translation difference	1 976	4 609	2 165	1 018	1 394	11 162
Balance as at 31 December 2010	61 256	135 989	64 652	31 312	40 671	333 880
Net book value as at 31 December 2010	310 815	103 511	98 145	51 359	51 153	614 983

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	Leasehold improvements	Communication devices and computers	Office equipment	Vehicles	Other fixed assets	Total
Net book value as at 31 December 2008	192 378	87 614	82 248	12 033	47 717	421 990
Cost						
Balance as at 1 January 2009	194 037	126 893	100 603	16 790	62 635	500 958
Additions	114 343	48 985	33 878	69 189	17 259	283 654
Disposals	-	(11)	(1 143)	(3 308)	(130)	(4 592)
Currency translation difference	(36 539)	(20 152)	(18 450)	(3 162)	(11 318)	(89 621)
Balance as at 31 December 2009	271 841	155 715	114 888	79 509	68 446	690 399
Accumulated depreciation						
Balance as at 1 January 2009	1 659	39 279	18 355	4 757	14 918	78 968
Depreciation charge	26 316	44 731	20 631	12 087	12 765	116 530
Disposals	-	(11)	(237)	(1 319)	(130)	(1 697)
Currency translation difference	(1 329)	(5 384)	(3 752)	(1 312)	(2 829)	(14 606)
Balance as at 31 December 2009	26 646	78 615	34 997	14 213	24 724	179 195
Net book value as at 31 December 2009	245 195	77 100	79 891	65 296	43 722	511 204

9. Intangible Assets

Intangible assets are presented by investments in the software.

	Software	Capital investments in software	Total
Net book value as at 31 December 2009	25 013	-	25 013
Balance as at 1 January 2010	31 283	-	31 283
Additions	7 135	131 722	138 857
Currency translation difference	1 446	3 702	5 148
Balance as at 31 December 2010	39 864	135 424	175 288
Accumulated amortization			
Balance as at 1 January 2010	6 270	-	6 270
Amortization charge	4 261	-	4 261
Currency translation difference	365	-	365
Balance as at 31 December 2010	10 896	-	10 896
Net book value as at 31 December 2010	28 968	135 424	164 392

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	Software	Capital investments in software	Total Software
Net book value as at 31 December 2008			16 754
Balance as at 1 January 2009			22 094
Additions			13 350
Currency translation difference			(4 161)
Balance as at 31 December 2009			31 283
Accumulated depreciation			
Balance as at 1 January 2009			5 340
Amortization charge			2 015
Currency translation difference			(1 085)
Balance as at 31 December 2009			6 270
Net book value as at 31 December 2009			25 013

10. Other Assets

	2010	2009	2008
Advances	30 750	30 116	83 791
Prepayments and advances to suppliers	28 029	37 625	105 767
Inventory	25 220	12 379	-
Prepaid taxes (other than income tax)	5 448	7 838	-
Settlements with employees	715	1 366	26
Financial assets at fair value through profit or loss	-	9 984	-
Total other assets	90 162	99 308	189 584

In 2009 the Company entered into Swap (the Company sells and the AreximBank-GazPromBank Group buys 1 100 000 USD). The contractual maturity of the instrument is January 2010. These financial instruments were stated at fair value. Changes in fair value of these instruments are reflected in the statement of comprehensive income.

The credit quality analysis of the financial assets classified as other assets as at 31 December 2010 and 31 December 2009 has shown that they are current and unimpaired.

11. Amounts due to other Financial Institutions

	2010	2009	2008
Loans and borrowings from other organization	14 669 848	13 563 855	19 863 822
Loans from financial institutions	3 494 980	1 492 000	1 521 667
Total amounts due to other financial Institutions	18 164 828	15 055 855	21 385 489

As at 31 December 2010 the borrowings include amounts attracted from the shareholder and from parties related to the shareholder of the Company. Information on related party balances is disclosed in the Note 24 to these financial statements. As at 31 December 2010 loans and borrowings from other Organizations amounted to USD 1 960 827 (2009: USD 2 765 943) have variable interest rates and the rest have fixed interest rates.

Movements in amounts due from other financial institutions are shown below:

	2010	2009
Carrying value as at 1 January	15 055 855	21 385 489
Borrowings	13 133 160	1 929 833
Repayment	(10 755 098)	(7 593 969)
Accrued interest expense	2 463 467	2 335 146
Interest paid	(2 308 681)	(2 374 419)
Translation difference	576 125	(626 225)
Carrying value as at 31 December	18 164 828	15 055 855

Under the signed agreements interest on loans is paid by the Company quarterly, semi-annually and annually.

12. Subordinated debt

Subordinate debt represents a long term borrowing agreement, which, in case of the Company’s default, would be secondary to the Company’s other obligations.

In 2009 the Company received subordinated loan from FINCA Microfinance Fund B.V. in the amount of USD 2 500 000. The Fund is owned by a Dutch Foundation called “Stichting Holding Microfinance Fund”, the founder of which is Deutsche Bank. The loan is provided for 7 years, at 12.63% interest rate p.a.

As at 31 December 2010 subordinated debt provided by legal entity includes interest in amount of USD 28 285 (2009: USD 42 975).

13. Other Liabilities

	2010	2009	2008
Due to personnel	279 347	339 953	294 937
Tax payable other than income tax	223 792	135 119	138 138
Accounts payables	98 883	32 327	53 819
Other	3 398	15 586	15 444
Total other liabilities	605 420	522 985	502 338

14. Share Capital

Authorised, issued and fully paid share capital of the Company comprises:

	2010			2009		
	Number of shares	Nominal amount per share	Total	Number of shares	Nominal amount per share	Total
Ordinary shares	136 472	27.5149	3 251 918	136 472	26.4627	3 251 918
Total share capital	136 472	27.5149	3 251 918	136 472	26.4627	3 251 918

All ordinary shares have a nominal value of AMD 10 000 per share and carry one vote.

As at 31 December 2010 the Company’s registered and paid-in share capital was AMD 1 364 720 thousand (USD 3 251 918). In accordance with the Company’s statutes the share capital consists of 136 472 ordinary shares.

In 2009 the shareholders of the Company increased its share capital by AMD 465 000 thousand (USD 1 251 918). This increase has been performed in AMD and the shareholder has the right to receive a share and distribute the profit in AMD.

As at 31 December 2010 the Company did not possess any of its own shares.

The share capital of the Company was contributed by the shareholders in AMD and they are entitled to dividends and any capital distribution in AMD.

At the General Shareholders’ Meeting in June 2010 the Company declared dividends in respect of the year ended 31 December 2009 totaling USD 500 000 (2009: USD 333 882).

Reserves distributable among shareholders equal the amount of retained earnings determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund which is created as required by the statutory regulations in respect of general risks including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Company’s statutes that provide for the creation of a reserve for these purposes of 15% of the Company’s share capital reported in statutory books.

15. Retained Earnings according to Armenian Accounting Standards

According to the Armenian legislation only accumulated retained earnings reflected in the Company’s statutory financial statements may be distributed as dividends among the Company’s shareholders. As at 31 December 2010, the Company’s retained earnings amounted to USD 1 978 791 (2009: USD 1 491 965).

The retained earnings reflected in the Company’s statutory records include a reserve fund in the amount of USD 123 009 (2009: USD 59 420) to cover possible losses. According to Armenian legislation the Company shall create a reserve fund out of profit of prior years or current expenses. The amount of this reserve may not be distributed among the Company’s shareholders and is only used in case of liquidation of the Company.

16. Interest Income and Expense

	2010	2009
Interest income		
Loans to customers	8 244 445	7 245 653
Amounts due from other financial institutions	226 992	284 337
Total interest income	8 471 437	7 529 990
Interest expense		
Amounts due to other financial institutions	1 908 552	2 061 652
Subordinated debt	325 986	142 876
Total interest expense	2 234 538	2 204 528
Net interest income	6 236 899	5 325 462

17. Staff costs

	2010	2009
Wages and salaries	2 905 565	2 857 220
Social security contribution	301 849	281 978
Total operating expenses	3 207 414	3 139 198

18. Operating Expenses

	2010	2009
Taxes other than income tax, duties	309 910	322 206
Operating lease	265 755	242 312
Fixed assets maintenance	138 659	104 781
Communications	97 666	96 931
Business trip expenses	83 102	51 927
Office supplies	76 706	89 113
Security	42 132	31 527
Consulting and other services	38 797	20 805
Representative expenses	24 094	83 085
Penalties paid	5 446	1 200
Insurance	3 490	2 720
Advertising	1 424	12 230
Loss on disposal of property and equipment	827	2 210
Other expenses	99 643	98 761
Total operating expenses	1 187 651	1 159 808

19. Income Tax

Income tax expense comprises the following:

	2010	2009
Current income tax expense	336 498	325 641
Deferred taxation movement due to organisation and reversal of temporary differences	41 693	(1 895)
Less: currency translation difference	91	(5 945)
Income tax expense for the year	378 282	317 801

The current tax rate applicable to the of the Company's profit is 20% (2009: 20%).

Reconciliation between the theoretical and the actual taxation charge is provided below.

	2010	2009
IFRS profit before taxation	1 665 547	1 627 255
Theoretical tax charge at the applicable statutory rate (2010: 20%; 2009: 20%)	333 109	325 451
Foreign exchange (gains)/losses	37 254	(71 934)
Non-deductible expenses less non-taxable income	7 919	64 284
Income tax expense for the year	378 282	317 801

Differences between IFRS and statutory taxation regulations of the Republic of Armenia give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for the Company's profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 20% (2009: 20%).

	2010	Movement	Currency translation difference	2009
Tax effect of deductible temporary differences				
Other liabilities	65 480	24 421	2 230	38 829
Gross deferred tax assets	65 480	24 421	2 230	38 829
Tax effect of taxable temporary differences				
Amounts due from other financial institutions	(3 332)	3 811	(170)	(6 973)
Loans to customers	(71 985)	(70 016)	(1 969)	-
Gross deferred tax liabilities	(75 317)	(66 205)	(2 139)	(6 973)
Total net deferred tax (liabilities)/assets	(9 837)	(41 784)	91	31 856

	2009	Movement	Currency translation difference	2008
Tax effect of deductible temporary differences				
Other liabilities	38 829	13 568	(6 506)	31 767
Gross deferred tax assets	38 829	13 568	(6 506)	31 767
Tax effect of taxable temporary differences				
Amounts due from other financial institutions	(6 973)	(5 728)	561	(1 806)
Gross deferred tax liabilities	(6 973)	(5 728)	561	(1 806)
Total net deferred tax asset	31 856	7 840	(5 945)	29 961

Net deferred tax liabilities represent income tax amounts payable in future periods in respect of taxable temporary differences.

20. Risk Management

The risk management function within the Company is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The assessment of exposure to risks also serves as a basis for optimal distribution of risk-adjusted capital, transaction pricing and business performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Company takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations. Exposure to credit risk is also managed by obtaining property and securities collateral and corporate and personal guarantees.

The Company’s maximum exposure to credit risk is primarily reflected in the carrying value of financial assets in the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Company performs the loan maturity analysis and subsequent monitoring of overdue balances. Therefore, the management provides information on overdue maturities and other information on credit risk, as described in Note 7.

The Company is exposed to early redemption risk as a result of lending at fixed interest rates that entitle the borrower to repay loans ahead of schedule. The financial result and the Company’s equity for the current year and at the current reporting date would not greatly depend on the rate fluctuations in case of early redemption because such loans are carried at amortised cost whereas the amount to be early redeemed corresponds or nearly corresponds to the amortised cost of loans to customers.

Market risk. The Company takes on exposure to market risk arising from open positions in interest rates and currency products, all of which are exposed to general and specific market movements. The Executive Board sets and monitors acceptable risk limits. However, the use of this approach does not prevent losses beyond these limits in the event of more significant market movements.

The objective of market risk management is to keep the exposure to market risk within the acceptable limits assuring optimal yields for accepted risk.

Geographical risk. The geographical concentration of the Company’s assets and liabilities as at 31 December 2010 is set out below:

	Republic of Armenia	OECD	Total
Assets			
Cash and cash equivalents	372 785	-	372 785
Amounts due from other financial institutions	1 166 730	-	1 166 730
Loans to customers	25 359 619	-	25 359 619
Property and equipment	614 983	-	614 983
Intangible assets	164 392	-	164 392
Other assets	90 162	-	90 162
Total assets	27 768 671	-	27 768 671
Liabilities			
Amounts due to other financial institutions	-	18 164 828	18 164 828
Subordinated debt	-	2 528 285	2 528 285
Other liabilities	605 420	-	605 420
Current tax liabilities	94 915	-	94 915
Deferred tax liabilities	9 837	-	9 837
Total liabilities	710 172	20 693 113	21 403 285
Net balance sheet position	27 058 499	(20 693 113)	6 365 386

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The geographical concentration of the Company’s assets and liabilities as at 31 December 2009 is set out below:

	Republic of Armenia	OECD	Total
Assets			
Cash and cash equivalents	857 906	-	857 906
Amounts due from other financial institutions	2 534 690	-	2 534 690
Loans to customers	18 848 640	704 372	19 553 012
Property and equipment	511 204	-	511 204
Intangible assets	25 013	-	25 013
Other assets	99 308	-	99 308
Deferred tax assets	31 856	-	31 856
Total assets	22 908 617	704 372	23 612 989
Liabilities			
Amounts due to other financial institutions	-	15 055 855	15 055 855
Subordinated debt	-	2 518 572	2 518 572
Other liabilities	522 985	-	522 985
Current tax liabilities	177 978	-	177 978
Total liabilities	700 963	17 574 427	18 275 390
Net balance sheet position	22 207 654	(16 870 055)	5 337 599

Currency risk. The Company applies reasonable conservative policy to mitigate the impact of currency risk defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Company monitors foreign exchange risk by managing open currency position based on estimates of Dram depreciation and other macroeconomic indicators. However, significant fluctuations in USD exchange rate in the global financial markets caused losses. Thus, in order to prevent depreciation of its own assets the Company increased the share of foreign currency and currency instruments during 2010. The table below summarises the Company’s exposure to foreign currency exchange rate risk as at 31 December 2010. Included in the table are the Company’s assets and liabilities at carrying amounts, categorised by major currency.

	AMD	USD	EUR	Total
Assets				
Cash and cash equivalents	179 262	193 017	506	372 785
Amounts due from other financial institutions	416 205	750 525	-	1 166 730
Loans to customers	14 080 638	11 278 981	-	25 359 619
Property and equipment	614 983	-	-	614 983
Intangible assets	164 392	-	-	164 392
Other assets	89 215	457	490	90 162
Total assets	15 544 695	12 222 980	996	27 768 671
Liabilities				
Amounts due to other financial institutions	9 414 996	8 749 832	-	18 164 828
Subordinated debt	-	2 528 285	-	2 528 285
Other liabilities	605 420	-	-	605 420
Current tax liabilities	94 915	-	-	94 915
Deferred tax liabilities	9 837	-	-	9 837
Total liabilities	10 125 168	11 278 117	-	21 403 285
Net balance sheet position	5 419 527	944 863	996	6 365 386

As at 31 December 2009, the Company had the following positions in currencies:

	AMD	USD	EUR	Total
Assets				
Cash and cash equivalents	122 745	730 808	4 353	857 906
Amounts due from other financial institutions	-	2 534 690	-	2 534 690
Loans to customers	8 695 901	10 857 111	-	19 553 012
Property and equipment	511 204	-	-	511 204
Intangible assets	25 013	-	-	25 013
Other assets	85 513	12 553	1 242	99 308
Deferred tax assets	31 856	-	-	31 856
Total assets	9 472 232	14 135 162	5 595	23 612 989
Liabilities				
Amounts due to other financial institutions	2 819 328	12 236 527	-	15 055 855
Subordinated debt	-	2 518 572	-	2 518 572
Other liabilities	522 985	-	-	522 985
Current tax liabilities	177 978	-	-	177 978
Total liabilities	3 520 291	14 755 099	-	18 275 390
Net balance sheet position	5 951 941	(619 937)	5 595	5 337 599

The Company contracts deposits with other financial institutions in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of the currencies against the Armenian Dram may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match.

Liquidity risk is the risk that the Company 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 Company 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 shows the liabilities as at 31 December 2010 by their remaining contractual maturity. The amounts in the table represent contractual undiscounted cash flows, prices specified in currency forward contracts for the purchase of financial assets for cash, contractual amounts to be swapped under currency swaps settled on a gross basis and the total commitments to provide loans. These undiscounted cash flows differ from the amounts recorded in the statement of financial position as these amounts are based on discounted cash flows. The derivative financial instruments settled on a net basis are shown as net amounts payable.

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In those cases when the amount to be paid is not fixed, the amount in the table is determined on the basis of conditions prevailing at the reporting date. Foreign currency payments are translated using the spot exchange rates effective at the reporting date. The table below shows the maturity analysis of financial liabilities as at 31 December 2010:

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Liabilities						
Amounts due to other financial institutions	75 065	4 283 855	8 042 923	7 555 257	-	19 957 100
Subordinated debt	-	-	304 788	1 426 761	2 664 545	4 396 094
Total potential future payments under financial liabilities	75 065	4 283 855	8 347 711	8 982 018	2 664 545	24 353 194

The table below shows the maturity analysis of financial liabilities as at 31 December 2009:

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Liabilities						
Amounts due to other financial institutions	1 144 184	1 182 900	8 153 864	7 565 605	-	18 046 553
Subordinated debt	-	-	312 179	1 229 358	3 144 309	4 685 846
Total potential future payments under financial liabilities	1 144 184	1 182 900	8 466 043	8 794 963	3 144 309	22 732 399

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The Company does not use the above undiscounted amounts in the maturity analysis to monitor the liquidity profile. Instead, the Company monitors the expected maturity limits that are shown in the table below as at 31 December 2010:

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No stated maturity	Total
Assets							
Cash and cash equivalents	372 785	-	-	-	-	-	372 785
Amounts due from other financial institutions	1 033	1 165 697	-	-	-	-	1 166 730
Loans to customers	1 974 935	4 120 040	16 261 511	3 003 133	-	-	25 359 619
Property and equipment	-	-	-	-	-	614 983	614 983
Intangible assets	-	-	-	-	-	164 392	164 392
Other assets	90 162	-	-	-	-	-	90 162
Total assets	2 438 915	5 285 737	16 261 511	3 003 133	-	779 375	27 768 671
Liabilities							
Amounts due to other financial institutions	54 294	4 054 877	7 197 141	6 858 516	-	-	18 164 828
Subordinated debt	-	-	28 285	-	2 500 000	-	2 528 285
Other liabilities	605 420	-	-	-	-	-	605 420
Current tax liabilities	-	94 915	-	-	-	-	94 915
Deferred tax liabilities	-	-	-	-	-	9 837	9 837
Total liabilities	659 714	4 149 792	7 225 426	6 858 516	2 500 000	9 837 21	403 285
Net liquidity gap as at 31							
December 2010	1 779 201	1 135 945	9 036 085	(3 855 383)	(2 500 000)	769 538	6 365 386
Cumulative liquidity gap as at 31							
December 2010	1 779 201	2 915 146	11 951 231	8 095 848	5 595 848	6 365 386	

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The table below shows the expected maturity analysis as at 31 December 2009:

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No stated maturity	Total
Assets							
Cash and cash equivalents	857 906	-	-	-	-	-	857 906
Amounts due from other financial institutions	-	-	2 534 690	-	-	-	2 534 690
Loans to customers	1 597 108	4 037 728	12 407 282	1 510 894	-	-	19 553 012
Property and equipment	-	-	-	-	-	511 204	511 204
Intangible assets	-	-	-	-	-	25 013	25 013
Other assets	99 308	-	-	-	-	-	99 308
Deferred tax assets	-	-	-	-	-	31 856	31 856
Total assets	2 554 322	4 037 728	14 941 972	1 510 894	-	568 073	23 612 989
Liabilities							
Amounts due to other financial institutions	33 275	1 110 571	7 071 751	6 840 258	-	-	15 055 855
Subordinated debt	-	-	18 572	-	2 500 000	-	2 518 572
Other liabilities	522 985	-	-	-	-	-	522 985
Current tax liabilities	-	177 978	-	-	-	-	177 978
Total liabilities	556 260	1 288 549	7 090 323	6 840 258	2 500 000	-	18 275 390
Net liquidity gap as at 31 December 2009							
	1 998 062	2 749 179	7 851 649	(5 329 364)	(2 500 000)	568 073	5 337 599
Cumulative liquidity gap as at 31 December 2009							
	1 998 062	4 747 241	12 598 890	7 269 526	4 769 526	5 337 599	

In the opinion of the Company’s management, the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental for successful management of the Company. It is unusual for the Companies 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 maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Company and its exposure to changes in interest and exchange rates.

Interest rate risk. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Company is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates fixed contractually on both assets and liabilities, are usually renegotiated to reflect current market conditions.

The Executive Board of the Company sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored on a monthly basis. In the absence of any available hedging instruments, the Company normally seeks to match its interest rate positions.

The table below summarises the Company’s exposure to interest rate risks as at 31 December 2010. Included in the table are the Company’s assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

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	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Non- interest bearing	Total
Assets							
Cash and cash equivalents	-	-	-	-	-	372 785	372 785
Amounts due from other financial institutions	-	1 165 697	-	-	-	1 033	1 166 730
Loans to customers	1 974 935	4 120 040	16 261 511	3 003 133	-	-	25 359 619
Property and equipment	-	-	-	-	-	614 983	614 983
Intangible assets	-	-	-	-	-	164 392	164 392
Other assets	-	-	-	-	-	90 162	90 162
Total assets	1 974 935	5 285 737	16 261 511	3 003 133	-	1 243 355	27 768 671
Liabilities							
Amounts due to other financial institutions	54 294	4 054 877	7 197 141	6 858 516	-	-	18 164 828
Subordinated debt	-	-	28 285	-	2 500 000	-	2 528 285
Other liabilities	-	-	-	-	-	605 420	605 420
Current tax liabilities	-	-	-	-	-	94 915	94 915
Deferred tax liabilities	-	-	-	-	-	9 837	9 837
Total liabilities	54 294	4 054 877	7 225 426	6 858 516	2 500 000	710 172	21 403 285
Net interest rate gap as at 31 December 2010	1 920 641	1 230 860	9 036 085	(3 855 383)	(2 500 000)	533 183	6 365 386
Cumulative interest rate gap as at 31 December 2010	1 920 641	3 151 501	12 187 586	8 332 203	5 832 203	6 365 386	

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The table below summarises the Company's exposure to interest rate risks as at 31 December 2009.

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Non- interest bearing	Total
Assets							
Cash and cash equivalents	-	-	-	-	-	857 906	857 906
Amounts due from other financial institutions	-	-	2 534 690	-	-	-	2 534 690
Loans and advances to customers	1 597 108	4 037 728	12 407 282	1 510 894	-	-	19 553 012
Property and equipment	-	-	-	-	-	511 204	511 204
Intangible assets	-	-	-	-	-	25 013	25 013
Other assets	-	-	-	-	-	99 308	99 308
Deferred tax assets	-	-	-	-	-	31 856	31 856
Total assets	1 597 108	4 037 728	14 941 972	1 510 894	-	1 525 287	23 612 989
Liabilities							
Amounts due to other financial institutions	33 275	1 110 571	7 071 751	6 840 258	-	-	15 055 855
Subordinated debt	-	-	18 572	-	2 500 000	-	2 518 572
Other liabilities	1 673	-	-	-	-	521 312	522 985
Current tax liabilities	-	-	-	-	-	177 978	177 978
Total liabilities	34 948	1 110 571	7 090 323	6 840 258	2 500 000	699 290	18 275 390
Net interest rate gap as at 31 December 2009	1 562 160	2 927 157	7 851 649	(5 329 364)	(2 500 000)	825 997	5 337 599
Cumulative interest rate gap as at 31 December 2009	1 562 160	4 489 317	12 340 966	7 011 602	4 511 602	5 337 599	

The changes in interest rates as at 31 December 2010 and 31 December 2009 would not have materially affected the profit as all the above liabilities and financial instruments have a fixed interest rate.

21. Capital Management

The Company's capital management has the following objectives: to ensure the Company's ability to operate as a going concern. Capital management targets are assessed on an annual basis.

Effective 1 July 2005 the CBA defines the minimum value of the total normative capital amounting to 150 000 thousand AMD.

The Company maintains an actively managed capital base to cover risks inherent in the business. The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to participants, return capital to participants or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The Company has complied with all externally imposed capital requirements through the period.

22. Contingent Liabilities

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

Tax legislation. Armenian tax legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant tax authorities. The tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments and it is possible that transactions and accounting methods that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the tax authorities in respect of taxes for three calendar years preceding the year of the review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2010, the management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency and customs positions will be sustained by controlling bodies.

Operating lease commitments. Where the Company is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2010	2009
Less than 1 year	268 479	266 839
From 1 to 5 years	508 117	509 813
Later than 5 years	37 168	16 886
Total operating lease commitments	813 764	793 538

23. Fair Value of Financial Instruments

The fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced sale or liquidation. Quoted financial instruments in active markets provide the best evidence of fair value. As no readily available market exists for major part of the Company's financial instruments, judgement is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Company could realise in a market exchange from the sale of its full holdings of a particular instrument.

Below is the estimated fair value of the Company's financial instruments as at 31 December 2010 and 31 December 2009:

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	372 785	372 785	857 906	857 906
Amounts due from other financial institutions	1 166 730	1 166 730	2 534 690	2 534 690
Loans to customers	25 359 619	25 359 619	19 553 012	19 553 012
Financial liabilities				
Amounts due to other financial institutions	18 164 828	18 164 828	15 055 855	15 055 855
Subordinated debt	2 528 285	2 528 285	2 518 572	2 518 572

The Company uses the following methods and assumptions to estimate the fair value of the following financial instruments:

Amounts due from other financial institutions. The fair values of due from other banks as at 31 December 2010 and 31 December 2009 do not materially differ from respective carrying amounts. This is primarily due to the short-term nature of investments and the practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Loans to customers. The fair values of loans to customers as at 31 December 2010 and 31 December 2009 do not materially differ from respective carrying amounts. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Amounts due to other financial institutions. The fair values of due to other banks as at 31 December 2010 and 31 December 2009 do not materially differ from respective carrying amounts. This is due to the relatively short-term maturity of these liabilities.

Subordinated debt. The estimated fair value of other borrowed funds of the Company approximates their carrying value as these instruments do not have market quotations of similar instruments and are attracted on special terms.

24. Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the economic substance of the relationship, not merely the legal form.

In the normal course of business the Company enters into transactions with its major shareholders, directors, and other related parties. These transactions include settlements, issuance of loans, taking the borrowings and foreign currency transactions. According to the Company's policy the terms of related party transactions are equivalent to those that prevail in arm's length transactions.

The outstanding balances at the year end, asset-related transactions with related parties for 2010 are as follows:

	Shareholders
Loans to customers	
Loans to customers as at 1 January (gross)	704 372
Loans to customers repaid during the year	(704 372)
Loans to customers as at 31 December	-

The outstanding balances at the year end, asset transactions with related parties for 2009 are as follows:

	Shareholders
Loans to customers	
Loans to customers as at 1 January (gross)	-
Loans to customers issued during the year	1 445 628
Loans to customers repaid during the year	(741 256)
Loans to customers as at 31 December	704 372

The outstanding balances at the year end, liability-related transactions with related parties for 2010 are as follows:

	Other related parties
Amounts due to other financial institutions	
Amounts due to other financial institutions as at 1 January	600 300
Amounts due to other financial institutions repaid during the year	(199 800)
Amounts due to other financial institutions 31 December	400 500

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The outstanding balances at the year end, liability-related transactions with related parties for 2009 are as follows:

	Other related parties
Amounts due to other financial institutions	
Amounts due to other financial institutions as at 1 January	3 016 850
Amounts due to other financial institutions repaid during the year	(2 416 550)
Amounts due to other financial institutions 31 December	600 300

Below are represented income and expense, related to transactions with related parties for the year 2010:

	Shareholders	Other related parties	Total
Interest income	46 218	-	46 218
Interest expense	-	51 616	51 616

Below are represented income and expense, related to transactions with related parties for the year 2009:

	Shareholders	Other related parties	Total
Interest income	23 381	-	23 381
Interest expense	-	219 117	219 117

During the year 2010 and 2009 the Company provided short-term loans to FINCA International, Inc. which was included in loan portfolio of the Company.

Compensation of key management personnel was comprised of the following:

	2010	2009
Salaries and other short-term benefits	234 367	322 509
Social security costs	12 996	17 760
Total key management compensation	247 363	340 269