“FINCA” UCO CJSC

Financial Statements
for the Year Ended 31 December 2011
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 2011, 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.

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.

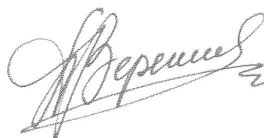
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 2011, 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



23 March 2012
BDO Armenia CJSC

BDO

Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2011

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 2011, 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.

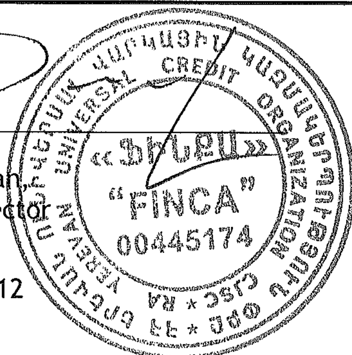
On behalf of the Company's management the financial statements for the year ended 31 December 2011 were authorised for issue on 23 March 2012 by:

Y. Barseghyan,
General director

A. Khachatryan,
Chief Accountant

"FINCA" UCO CJSC
Yerevan, Republic of Armenia
23 March 2012

	Note	2011	2010
Assets			
Cash and cash equivalents	5	319,001	372,785
Financial assets at fair value through profit or loss	6	10,121	-
Amounts due from other financial institutions	7	2,879,436	1,166,730
Loans to customers	8	35,278,329	5,359,619
Property and equipment	9	713,847	614,983
Intangible assets	10	151,685	164,392
Other assets	11	138,629	90,162
Deferred tax assets	20	23,172	-
Total assets		**39,514,220**	**27,768,671**
Liabilities			
Loans payable	12	29,097,314	18,164,828
Subordinated debt	13	2,531,856	2,528,285
Other liabilities	14	577,958	605,420
Current tax liabilities		225,230	94,915
Deferred tax liabilities	20	-	9,837
Total liabilities		**32,432,358**	**21,403,285**
Equity			
Share capital	15	3,251,918	3,251,918
Foreign currency translation difference		36,539	445,854
Retained earnings		3,793,405	2,667,614
Total equity		**7,081,862**	**6,365,386**
Total liabilities and equity		**39,514,220**	**27 768 671**



Y. Barseghyan,
General director

23 March 2012

A. Khachatryan,
Chief Accountant

	Note	2011	2010
Interest income	17	11,302,537	8,471,437
Interest expense	17	(3,077,759)	(2,478,128)
Net interest income		**8,224,778**	**5,993,309**
Provision for impairment of loans to customers	8	(37,901)	(62,936)
Net interest income after provision for impairment of loans to customers		**8,186,877**	**5,930,373**
Net results from financial instruments		10,673	4,884
Net foreign exchange translation (loss)		(1,056)	(186,283)
Gains less losses arising from transactions in financial assets at fair value through profit or loss		10,121	-
Fee and commission expense		(33,583)	(26,275)
Staff costs	18	(4,232,976)	(3,207,414)
Depreciation of property and equipment	9	(180,578)	(143,579)
Amortization of intangible assets	10	(15,123)	(4,261)
Income from penalties		298,432	217,596
Other operating income		7,422	24,567
Operating income		**4,050,209**	**2,609,608**
Operating expenses	19	(1,944,385)	(944,061)
Profit before taxation		**2,105,824**	**1,665,547**
Income tax expense	20	(424,781)	(378,282)
Net profit		**1,681,043**	**1,287,265**
Other comprehensive income			
Foreign currency translation difference		(409,315)	240,522
Other comprehensive (loss)/income		**(409,315)**	**240,522**
Total comprehensive income		**1,271,728**	**1,527,787**

Y. Barseghyan,
General director

A. Khachatryan,
Chief Accountant

23 March 2012

The notes set out on pages 9 to 6 are an integral part of these financial statements.

	2011	2010
Cash flows from operating activities		
Profit before taxation	2,105,824	1,665,547
Non-cash adjustment to reconcile profit to net cash flows:		
Provision for impairment of loans to customers	37,901	62,936
Amortization and depreciation	195,347	147,840
Loss on sale of property and equipment	9,301	827
Accruals of interest receivable	119,937	(55,242)
Accruals of interest payable	342,439	(102,303)
Foreign translation net (gains)/losses	(9,065)	187,683
Cash flows from operating activities before changes in operating assets and liabilities	**2,801,684**	**1,907,288**
Net (increase)/decrease in operating assets		
Amounts due from other financial institutions	(1,761,323)	1,337,415
Loans to customers	(11,271,521)	(5,053,764)
Other assets	(53,365)	8,380
Net increase/(decrease) in operating liabilities		
Other liabilities	(17,284)	60,486
Cash flows from operating activities before taxation	**(10,301,809)**	**(1,740,195)**
Income tax paid	(317,706)	(419,561)
Cash flows from operating activities	**(10,619,515)**	**(2,159,756)**
Cash flows from investing activities		
Purchase of property and equipment (Note 9)	(325,874)	(225,582)
Purchase of intangible assets (Note 10)	(16,081)	(138,857)
Proceeds from disposal of property and equipment	1,332	-
Net cash flows from investing activities	**(340,623)**	**(364,439)**
Cash flows from financing activities		
Loans received from other financial institutions	20,532,976	13,149,848
Loans redeemed from other financial institutions	(9,110,206)	(10,570,139)
Dividends paid to the shareholders	(555,252)	(500,000)
Net cash flows from financing activities	**10,867,518**	**2,079,709**
Effect of exchange rate changes on cash and cash equivalents	38,836	(40,635)
Net change in cash and cash equivalents	**(53,784)**	**(485,121)**
Cash and cash equivalents at the beginning of the year	372,785	857,906
Cash and cash equivalents at the end of the year (Note 5)	**319,001**	**372,785**

Y. Barseghyan,
General director

A. Khachatryan,
Chief Accountant

23 March 2012

The notes set out on pages 9 to 7 are an integral part of these financial statements.

	Share capital	Foreign currency translation difference	Retained earnings	Total equity
Balance as at 1 January 2010	**3,251,918**	**205,332**	**1,880,349**	**5,337,599**
Dividends to shareholders	-	-	(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**
Dividends to shareholders			(555,252)	(555,252)
Comprehensive income for 2011		(409,315)	1,681,043	1,271,728
Balance as at 31 December 2011	**3,251,918**	**36,539**	**3,793,405**	**7,081,862**

Y. Barseghyan,
General director

23 March 2012

A. Khachatryan,
Chief Accountant

The notes set out on pages 9 to 8 are an integral part of these financial statements.

1. Principal Activities of the Company

"FINCA" UCO CJSC (the Company) is a closed joint-stock Company - 100% subsidiary of FINCA Microfinance Coöperatief U.A. 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 loans. The Company headquarters in Yerevan, has 18 branches and 5 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 2011 was 436 (2010: 399).

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

Shareholder	Country of registration	Nature of business	2011 Ownership (%)	2010 Ownership (%)
FINCA Microfinance Coöperatief U.A.	Netherlands	Investment	100.0	-
FINCA International, Inc	United States of America	Investment	-	100.0
Total			**100.0**	**100.0**

FINCA International is the parent and ultimate controlling party 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.

During 2011 FINCA International, Inc contributed the all shares of "FINCA" UCO LLC to FINCA Microcredit Coöperatief U.A.

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.

Inflation

Armenia continues to experience relatively high levels of inflation. The inflation indices for the last five years are given in the table below:

Year ended	**Inflation for the period**
31 December 2011	4,7 %
31 December 2010	9,4 %
31 December 2009	6,5 %
31 December 2008	5,2 %
31 December 2007	6,6 %

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 2011	387.55
31 December 2010	363.44
31 December 2009	377.89
31 December 2008	306.73
31 December 2007	304.22

Financial market transactions

In 2011 the international rating agency Fitch Ratings revised the Republic of Armenia outlook for long-term ratings in local and foreign currencies: on 2 September 2011 Fitch Ratings confirmed the long term foreign and local currency outlook as "stable" and confirmed the respective ratings at BB-. The short term foreign currency rating confirmed at B.

Moody's Investors Service has changed to negative from stable the outlook on Armenia's Ba2 foreign and local currency issuer ratings. Moody's decision to change the outlook on Armenia's sovereign ratings to negative is primarily driven by the country's ongoing economic vulnerability to the weaker growth prospects in Europe and Russia.

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.

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 recent methodology utilizes migration analysis of loan losses during last three years (Note 7).

Listed below are those amended standards and interpretations which became effective and which are or in the future could be relevant to the Company's operations:

- IAS 1 "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2011). The amendments clarify disclosures in the statement of changes in equity.
- IAS 24 (as 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 (as 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: Disclosures" (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 the extent of risks arising from the transfer of financial assets. The amendments comprise a requirement for an entity to disclose by class of a financial asset the following information in the Company's balance sheet about the financial assets transferred to a counterparty: the nature of an asset, its cost, risks and benefits related to the asset. Besides, disclosure is required enabling the user to understand the size of a financial liability related to the asset and the relationship between a financial asset and the related financial liability. In cases when an asset is ceased to be recognised, but the Group remains to be exposed to certain risks and can receive certain benefits related to the transferred asset, additional disclosure is required to enable the user to understand the risk level.
- IFRIC 13 "Customer Loyalty Programs" (effective for annual periods beginning on or after 1 July 2010). 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.
- 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.

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 27 "Separate Financial Statements" (effective for annual reporting periods beginning on or after 1 January 2013). This standard and IFRS 10 "Consolidated Financial Statements" supersede IAS 27 "Consolidated and Separate Financial Statements" (as amended in 2003). IAS 27 clarifies transition requirements regarding changes in IAS 21, 28 and 31 caused by revision of IAS 27 (as amended in January 2008). IAS 27 sets out requirements for accounting for and disclosure of information about an entity's investments in subsidiaries, joint ventures and associates when preparing separate financial statements.
- IAS 28 "Investments in Associates and Joint Ventures" (effective for annual reporting periods beginning on or after 1 January 2013). This standard is a revised version of IAS 28 "Investments in Associates" (as amended in 2003) and sets out requirements for the application of the equity method when accounting for investments in associates and joint ventures.
- IFRS 9 "Financial Instruments" (effective for annual reporting periods beginning on or after 1 January 2013; however, the date can be postponed to 1 January 2015; early adoption is permitted). This standard was issued in November 2009 as the first phase of replacing IAS 39 and replaces those parts of IAS 39 that relate to classification and measurement of financial assets. The second phase of replacing this standard regarding the classification and measurement of financial liabilities took place in October 2010. The main differences of the new standard are as follows:
  - financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - an instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss;
  - all equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income

rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

- IFRS 10 "Consolidated Financial Statements" (effective for annual reporting periods beginning on or after 1 January 2013). The new standard supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation – Special Purpose Entities". IFRS 10 introduces a unified three-level control model: the investor can have control provided that the three criteria are met:

  - (a) the investor has power over the investee;
  - (b) the investor is exposed or has rights to variable returns from its involvement with that investee;
  - (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

  Early adoption of IFRS 10 is permitted provided an entity also early adopts IFRS 11, IFRS 12, IAS 27 (as amended in 2011) and IAS 28 (as amended in 2011).

- IFRS 11 "Joint Arrangements" (applied retrospectively to annual reporting periods beginning on or after 1 January 2013). The new standard supersedes IAS 31 "Interests in Joint Ventures". The main change introduced by IFRS 11 relates to the classification of all types of joint arrangements into joint operations, which are accounted for on a proportionate consolidation basis, or joint ventures, for which the equity method is used. The type of joint arrangement is determined based on rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. Early adoption of IFRS 11 is permitted provided an entity also early adopts IFRS 10, IFRS 12, IAS 27 (as amended in 2011) and IAS 28 (as amended in 2011).

- IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual reporting periods beginning on or after 1 January 2013). The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests in another entity are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. Additional and new requirements for disclosing information aim to provide the users of financial statements with information that would enable them to assess the nature of the risks related to the entity's interests in other entities and the effect of those interests on the entity's financial position, financial results and cash flows. In case of adopting IFRS 12 in an earlier reporting period in full, IFRS 10, IFRS 11, IAS 27 (as amended in 2011), and IAS 28 (as amended in 2011) should be also adopted.

- IFRS 13 "Fair Value Measurement" (applied prospectively for annual periods beginning on or after 1 January 2013; early application is permitted). The new standard replaces fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value, and sets out disclosure requirements for fair value measurement. IFRS 13 does not introduce new requirements for measurement of assets and liabilities at fair value nor does it eliminate the exceptions to fair value measurement currently applicable to certain standards.

- Amendment to IAS 1 "Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income" (applied retrospectively for annual periods beginning from 1 July 2012; early application is permitted). The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to 'statement of profit or loss and other comprehensive income' (the use of other wording in the title is permitted).

- Amendment to IAS 19 "Employee Benefits" (applied retrospectively for annual periods beginning on or after 1 January 2013; early application is permitted). The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits. The amendment also makes significant changes to disclosures for all employee benefits.

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.

Changes in the presentation format

Reclassification

The following changes have been made by the Company in the comparative figures of the statement of Comprehensive Income as at 31 December 2010 to conform to the 2011 presentation format:

Item	Amount of adjustment	As reported before adjustment	As reported after adjustment	Comments
Operating expenses	(243,590)	1,187,651	944,061	Reclassification of non-resident profit tax on interest
Interest expense	243,590	2,234,538	2,478,128	

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.

When a loan is uncollectible, it is written off against the related provision for impairment of loans. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of provision for impairment of loans in the Statement of Comprehensive Income.

Uncollectible assets are written off against the related provision for impairment if:

- loans over 180 days past due;
- 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.

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.

Derivative financial instruments

In the normal course of business the Company enters into various derivative financial instruments including futures, forwards, currency and interest rate swaps and options, currency exchange contracts and contracts for future interest rates. Such financial instruments are held for trading and are initially recognized in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses from transactions in the above instruments are reported in the statement of comprehensive income as gains less losses arising from transactions in financial assets (liabilities) at fair value through profit or loss. Changes in the fair value of derivative instruments are included in gain/loss. The Company does not use derivative financial instruments for hedging purposes.

Derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated at fair value as separate derivatives when their risks and economic characteristics are not closely related to those of the host contract and the host contract is not designated for trading and is not carried at fair value through profit or loss.

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.

Premises and equipment

Premises 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 premises 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.

At the end of the useful life 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

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible asset is recognized if:

- the asset is expected to generate future economic benefits for the Company;
- the cost of the asset can be measured reliably;
- the asset is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract or liability.

Intangible assets include computer software, licenses and other identifiable intangible assets acquired in a business combination.

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.

Intangible assets have finite or indefinite useful lives. Intangible assets with finite useful 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.

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 other 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.

	2011	2010
Placements with financial institutions	309,036	368,831
Cash on hand	9,965	3,954
Total cash and cash equivalents	**319,001**	**372,785**

Placements with financial institutions are represented by the current accounts with banks. As at 31 December 2011 the Company had current accounts opened with 4 banks: HSBC Bank Armenia, ACBA - Credit Agricole Bank, Ardshininvestbank and Armswissbank (2010: 4 banks).

6. Financial Assets at Fair Value through Profit and Loss

Financial assets at fair value through profit or loss recognized in the statement of financial position as at 31 December 2011 are represented by currency swap transactions. The table below represents outstanding transactions at the year end. The amounts of this transactions are shown on a gross basis before the offset of positions for each counterparty.

		2011		**2010**	
Currency contract		**Notional principal amount**	**Fair value of asset**	**Notional principal amount**	**Fair value of asset**
SWAP	Buy USD	1,600,000		-	-
	Sell RUR	1,589,879	10,121	-	-

7. Amounts due from other financial institutions

	2011	2010
Deposits with banks	2,877,313	1,166,226
Other amounts	2,123	504
Total due from other financial institutions	**2,879,436**	**1,166,730**

Amounts due from other financial institutions as at 31 December 2011 were represented by deposits placed with local banks: ACBA-Credit Agricole Bank, ArmSwissBank (2010: deposits placed with ACBA-Credit Agricole Bank).

The credit quality analysis of due from other financial institutions as at 31 December 2011 and 2010 has shown that all the above classes of due from other financial institutions have similar characteristics and low credit risk.

8. Loans to customers

	2011	2010
Individual loans	15,932,081	11,218,752
Agricultural loans	11,830,710	7,994,221
Group loans	7,734,780	6,319,102
Less allowance for loan impairment	(219,242)	(172,456)
Total loans to customers	**35,278,329**	**25,359,619**

As of 31 December 2011 accrued interest income included in loans amounted to USD 335 537 (2010: USD 471 585).

Movements in the provision for impairment of loans to customers for 2011 and 2010 are as follows:

	Individual loans	Agricultural loans	Group loans	Total
Provision for impairment of loans to customers as 1 January 2010	**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**
Provision for impairment during 2011	15,222	16,199	6,480	37,901
Loans written off during 2011 as uncollectible	(92,640)	(21,234)	(25,811)	(139,685)
Recoveries	105,574	29,276	25,734	160,584
Currency translation effect	(5,825)	(3,626)	(2,563)	(12,014)
Provision for impairment of loans to customers as 31 December 2011	**106,084**	**68,810**	**44,348**	**219,242**

Recoveries represent cash collected from borrowers regarding loans written off from the Statement of Financial Position in previous periods.

The Company has changed its internal loan loss provision methodology since 1 January 2010. The recent methodology utilizes migration analysis of loan losses during last three years. The initial statistical analysis of the data for the last three 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 2011

As at 31 December 2011 and 31 December 2010 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 2011:

	Loans before impairment provision	**Impairment provision**	**Loans less impairment provision**	**Ratio of impairment provision to total loans before impairment provision**
Individual loans				
Collectively impaired loans				
Current loans (not past due)	15,834,059	83,353	15,750,706	0.52%
1 to 30 days overdue	47,101	5,524	41,577	11.72%
30 to 60 days overdue	18,511	4,829	13,682	26.08%
60 to 90 days overdue	11,020	3,725	7,295	33.80%
90 to 180 days overdue	21,390	8,653	12,737	40.45%
Total Individual loans	**15,932,081**	**106,084**	**15,825,997**	**0.66%**

	Loans before impairment provision	**Impairment provision**	**Loans less impairment provision**	**Ratio of impairment provision to total loans before impairment provision**
Agricultural loans				
Collectively impaired loans				
Current loans (not past due)	11,806,983	62,421	11,744,562	0.52%
1 to 30 days overdue	8,819	1,008	7,811	11.42%
30 to 60 days overdue	3,730	980	2,750	26.27%
60 to 90 days overdue	1,786	601	1,185	33.65%
90 to 180 days overdue	9,392	3,800	5,592	40.45%
Total Agricultural loans	**11,830,710**	**68,810**	**11,761,900**	**0.58%**

	Loans before impairment provision	Impairment provision	Loans less impairment provision	Ratio of impairment provision to total loans before impairment provision
Group loans				
Collectively impaired loans				
Current loans (not past due)	7,714,700	39,845	7,674,855	0.51%
1 to 30 days overdue	10,965	1,229	9,736	11.20%
30 to 60 days overdue	2,201	560	1,641	25.44%
60 to 90 days overdue	1,221	412	809	33.74%
90 to 180 days overdue	5,693	2,302	3,391	40.43%
over 180 days overdue	-	-	-	
Total group loans	**7,734,780**	**44,348**	**7,690,432**	**0.57%**
Total loans to customers	**35,497,571**	**219,242**	**35,278,329**	**0.61%**

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				
Collectively impaired loans				
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%**

Agricultural loans	Loans before impairment provision	Impairment provision	Loans less impairment provision	Ratio of impairment provision to total loans before impairment provision
Collectively impaired loans				
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 Agricultural loans	**7,994,221**	**48,195**	**7,946,026**	**0.6%**

Group loans

Collectively impaired loans				
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%**

From 2011 all loans over 180 days overdue are written off from the Statement of Financial Position. (2010: over 270 days overdue were written off).

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 carrying value of the collateral is represented below:

	2011	2010
Loans collateralized by group guarantees	22,885,971	17,066,817
Loans collateralized by movable property	12,433,390	8,264,790
Loans collateralized by real estate	178,210	200,468
Not collateralized	-	-
Total loans to customers	**35,497,571**	**25,532,075**

The carrying value of collateral may significantly differ from its fair value.

9. Property and Equipment

	Leasehold improve-ments	Communication devices and computers	Office equipment	Vehicles	Other fixed assets	Total
Net book value as at 31 December 2010	**310,815**	**103,511**	**98,145**	**51,359**	**51,153**	**614,983**
Cost						
Balance as at 1 January 2011	372,071	239,500	162,797	82,671	91,824	948,863
Additions	85,645	84,746	83,527	-	71,956	325,874
Disposals	(7,140)	(1,415)	-	-	-	(8,555)
Currency translation difference	(24,254)	(16,747)	(12,314)	(4,785)	(7,806)	(65,906)
Balance as at 31 December 2011	**426,322**	**306,084**	**234,010**	**77,886**	**155,974**	**1,200,276**
Accumulated depreciation						
Balance as at 1 January 2011	61,256	135,989	64,652	31,312	40,671	333,880
Depreciation charge	38,676	66,495	38,634	16,135	20,638	180,578
Disposals	(2,239)	(303)	-	-	-	(2,542)
Currency translation difference	(4,807)	(10,162)	(5,079)	(2,371)	(3,068)	(25,487)
Balance as at 31 December 2011	**92,886**	**192,019**	**98,207**	**45,076**	**58,241**	**486,429**
Net book value as at 31 December 2011	**333,436**	**114,065**	**135,803**	**32,810**	**97,733**	**713,847**

	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**

10. Intangible Assets

Intangible assets are presented by investments in the software.

	Software	Capital investments in software	Total
Net book value as at 31 December 2010	**28,968**	**135,424**	**164,392**
Balance as at 1 January 2011	39,864	135,424	175,288
Additions	16,081	-	16,081
Disposals	(4,264)	-	(4,264)
Currency translation difference	(2,717)	(7,839)	(10,556)
Balance as at 31 December 2011	**48,965**	**127,585**	**176,550**
Accumulated amortization			
Balance as at 1 January 2010	10,896	-	10,896
Amortization charge	15,123	-	15,123
Currency translation difference	(1,154)	-	(1,154)
Balance as at 31 December 2011	**24,865**	**-**	**24,865**
Net book value as at 31 December 2011	**24,100**	**127,585**	**151,685**

	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**

11. Other Assets

	2011	2010
Advances	87,324	30,750
Inventory	32,403	25,220
Non current assets held for sale	13,455	-
Prepayments and advances to suppliers	4,179	28,029
Settlements with employees	1,268	715
Prepaid taxes (other than income tax)	-	5,448
Total other assets	**138,629**	**90,162**

The credit quality analysis of the financial assets classified as other assets as at 31 December 2011 and 31 December 2010 has shown that they are current and unimpaired.

12. Loans payable

	2011	2010
Loans and borrowings from other organization	24,690,743	14,669,848
Loans from financial institutions	4,406,571	3,494,980
Total loans payable	**29,097,314**	**18,164,828**

As at 31 December 2011 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 25 to these financial statements. As at 31 December 2011 loans and borrowings from other organizations amounted to USD 6 900 293 (2010: USD 1 960 827) have variable interest rates and the rest have fixed interest rates.

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

	2011	2010
Carrying value as at 1 January	**18,164,828**	**15,055,855**
Borrowings	20,923,943	13,133,160
Repayment	(8,856,479)	(10,755,098)
Accrued interest expense	2,944,815	2,463,467
Interest paid	(2,598,751)	(2,308,681)
Translation difference	(1,481,042)	576,125
Carrying value as at 31 December	**29,097,314**	**18,164,828**

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

13. 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 2011 subordinated debt provided by legal entity includes interest in amount of USD 31, 856 (2010: USD 28,285).

14. Other Liabilities

	2011	2010
Due to personnel	350,735	279,347
Tax payable other than income tax	159,388	223,792
Accounts payable	66,656	98,883
Other	1,179	3,398
Total other liabilities	**577,958**	**605,420**

15. Share Capital

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

	2011			2010		
	Number of shares	**Nominal amount per share**	**Total**	**Number of shares**	**Nominal amount per share**	**Total**
Ordinary shares	136,472	25.9221	3,251,918	136,472	27.5149	3,251,918
Total share capital	**136,472**	**25.9221**	**3,251,918**	**136,472**	**27.5149**	**3,251,918**

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

As at 31 December 2011 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 statues the share capital consists of 136 472 ordinary shares.

As at 31 December 2011 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 2011 the Company declared dividends in respect of the year ended 31 December 2010 totaling USD 555,252 (2010: USD 500,000).

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.

16. 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 2011, the Company's retained earnings amounted to USD 3,450,264 (2010: USD 1,978,791).

The retained earnings reflected in the Company's statutory records include a reserve fund in the amount of USD 188 209(2010: 123 009) 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.

17. Interest Income and Expense

	2011	2010
Interest income		
Loans to customers	11,159,712	8,244,445
Amounts due from other financial institutions	142,825	226,992
Total interest income	**11,302,537**	**8,471,437**
Interest expense		
Amounts due to other financial institutions	2,718,329	2,115,924
Subordinated debt	359,430	362,204
Total interest expense	**3,077,759**	**2,478,128**
Net interest income	**8,224,778**	**5,993,309**

18. Staff costs

	2011	2010
Wages and salaries	3,853,410	2,905,565
Social security contribution	379,566	301,849
Total operating expenses	**4,232,976**	**3,207,414**

19. Operating Expenses

	2011	2010
Taxes other than income tax, duties	270,291	66,320
Operating lease	326,438	265,755
Fixed assets maintenance	210,040	138,659
Communications	93,652	97,666
Business trip expenses	89,300	83,102
Office supplies	106,533	76,706
Security	60,416	42,132
Consulting and other services	51,133	38,797
Representative expenses	57,403	24,094
Penalties paid	2,215	5,446
Insurance	3,550	3,490
Advertising	19,537	1,424
Loss on disposal of property and equipment	4,973	827
Other expenses	648,904	99,643
Total operating expenses	**1,944,385**	**944,061**

Starting from January 2011 Finca UCO began to pay an affiliation fee to Finca International, which is included in other expenses in amount of USD 409,104.

20. Income Tax

Income tax expense comprises the following:

	2011	2010
Current income tax expense	457,790	336,589
Deferred taxation movement due to organization and reversal of temporary differences	(33,603)	41,784
Less: currency translation difference	594	(91)
Income tax expense for the year	**424,781**	**378,282**

The current tax rate applicable to the of the Company's profit is 20% (2010: 20%).

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

	2011	2010
IFRS profit before taxation	**2,105,824**	**1,665,548**
Theoretical tax charge at the applicable statutory rate (2011: 20%; 2010: 20%)	421,163	333,109
Non-deductible expenses less non-taxable	3,618	45,173
Income tax expense for the year	**424,781**	**378,282**

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% (2010: 20%).

	2011	Movement	Currency translation difference	2010
Tax effect of deductible temporary differences				
Other liabilities	78,018	16,914	(4,376)	65,480
Gross deferred tax assets	**78,018**	**16,914**	**(4,376)**	**65,480**
Tax effect of taxable temporary differences				
Amounts due from other financial institutions	(1,001)	2,215	116	(3,332)
Loans to customers	(53,845)	14,474	3,666	(71,985)
Gross deferred tax liabilities	**(54,846)**	**16,689**	**3,782**	**(75,317)**
Total net deferred tax assets/(liabilities)	**23,172**	**33,603**	**(594)**	**(9,837)**

	2010	Movement	Currency	2009
Tax effect of deductible temporary differences				
Other liabilities	65,480	24,421	2,230	38,829
Gross deferred tax	**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**

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

21. 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 8.

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.

Geographical risk. The geographical concentration of the Company's assets and liabilities as at 31 December 2011 is set out below:

	Republic of Armenia	OECD	Total
Assets			
Cash and cash equivalents	319,001	-	319,001
Financial assets at fair value through profit and loss	10,121	-	10,121
Amounts due from other financial institutions	2,879,436	-	2,879,436
Loans to customers	35,278,329	-	35,278,329
Property and equipment	713,847	-	713,847
Intangible assets	151,685	-	151,685
Other assets	138,629	-	138,629
Deferred tax Assets	23,172	-	23,172
Total assets	**39,514,220**	**-**	**39,514,220**
Liabilities			
Amounts due to other financial institutions	-	29,097,314	29,097,314
Subordinated debt	-	2,531,856	2,531,856
Other liabilities	577,958		577,958
Current tax liabilities	225,230		225,230
Total liabilities	**803,188**	**31,629,170**	**32,432,358**
Net balance sheet position	**38,711,032**	**(31,629,170)**	**7,081,862**

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**

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.

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 2011. The table below summarises the Company's exposure to foreign currency exchange rate risk as at 31 December 2011.

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	203,795	114,408	798	319,001
Financial assets at fair value through profit and loss	10,121	-	-	10,121
Amounts due from other financial institutions	1,428,673	1,450,763	-	2,879,436
Loans to customers	23,662,955	11,615,374	-	35,278,329
Property and equipment	713,847	-	-	713,847
Intangible assets	151,685	-	-	151,685
Other assets	138,520	-	109	138,629
Deferred tax Asset	23,172	-	-	23,172
Total assets	**26,332,768**	**13,180,545**	**907**	**39,514,220**
Liabilities				
Amounts due to other financial institutions	17,365,435	11,731,879	-	29,097,314
Subordinated debt	-	2,531,856	-	2,531,856
Other liabilities	577,958	-	-	577,958
Current tax liabilities	225,230	-	-	225,230
Total liabilities	**18,168,623**	**14,263,735**		**32,432,358**
Net balance sheet position	**8,164,145**	**(1,083,190)**	**907**	**7,081,862**

In December 2011 Finca UCO entered into currency SWAP transaction with Armswiss Bank in amount of USD 1,600,000. The following amount is not included in the above represented currency risk table.

As at 31 December 2010, the Company had the following positions in currencies:

	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**

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.

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 2011. 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.

	On demand and less than 1 month	**From 1 to 3 months**	**From3 to 12 months**	**From 1 to 5 years**	**Non-interest bearing**	**Total**
Assets						
Cash and cash equivalents	-	-	-	-	319,001	319,001
Financial assets at fair value through profit and loss	-	-	-	-	10,121	10,121
Amounts due from other financial institutions	2,875,719	-	-	-	3,717	2,879,436
Loans to customers	2,225,424	4,875,716	19,907,331	8,269,858	-	35,278,329
Property and equipment	-	-	-	-	713,847	713,847
Intangible assets	-	-	-	-	151,685	151,685
Other assets	-	-	-	-	138,629	138,629
Differed Tax Asset	-	-	-	-	23,172	23,172
Total assets	**5,101,143**	**4,875,716**	**19,907,331**	**8,269,858**	**1,360,172**	**39,514,220**
Liabilities						
Amounts due to other financial institutions	738,754	6,669,702	6,219,799	15,469,059	-	29,097,314
Subordinated debt	-	-	31,856	2,500,000	-	2,531,856
Other liabilities	-	-	-	-	577,958	577,958
Current tax liabilities	-	-	-	-	225,230	225,230
Total liabilities	**738,754**	**6,669,702**	**6,251,655**	**17,969,059**	**803,188**	**32,432,358**
Net interest rate gap as at 31 December 2011	**4,362,389**	**(1,793,986)**	**13,655,676**	**(9,699,201)**	**556,984**	**7,081,862**
Cumulative interest rate gap as at 31 December 2011	**4,362,389**	**2,568,403**	**16,224,079**	**6,524,878**	**7,081,862**	

The table below summarises the Company's exposure to interest rate risks as at 31 December 2010.

	On demand and less than 1 month	From 1 to 3 months	From3 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**	

The following table demonstrates the sensitivity to reasonable possible changes in interest rates, in basis points ("bp") with all other variables held constant, of the Company's profit or loss before taxation and the Company's comprehensive income:

		2011		**2010**
	Effect on profit or loss before taxation	**Effect on comprehensive income**	**Effect on profit or loss before taxation**	**Effect on comprehensive income**
100 bp parallel increase	69,003	55,202	19,608	15,685
100 bp parallel decrease	(69,003)	(55,202)	(19,608)	(15,687)

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 2011 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.

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 2011:

	On demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Liabilities						
Amounts due to other financial institutions	90,650	7,385,269	8,232,509	18,878,643	-	34,587,071
Subordinated debt	-	-	361,771	4,092,194	-	4,453,965
Total potential future payments under financial liabilities	**90,650**	**7,385,269**	**8,594,280**	**22,970,837**	**-**	**39,041,036**

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 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 2011:

	On demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	319,001	-	-	-	-	319,001
Financial assets at fair value through profit and loss	-	-	10,121	-	-	10,121
Amounts due from other financial institutions	2,879,436	-	-	-	-	2,879,436
Loans to customers	2,225,424	4,875,716	19,907,331	8,269,858	-	35,278,329
Property and equipment	-	-	-	-	713,847	713,847
Intangible assets	-	3,881	-	-	147,804	151,685
Other assets	125,174	-	-	-	13,455	138,629
Deferred tax Asset	-	-	23,172	-	-	23,172
Total assets	**5,549,035**	**4,879,597**	**19,940,624**	**8,269,858**	**875,106**	**39,514,220**
Liabilities						
Amounts due to other financial institutions	738,754	6,669,702	6,219,799	15,469,059	-	29,097,314
Subordinated debt	-	-	31,856	2,500,000	-	2,531,856
Other liabilities	571,164	-	6,794	-	-	577,958
Current tax liabilities	-	225,230	-	-	-	225,230
Total liabilities	**1,309,918**	**6,894,932**	**6,258,449**	**17,969,059**	**-**	**32,432,358**
Net liquidity gap as at 31 December 2010	**4,239,117**	**(2,015,335)**	**13,682,175**	**(9,699,201)**	**875,106**	**7,081,862**
Cumulative liquidity gap as at 31 December 2010	**4,239,117**	**2,223,782**	**15,905,957**	**6,206,756**	**7,081,862**	

The table below shows the expected maturity analysis 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**	

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.

22. 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.

23. 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 2011, 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:

	2011	**2010**
Less than 1 year	371,343	268,479
From 1 to 5 years	914,042	508,117
Later than 5 years	2,590,082	37,168
Total operating lease commitments	**3,875,467**	**813,764**

24. 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 2011 and 31 December 2010:

	2011		**2010**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash and cash equivalents	319,001	319,001	372,785	372,785
Amounts due from other financial institutions	2,879,436	2,879,436	1,166,730	1,166,730
Loans to customers	35,278,329	35,278,329	25,359,619	25,359,619
Financial assets at fair value through profit or loss	10,121	10,121	-	-
Financial liabilities				
Amounts due to other financial institutions	29,097,314	29,097,314	18,164,828	18,164,828
Subordinated debt	2,531,856	2,531,856	2,528,285	2,528,285

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 2011 and 31 December 2010 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 2011 and 31 December 2010 do not materially differ from respective carrying amounts. 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 2011 and 31 December 2010 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.

25. 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.

In 2011 there where no asset-related transactions with related parties.

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, liability-related transactions with related parties for 2011 are as follows:

	Other related
Amounts due to other financial institutions	
Amounts due to other financial institutions as at 1 January	400,500
Amounts due to other financial institutions repaid during the year	(199,800)
Amounts due to other financial institutions 31 December	**200,700**

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

	Other related
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**

Below are represented income and expense, related to transactions with related parties for the year 2011:

	Shareholders	Other related parties	Total
Interest income	-	-	-
Interest expense	-	36,397	36,397

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

During 2011 Finca UCO has paid Affiliation/Royalty fee in sum of 409,104 USD and management fee in sum of 119,342 USD to Finca International.

Compensation of key management personnel was comprised of the following:

	2011	**2010**
Salaries and other short-term benefits	449,066	234,367
Social security costs	24,301	12,995
Total key management compensation	**473,367**	**247,362**