Financial Statements and Independent Auditor's Report

“GLOBAL CREDIT” UCO CJSC

31 December 2010

Contents

Statement of comprehensive income

In thousand Armenian drams	Notes	For 2 months ended December 31, 2010
Interest and similar income	6	**56,792**
Interest and similar expense	6	**(27,951)**
Net interest income		**28,841**
Fee and commission income	7	**2,748**
Fee and commission expense	7	**(709)**
Net fee and commission income		**2,039**
Net trading expense	8	**(579)**
Income from revaluation of non-trading assets and liabilities		**5,205**
Other income		**18**
Reversal of impairment	9	**6,696**
Staff costs	10	**(6,546)**
Depreciation of property and equipment	16	**(550)**
Amortization of intangible assets	17	**(58)**
Other expenses	11	**(6,549)**
Profit before income tax		**28,517**
Income tax expense	12	**(4,770)**
Profit for the period		**23,747**
Other comprehensive income		**-**
Total comprehensive income for the year		**23,747**

The accompanying notes on pages 7 to 35 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2010	As of November 1, 2010
ASSETS			
Cash on hand		**199**	1,232
Amounts due from banks	14	**20,310**	323,492
Loans and advances to customers	15	**2,164,038**	2,025,460
Property, plant and equipment	16	**11,392**	7,566
Intangible assets	17	**4,889**	4,947
Deferred income tax asset	12	**746**	-
Other assets	18	**105**	1,717
TOTAL ASSETS		**2,201,679**	2,364,414
LIABILITIES AND EQUITY			
Liabilities			
Loans and borrowings	19	**1,932,697**	1,942,067
Current income tax liability		**7,598**	3,970
Deferred tax liability	12	**-**	677
Other liabilities	20	**6,170**	5,530
Total liabilities		1,946,465	1,952,244
Equity			
Charter capital	21	**450,703**	450,703
Treasury shares		**(180,703)**	-
Accumulated losses		**(14,786)**	(38,533)
Total equity		**255,214**	412,170
TOTAL LIABILITIES AND EQUITY		**2,201,679**	2,364,414

The financial statements from pages 3 to 35 were approved by the Management of the Organization on 16 May, 2011 and signed by the Organization's CEO and Chief Accountant. The accompanying notes on pages 7 to 35 are an integral part of these financial statements.

Luisa Igraryan
Chief Executive Officer

Svetlana Manucharyan
Chief accountant

Statement of changes in equity

In thousand Armenian drams	**Charter capital**	**Treasury shares**	**Accumulated losses**	**Total**
Balance as of November 1, 2010	450,703	-	(38,533)	412,170
Purchase of treasury shares	**-**	**(270,703)**	**-**	**(270,703)**
Sale of treasury shares	**-**	**90,000**	**-**	**90,000**
Transactions with owners	**-**	**(180,703)**	**-**	**(180,703)**
Profit for the period	**-**	**-**	**23,747**	**23,747**
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**23,747**	**23,747**
Balance as of December 31, 2010	**450,703**	**(180,703)**	**(14,786)**	**255,214**

Statement of cash flows

In thousand Armenian drams	For 2 months ended December 31, 2010
Cash flows from operating activities	
Income before tax	**28,517**
Adjustments	
Reversal of impairment	**(6,696)**
Depreciation and amortization allowances	**608**
Interest received	**10,480**
Interest paid	**(1,384)**
Income from foreign currency translation of non-trading assets and liabilities	**(5,205)**
Cash flows from operating activities before changes in operating assets and liabilities	**26,320**
Net (increase)/decrease in operating assets	
Amounts due to financial institutions	**182,061**
Loans and advances to customers	**(122,618)**
Other assets	**1,612**
Net (increase)/decrease in operating liabilities	
Other liabilities	**541**
Net cash flow used in operating activities before income tax	**87,916**
Income tax paid	**(2,565)**
Net cash from operating activities	**85,351**
Cash flows from investing activities	
Purchase of property and equipment	**(4,376)**
Net cash used in investing activities	**(4,376)**
Cash flows from financing activities	
Purchase of treasury shares	**(270,703)**
Sale of treasury shares	**90,000**
Repayment of amounts due from financial institutions	**(16,205)**
Net cash used in financing activities	**(196,908)**
Net increase/(decrease) in cash and cash equivalents	**(115,933)**
Cash and cash equivalents at the beginning of the period	**135,348**
Effect of exchange rate changes on cash and cash equivalents	**1,094**
Cash and cash equivalents at the end of the period (Note 13)	**20,509**
Supplementary information:	
Interest received	**57,359**
Interest paid	**(26,567)**

Accompanying notes to the financial statements

1 Principal activities

“Global Credit” UCO CJSC (the “Organization”) was established in 2010 as a result of merging of “Washington Capital” UCO CJSC and “Credit Union” UCO CJSC and is a closed joint stock company. The Organization is regulated by the legislation of the Republic of Armenia (RA). The Organization was registered on 26 October 2010 under license number 107, granted by the Central Bank of Armenia (the “CBA”). The Organization is supervised by the CBA.

The Organization’s main activity is mortgage, business and consumer loan extension.

The Organization’s office is located in Yerevan. The registered office of the Organization is located at: 16 David Anhaght Str., Yerevan, Republic of Armenia.

2 Armenian business environment

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 RA GDP, as well as the cash flow transfers from abroad upon which the economy of Armenia is significantly dependant. Though the RA 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 Organization 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 Organization. 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 Organization may be affected.

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

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Organization have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as developed and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The Organization as a universal credit organization operates starting from November 1, 2010, therefore the statement of comprehensive income includes the financial results of two months ended 31 December 2010 and the statement of financial position contains the opening balances which are transferred from the merged companies – “Washington Capital” UCO CJSC and “Credit Union” UCO CJSC.

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost.

3.3 Functional and presentation currency

Functional currency of the Organization is the currency of the primary economic environment in which the Organization operates. The Organization’s functional currency and the Organization’s presentation currency is Armenian Drams (“AMD”), since this currency best reflects the economic substance of the underlying events and transactions of the Organization. The Organization prepares statements for regulatory purposes in accordance with legislative requirements and Accounting Standards of the Republic of Armenia. These financial statements are based on the Organization’s books and records as adjusted and reclassified in order to comply with IFRS. The financial statements are presented in thousands of AMD, which is not convertible outside Armenia.

3.4 Changes in accounting policies

In the current period the Organization has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2010. The standards and interpretations did not have effect on the financial statements of the Organization.

3.5 Standards and Interpretations not yet applied by the Organization

At the date of authorization of these financial statements, certain new Standards, amendments and interpretations to the existing Standards have been published but are not yet effective. The Organization has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Organization’s accounting policy for the first period beginning after the effect date of the pronouncement. At the moment in management’s estimation possible effect of most of the amendments on the Organization’s financial statements can not be material.

IAS 32 (Amendment) *Financial instruments: Presentation-Classification of Right Issues*

The Amendment alters IAS 32 *Financial Instruments: Presentation* so that rights, options or warrants to acquire a fixed number of the entity’s own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own (non-derivative) equity instruments. Prior to the Amendment, rights issues denominated in a foreign currency 'failed' equity classification and were required to be accounted for as derivative liabilities. IAS 32 (Amendment) is applied retrospectively for annual periods beginning on or after 1 February 2010.

IFRIC 19 *Extinguishing financial liabilities with equity instruments*

The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. It is not expected to have any impact on the group or the parent entity’s financial statements.

IFRS 1 (Amendment) *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

The amendment to IFRS 1 enables first-time adopters to benefit from the same relief from comparatives available to those already using IFRSs when applying Improving Disclosures about Financial Instruments (Amendments to IFRS 7) for the first time. Effective for annual periods beginning on or after 1 July 2010.

IFRS 7 (Amendment) *Transfer of Financial Assets*

The amendment aims to help users of financial statements evaluate the risk exposure relating to more complex transfers of financial assets and the effect of those risks on an entity’s financial position. The additional disclosures required are designed to provide information that enables users:

- To understand the relationship between transferred financial asset that are not derecognized in their entirely and the associated liabilities

- To evaluate the nature of and risks associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirely.

This amendment is effective for annual periods beginning on or after July 1, 2011.

IAS 24 (revised), ‘Related party disclosures’

It supersedes IAS 24, ‘Related party disclosures’, issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. IAS 24 (revised) is effective for annual periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted.

IFRS 1 (Amendment) *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

The IASB has published two limited amendments to IFRS 1 First-time adoption of International Financial Reporting Standards. The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRSs for the first time to restate some transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should present financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. Effective for annual periods beginning on or after 1 July 2011.

IAS 12 (Amendment) *Recovery of underlying assets*

The IASB has published some limited scope amendments to IAS 12 Income Taxes, which are relevant only when an entity elects to use the fair value model for measurement in IAS 40 Investment Property. The amendments introduce a rebuttable presumption that in such circumstances, an investment property is recovered entirely through sale. Effective for annual periods beginning on or after 1 January 2012.

IFRIC 14 (Amendment) *‘Prepayments of a minimum funding requirement’)* issued in November 2009.

The amendments correct an unintended consequence of IFRIC 14, ‘IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction’. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented.

IFRS 9 *Financial Instruments*

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Annual Improvements 2010 (effective from 1 July 2010 and later)

In May 2010 IASB has issued *Improvements to IFRS 2010* (2010 Improvements). Most of these amendments become effective in annual periods beginning on or after 1 July 2010 or 1 January 2011. The 2010 Improvements amend certain provisions of IFRS 1, IFRS 3R, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13. The Organization’s preliminary assessments indicate that the 2010 Improvements will not have a material impact on the Organization’s financial statements, except for disclosure requirements for financial instruments, which eliminated the requirements to disclose:

- the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated,
- maximum exposure to credit risk for financial instruments whose carrying amount best represents the maximum exposure to credit risk,
- description and estimate of fair value of collateral held for past due or impaired financial assets.

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Organization and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Organization and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income and expense

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Other service fees are recorded based on the applicable service contracts.

4.2 Foreign currency translation

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

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in net trading income.

The exchange rates at year-end used by the Organization in the preparation of the financial statements are as follows:

	December 31, 2010	November 01, 2010
AMD/1 US Dollar	**363.44**	357.98
AMD/1 Euro	**481.16**	499.99

4.3 Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately proceeding the year of a review. In certain circumstances tax review can include even more periods.

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 purposed, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised 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 Organization’s activities. These taxes are included as a component of other expenses in the statement of income.

4.4 Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost.

4.5 Amounts due from banks

In the normal course of business, the Organization maintains advances or deposits for various periods of time with banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management.

4.6 Financial instruments

The Organization recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

When financial assets and liabilities are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

After initial recognition all financial liabilities, other than liabilities at fair value through profit or loss (including held for trading) are measured at amortized cost using effective interest method. After initial recognition financial liabilities at fair value through profit or loss are measured at fair value.

The Organization classified its financial assets into the following categories: loans and receivables, financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Organization determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments, which arise when the Organization provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Organization with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis. Otherwise the investments are stated at cost less any allowance for impairment.

4.7 Impairment of financial assets

The Organization assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (“loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Criteria used to determine that there is objective evidence of an impairment loss may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty (for example, equity ratio, net income percentage of sales), default or delinquency in interest or principal payments, breach of loan covenants or conditions, deterioration in the value of collateral, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Organization first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Organization may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Organization's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Organization to reduce any differences between loss estimates and actual loss experience.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Organization. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If future write-off is later recovered, the recovery is credited to the allowance account.

4.8 Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Organization has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Organization either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Organization has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Organization's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Organization could be required to repay.

Where 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 Organization's continuing involvement is the amount of the transferred asset that the Organization 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, the extent of the Organization's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

4.9 Leases

Operating - Organization as leasee

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

4.10 Property, plant and equipment

Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

	Useful life (years)	Rate (%)
Computers	3	33.33
Vehicles	5	20
Office equipment	5	20
Other fixed assets	5	20

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis.

Repairs and maintenance are charged to the income statement during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

4.11 Intangible assets

Intangible assets include computer software and other intangible assets.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

4.12 Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the liabilities are derecognised as well as through the amortisation process.

4.13 Pensions

The Organization does not have any pension arrangements separate from the State pension system of the Republic of Armenia, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Organization has no post-retirement benefits or significant other compensated benefits requiring accrual.

4.14 Provisions

Provisions are recognised when the Organization has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

4.15 Charter capital

Charter capital

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

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

4.16 Offsetting

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

5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The most significant areas of judgements and estimates with regards to these financial statements are presented below:

Related party transactions

In the normal course of business the Organization enters into transactions with its related parties. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Allowance for impairment of loans and receivables

The Organization reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Organization also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Tax legislation

Armenian tax legislation is subject to varying interpretations. Refer to Note 22.

6 Interest and similar income and expense

In thousand Armenian drams	For two months ended 31 December 2010
Loans and advances to customers	**54,749**
Amounts due from other financial institutions	**2,043**
Total interest and similar income	**56,792**

In thousand Armenian drams	For two months ended 31 December 2010
Borrowings	**10,314**
Amounts due to financial institutions	**17,637**
Total interest and similar expense	**27,951**

7 Fee and commission income and expense

In thousand Armenian drams	For two months ended 31 December 2010
Servicing	**2,748**
Total fee and commission income	**2,748**

In thousand Armenian drams	For two months ended 31 December 2010
Cash collection	**709**
Total fee and commission expense	**709**

8 Net trading expense

In thousand Armenian drams	For two months ended 31 December 2010
Net loss from trading in foreign currency	**(579)**
Total net trading expense	**(579)**

9 Reversal of impairment

In thousand Armenian drams	For two months ended 31 December 2010
Loans and borrowings to customers (Note 15)	**6,696**
Total impairment reversal	**6,696**

10 Staff costs

In thousand Armenian drams	For two months ended 31 December 2010
Wages and salaries	**5,821**
Social security contributions	**725**
Total staff costs	**6,546**

11 Other expenses

In thousand Armenian drams	For two months ended 31 December 2010
Fixed assets maintenance	746
Advertising costs	733
Communications	342
Operating lease	400
Taxes, other than income tax, duties	441
Consulting and other services	835
Security expenses	260
Representative expenses	432
Office supplies	144
Penalties paid	813
Other administrative expenses	1,116
Membership fees	230
Other expenses	57
Total other expense	**6,549**

12 Income tax expense

In thousand Armenian drams	For two months ended 31 December 2010
Current tax expense	6,193
Deferred tax	(1,423)
Total income tax expense	**4,770**

The corporate income tax within the Republic of Armenia is levied at the rate of 20%. Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

Numerical reconciliation between the tax expenses and accounting loss is provided below:

In thousand Armenian drams	For two months ended 31 December 2010	Effective rate (%)
Profit before tax	**28,517**	
Income tax at the rate of 20%	5,704	20
Non-deductible expenses	107	-
Foreign exchange gains	(1,041)	(3)
Income tax expense	**4,770**	**17**

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	01.11.10	Recognized in statement of comprehensive income	31.12.10
Accrued expenses and other liabilities	242	504	746
Total deferred tax assets	242	504	746
Amounts due from banks and other assets	(631)	631	-
Reserves	(288)	288	-
Total deferred tax liability	(919)	(919)	-
Net deferred tax asset/ (liability)	(677)	1,423	746

13 Cash and cash equivalents

In thousand Armenian drams	31.12.10	01.11.10
Cash on hand	199	1,232
Placements with banks (note 14)	20,310	134,116
Total cash and cash equivalents	20,509	135,348

14 Amounts due from banks

In thousand Armenian drams	31.12.10	01.11.10
Bank accounts	20,310	134,116
Included in cash and cash equivalents	20,310	134,116
Deposits in banks	-	189,376
Total amounts due from other financial institutions	20,310	323,492

15 Loans and advances to customers

In thousand Armenian drams	31.12.10	01.11.10
Loans to customers	2,186,019	2,049,427
Less allowance for loan impairment	(21,981)	(23,967)
Total loans and advances to customers	2,164,038	2,025,460

As of 31 December 2010 accrued interest income included in loans and advances to customers amounted to AMD 13,411 thousand (01.11.10: AMD 13,978 thousand).

As of December 31, 2010, the Organization had a concentration of loans represented by AMD 806,023 thousand due from the ten largest third party entities and parties related with them (37% of gross loan portfolio) (01.11.10: AMD 705,405 thousand or 34%). An allowance of AMD 8,060 thousand (01.11.10: AMD 7,054 thousand) was made against these loans.

Loans and advances by classes may be specified as follows:

In thousand Armenian drams	**31.12.10**	01.11.10
Industry	**89,146**	54,453
Construction	**178,551**	176,543
Trade	**552,048**	456,776
Consumer	**85,394**	79,998
Car	**43,636**	39,557
Mortgage	**1,213,401**	1,223,640
Other	**23,843**	18,460
	2,186,019	2,049,427
Less allowance for loan impairment	**(21,981)**	(23,967)
Total loans and advances to customers	**2,164,038**	2,025,460

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

In thousand Armenian drams	**Industry**	**Construction**	**Trade**	**Consumer loans**	**Car loans**	**Mortgage**	**Other**	**For two months ended 31 December 2010 Total**
At 1 November 2010	**538**	**1,752**	**4,535**	**953**	**393**	**15,614**	**182**	**23,967**
Charge / (reversal) for the year	**346**	**21**	**941**	**(62)**	**40**	**(8,036)**	**54**	**(6,696)**
Recoveries	**-**	**-**	**-**	**-**	**-**	**4,710**	**-**	**4,710**
At 31 December 2010	**884**	**1,773**	**5,476**	**891**	**433**	**12,288**	**236**	**21,981**
Individual impairment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Collective impairment	**884**	**1,773**	**5,476**	**891**	**433**	**12,288**	**236**	**21,981**
	884	**1,773**	**5,476**	**891**	**433**	**12,288**	**236**	**21,981**

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

In thousand Armenian drams	**31.12.10**	01.11.10
Privately held companies	**797,829**	670,610
Individuals	**1,342,431**	1,343,195
Sole proprietors	**45,759**	35,622
	2,186,019	2,049,427
Less allowance for loan impairment	**(21,981)**	(23,967)
Total loans and advances to customers	**2,164,038**	2,025,460

Loans to individuals comprise the following products:

In thousand Armenian drams	**31.12.10**	01.11.10
Mortgage loans	**1,213,401**	1,223,640
Consumer loans	**85,394**	79,998
Car loans	**43,636**	39,557
Total loans and advances to individuals	**1,342,431**	1,343,195

At 31 December 2010 and 1 November 2010 the estimated fair value of loans and advances to customers approximates their carrying value. Refer to Note 24.

Maturity analysis of loans and advances to customers is disclosed in Note 25.

Credit, currency, liquidity and interest rate analyses of loans and advances to customers are disclosed in Note 26. The information on related party balances is disclosed in Note 23.

16 Property, plant and equipment

In thousand Armenian drams	Computers	Office equipment	Other fixed assets	Total
COST				
At November 1, 2010	5,932	853	3,970	10,755
Additions	**1,600**	**637**	**2,139**	**4,376**
At December 31, 2010	**7,532**	**1,490**	**6,109**	**15,131**
DEPRECIATION				
At November 1, 2010	1,776	271	1,142	3,189
Depreciation charges	**365**	**62**	**123**	**550**
At December 31, 2010	**2,141**	**333**	**1,265**	**3,739**
CARRYING VALUE				
At December 31, 2010	**5,391**	**1,157**	**4,844**	**11,392**
At November 1, 2010	4,156	582	2,828	7,566

Fully depreciated items

As at 31 December 2010 there are no fully depreciated and amortized assets included in fixed assets.

17 Intangible assets

In thousand Armenian drams	Acquired software	Total
COST		
At November 1, 2010	5,238	5,238
At December 31, 2010	**5,238**	**5,238**
AMORTISATION		
At November 1, 2010	291	291
Amortisation charge	**58**	**58**
At December 31, 2010	**349**	**349**
CARRYING VALUE		
At December 31, 2010	**4,889**	**4,889**
At November 1, 2010	4,947	4,947

18 Other assets

In thousand Armenian drams	31.12.10	01.11.10
Prepayments and other debtors	**105**	38
Settlements with employees	**-**	384
Materials	**-**	1,295
Total other assets	**105**	1,717

19 Amounts due to financial institutions

In thousand Armenian drams	31.12.10	01.11.10
Loans from the CBA	**626,775**	635,952
Loans from financial institutions	**659,203**	827,756
Other borrowings	**646,719**	478,359
Total amounts due to financial institutions	**1,932,697**	1,942,067

Obligations of CBA include loans received within the scope of "Development of a sustainable housing market" project of German-Armenian fund. They have fixed interest rates.

Obligations of financial institutions include loans received from "National Mortgage Company" UCO CJSC and "Home for Youth" UCO CJSC for refinancing of the qualified and mortgage loans.

The amounts due to financial institutions include amounts from "ECTRACK SERVICE" Ltd and "MARTIK" fund.

The Organization has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period.

20 Other liabilities

In thousand Armenian drams	31.12.10	01.11.10
Accounts payables	**3,636**	2,826
Tax payable, other than income tax	**45**	11
Due to personnel	**1,455**	1,357
Other liabilities	**1,034**	1,336
Total other liabilities	**6,170**	5,530

21 Equity

As at 31 December 2010 the Organization's registered charter capital was AMD 450,703 thousand. In accordance with the Organization's statues, the charter capital consists of 450,703 shares, all of which have a par value of AMD 1,000 each.

On November 11, 2010 the Organization has bought out the shares of the former shareholder Serj Gharibyan amounting to 270, 703 AMD. The rest of the shareholders agreed to acquire the treasury shares. In accordance with agreement signed on December 3, 2010 Eduard Marutyan has bought 90,000 shares. The transaction between the other two shareholders was dealt in March 2011 (See Note 28).

The respective participants as at 31 December 2010 and 1 November 2010 may be specified as follows:

In thousand Armenian drams	**31.12.10**		01.11.10	
	Paid-in charter capital	**% of total paid-in capital**	**Paid-in charter capital**	**% of total paid-in capital**
Marutyan Eduard	**149,400**	**33**	59,400	13
Vardanyan Gagik	**61,200**	**14**	61,200	14
Karapetyan Arayik	**59,400**	**13**	59,400	13
Gharibyan Serj	**-**	**-**	270,703	60
Treasury shares	**180,703**	**40**	-	-
	450,703	**100**	450,703	100

The charter capital of the Organization was contributed by the participants in Armenian Drams and they are entitled to dividends and any capital distribution in Armenian Drams.

22 Contingent liabilities and commitments

Tax and legal matters

The taxation system in Armenia is characterized by frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among various taxation authorities and jurisdictions.

Often tax authorities claim additional taxes for transactions and accounting methods, for which they did not claim previously. As a result additional fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include earlier periods.

Management believes that the Organization has complied with all regulations and has completely settled all its tax liabilities.

As of 31 December 2010 there were no legal actions and complaints taken against the Organization. Therefore, the Organization has not made any respective provision related to such tax and legal matters.

Operating lease commitments – Organization as a lessee

In the normal course of business the Organization enters into other lease agreements for its office facilities.

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

In thousand Armenian drams	**31.12.10**	01.11.10
Not later than 1 year	**2,400**	2,400
Later than 1 year and not later than 5 years	**2,153**	2,553
Total operating lease commitments	**4,553**	4,953

Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. Until the Organization obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Organization's operations and financial position.

23 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the purpose of the present financial statements, related parties include shareholders, members of Organization's Management as well as other persons and enterprises related with and controlled by them respectively.

There is no the ultimate controlling party in the Organization.

In the course of business the Organization is engaged in number of transactions with related parties. These transactions include loans, deposits and others.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams

	Participants and related parties	Key management personnel and related parties
Loans and borrowings to customers		
Loans outstanding at November 1, gross	**6,207**	**26,331**
Loan repayments during the year	**(222)**	**(475)**
Loans outstanding at December 31, gross	**5,985**	**25,856**
Less: allowance for loan impairment	**(60)**	**(259)**
Loans outstanding at December 31	**5,925**	**25,597**
Interest income on loans	**151**	**3,068**
Reversal of impairment for credit losses	**(2)**	**(5)**
Loans and borrowings		
Borrowings at November 1	**89,495**	**-**
Revaluation	**1,365**	**-**
Borrowings at December 31	**90,860**	**-**
Interest expense on borrowings	**5,056**	**-**

The loans issued to the related parties of the Organization repayable monthly over 13 years and have average interest rates of 14%. The loans are collateralised by real estate, movable property and guarantees. The fair value of those collaterals amounts to (for real estate) - AMD 67,666 KAMD, (for movable property) – 7,000 KAMD and guarantees – 3,628 KAMD.

Treasury shares

On November 11, 2010 the Organization has bought out the shares of the former shareholder Serj Gharibyan amounting to 270, 703 AMD. The rest of the shareholders agreed to acquire the treasury shares. In accordance with agreement signed on December 3, 2010 Eduard Marutyan has bought 90,000 shares. The transaction between the other two shareholders was dealt in March 2011.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	**For two months ended 31 December 2010**
Salaries and other short-term benefits	**2,700**
Social security costs	**247**
Total key management compensation	**2,947**

24 Fair value of financial instruments

Financial instruments not measured at fair value

In thousand Armenian drams		**31.12.10**		01.11.10
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL ASSETS				
Cash on hand	**199**	**199**	1,232	1,232
Amounts due from banks	**20,310**	**20,310**	323,492	323,492
Loans and advances to customers	**2,164,038**	**2,164,038**	2,025,460	2,025,460
FINANCIAL LIABILITIES				
Loans and borrowings	**1,932,697**	**1,932,697**	1,942,067	1,942,067

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Fair value approximates carrying amounts as current interest rates for new instruments reflect interest rate for instruments originated previously.

Borrowings

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. Fair value approximates carrying amounts as current interest rates for new instruments reflect interest rate for instruments originated previously.

25 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 26.3 for the Organization's contractual undiscounted repayment obligations.

In thousand Armenian drams								31.12.2010
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**Subtotal less than 12 months**	**From 1 to 5 years**	**More than 5 years**	**Subtotal over 12 months**	**Total**
ASSETS								
Cash	**199**	**-**	**-**	***199***	**-**	**-**	**-**	**199**
Amounts due from other financial institutions	**20,310**	**-**	**-**	***20,310***	**-**	**-**	**-**	**20,310**
Loans and advances to customers	**134,791**	**225,449**	**241,519**	***601,759***	**521,647**	**1,040,632**	***1,562,279***	**2,164,038**
	155,300	**225,449**	**241,519**	***622,268***	**521,647**	**1,040,632**	***1,562,279***	**2,184,547**
LIABILITIES								
Loans and borrowings	**7,908**	**245,599**	**24,754**	***278,261***	**337,935**	**1,316,501**	***1,654,436***	**1,932,697**
	7,908	**245,599**	**24,754**	***278,261***	**337,935**	**1,316,501**	***1,654,436***	**1,932,697**
Net position	**147,392**	**(20,150)**	**216,765**	***344,007***	**183,712**	**(275,869)**	***(92,157)***	**251,850**
Accumulated gap	**147,392**	**127,242**	**344,007**		**527,719**	**251,850**		

In thousand Armenian drams								01.11.10
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
ASSETS								
Cash	1,232	-	-	*1,232*	-	-	-	1,232
Amounts due from other financial institutions	134,116	9,787	179,589	*323,492*	-	-	-	323,492
Loans and advances to customers	158,811	167,633	154,238	*480,682*	506,210	1,038,568	*1,544,778*	2,025,460
	294,159	177,420	333,827	*805,406*	506,210	1,038,568	*1,544,778*	2,350,184
LIABILITIES								
Loans and borrowings	8,750	95,124	178,051	*281,925*	330,148	1,329,994	*1,660,142*	1,942,067
	8,750	95,124	178,051	*281,925*	330,148	1,329,994	*1,660,142*	1,942,067
Net position	285,409	82,296	155,776	*523,481*	176,062	(291,426)	*(115,364)*	408,117
Accumulated gap	285,409	367,705	523,481		699,543	408,117		

26 Risk management

The Organization's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Organization's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Organization's financial performance.

The Organization's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Organization regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by Organization's Management under policies approved by the Board of Directors. The Management identifies, evaluates and hedges financial risks. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

26.1 Credit risk

The Organization takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Organization by failing to discharge an obligation. Credit risk is the most important risk for the Organization's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Organization's asset portfolio. The credit risk management and control are centralised in credit risk management team of Organization and reported to the Board of Directors regularly.

26.1.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below represents a worst case scenario of credit risk exposure to the Organization at 31 December 2010 and 1 November 2010, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

In thousand Armenian drams	Notes	**Gross maximum exposure as of December 31, 2010**	Gross maximum exposure as of November 1, 2010
Amounts due from banks	14	**20,310**	323,492
Loans and advances to customers	15	**2,164,038**	2,025,460
Total credit risk exposure		**2,184,348**	2,348,952

26.1.2 Risk concentrations of the maximum exposure to credit risk

Geographical sectors

The following table breaks down the Organization's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December.

In thousand Armenian drams				31.12.10
	Armenia	**Other non-OECD countries**	**OECD countries**	**Total**
ASSETS				
Amounts due from banks	**20,310**	**-**	**-**	**20,310**
Loans and advances to customers	**2,164,038**	**-**	**-**	**2,164,038**
	2,184,348	**-**	**-**	**2,184,348**
LIABILITIES				
Loans and borrowings	**1,932,697**	**-**	**-**	**1,932,697**
	1,932,697	**-**	**-**	**1,932,697**
Net position	**251,651**	**-**	**-**	**251,651**

In thousand Armenian drams				01.11.10
	Armenia	Other non-OECD countries	OECD countries	Total
ASSETS				
Amounts due from banks	323,492	-	-	323,492
Loans and advances to customers	2,025,460	-	-	2,025,460
	2,348,952	-	-	2,348,952
LIABILITIES				
Loans and borrowings	1,942,067	-	-	1,942,067
	1,942,067	-	-	1,942,067
Net position	406,885	-	-	406,885

Assets and liabilities have been classified based on the country in which the counterparty is located.

Spheres of activity

The following table breaks down the Organization's main credit exposure at their carrying amounts, as categorized by the spheres of activity of the counterparties as of 31 December.

In thousand Armenian drams	**Financial institutions**	**Industry**	**Construction**	**Trade**	**Consumer sector**	**Vehicles**	**Mortgage sector**	**Other**	**Total**
Amounts due from banks	**20,310**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**20,310**
Loans and advances to customers	**-**	**88,262**	**176,778**	**546,572**	**84,503**	**43,203**	**1,201,113**	**23,607**	**2,164,038**
As at 31 December 2010	**20,310**	**88,262**	**176,778**	**546,572**	**84,503**	**43,203**	**1,201,113**	**23,607**	**2,184,348**
As at 1 November 2010	323,492	53,915	174,791	452,241	79,045	39,164	1,208,026	18,278	2,348,952

26.1.3 Risk limit control and mitigation policies

The Organization manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups.

The Organization structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower and groups of borrowers. The exposure to any one borrower including Banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

Collateral
The Organization employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Organization implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory;

In addition, in order to minimise the credit loss the Organization will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

The analysis of loan portfolio by collateral is represented as follows:

In thousand Armenian drams	**31.12.10**	01.11.10
Loans collateralized by immovable property	**1,600,114**	1,646,645
Loans collateralized by movable property	**75,155**	74,457
Reserves	**36,792**	234,284
Finished goods	**353,735**	1,659
Gold	**57,193**	49,435
Guarantees	**56,650**	40,172
Other collateral	**6,380**	2,775
Total loans and advances to customers (gross)	**2,186,019**	2,049,427

26.1.4 Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Organization addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Organization determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Past due but not impaired loans

Past due loans and advances include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired.

As at 31 December 2010 the Management of the Organization estimates that there are no past due loans in the loan portfolio. As at 1 November 2010 analysis of past due but not impaired loans by class is provided below.

In thousand Armenian drams					**01.11.10**
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Consumer	-	-	1,446	-	1,446
Mortgage	15,250	-	-	2,890	18,140
Total	15,250	-	1,446	2,890	19,586

The fair value of collateral relating to past due loans held by the Organization at 01 November 2010 amounts to AMD 60,800 thousand. The collateral consists of real estate.

As at 31 December 2010 there are no individually impaired loans and advances in the Organization.

26.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Organization classifies exposures to market risk into either trading or non-trading portfolios. As of 31 December, 2010 the Organization does not hold trading portfolio (01.11.10: nil). Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Organization has no significant concentration of market risk.

26.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. At 31 December 2010 the Organization does not hold floating rate financial assets or liabilities (01.11.10: nil), whereas available-for-sale financial assets consist from equity instruments only.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The tables below indicate the currencies to which the Organization had significant exposure at 31 December 2010 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

In thousand Armenian drams		**31.12.10**		01.11.10
Currency	**Change in currency rate in %**	**Effect on profit before tax**	Change in currency rate in %	Effect on profit before tax
USD	**+10%**	**3,900**	+10%	5,500
USD	**-10%**	**(3,900)**	-10%	(5,500)

The Organization's exposure to foreign currency exchange risk is as follow:

In thousand Armenian drams	**Armenian Dram**	**Freely convertible currencies**	**Non convertible currencies**	**Total**
ASSETS				
Cash	**27**	**137**	**35**	**199**
Amounts due from banks	**7,150**	**13,160**	**-**	**20,310**
Loans and advances to customers	**1,455,988**	**708,050**	**-**	**2,164,038**
	1,463,165	**721,347**	**35**	**2,184,547**
LIABILITIES				
Loans and borrowings	**1,346,362**	**586,335**	**-**	**1,932,697**
	1,346,362	**586,335**	**-**	**1,932,697**
Net position as at 31 December 2010	**116,803**	**135,012**	**35**	**251,850**

In thousand Armenian drams	Armenian Dram	Freely convertible currencies	Non convertible currencies	Total
ASSETS				
Total financial assets	1,454,463	895,594	127	2,350,184
Total financial liabilities	1,368,920	573,147	-	1,942,067
Net position as at 1 November 2010	85,543	322,447	127	408,117

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries.

26.3 Liquidity risk

Liquidity risk is the risk that the Organization will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management 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 Organization maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Organization.

The liquidity management of the Organization requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements.

The table below summarizes the maturity profile of the Organization’s financial liabilities at 31 December based on contractual undiscounted repayment obligations. See note 26 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

In thousand Armenian drams						**31.12.10**
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
FINANCIAL LIABILITIES						
Loans and borrowings	**8,749**	**258,657**	**93,371**	**624,692**	**1,427,484**	**2,412,953**
Total undiscounted financial liabilities based on contract data	**8,749**	**258,657**	**93,371**	**624,692**	**1,427,484**	**2,412,953**

In thousand Armenian drams	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	01.11.10 Total
FINANCIAL LIABILITIES						
Borrowings	10,194	109,004	246,392	600,078	1,479,422	2,445,090
Total undiscounted financial liabilities based on contract basis	10,194	109,004	246,392	600,078	1,479,422	2,445,090

27 Capital adequacy

Effective July 1, 2005 the Central Bank of RA defines the minimum value of the total normative capital amounting to AMD 150,000 thousand.

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

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

28 Off balance sheet events

The shareholders of the Organization, Gagik Vardanyan and Arayik Karapetyan have bought treasury shares of the Organization (See Note 21). In accordance with the contract on purchase of shares signed on March 29 2011, Gagik Vardanyan has bought 90,000 shares. In accordance with the contract on purchase of shares signed on March 18 2011, Arayik Karapetyan has bought 90,000 shares. As a result, the paid-in share capital amounts to 450,000 KAMD.