

SME Invest UCO CJSC
Financial Statements

Year ended 31 December 2012

Together with Independent Auditors' Report

Contents

Independent auditors' report

| | |
|--|---|
| Statement of financial position | 1 |
| Income statement | 2 |
| Statement of comprehensive income..... | 3 |
| Statement of changes in equity | 4 |
| Statement of cash flows | 5 |

Notes to financial statements

| | |
|---|----|
| 1. Principal activities | 5 |
| 2. Basis of preparation..... | 5 |
| 3. Summary of accounting policies | 9 |
| 4. Significant accounting judgments and estimates | 19 |
| 5. Cash and cash equivalents..... | 19 |
| 6. Amounts due from credit institutions | 19 |
| 7. Loans to customers | 20 |
| 8. Property and equipment..... | 21 |
| 9. Intangible assets..... | 22 |
| 10. Loan received from Ministry of Finance..... | 23 |
| 11. Taxation..... | 23 |
| 12. Provision for unused vacation | 24 |
| 13. Equity | 24 |
| 14. Commitments and contingencies | 24 |
| 15. Other income | 25 |
| 16. Personnel expenses | 25 |
| 17. Other operating expenses | 25 |
| 18. Risk management | 25 |
| 19. Fair values of financial instruments..... | 29 |
| 20. Maturity analysis of assets and liabilities | 29 |
| 21. Related party disclosures | 30 |
| 22. Capital adequacy | 30 |

Independent auditors' report

To the shareholders and Board of Directors of SME Invest UCO CJSC

We have audited the accompanying financial statements of SME Invest UCO CJSC (the "Company"), which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year 2012, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the financial statements

Management of the audited entity 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 the fairness of 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 audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on our 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 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 of the audited entity, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of December 31, 2012, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young CJSC

04 April 2013

Partner (Audit department)

On behalf of General Director M. Alexandarian
(by power of authority dated 1 September 2011)



Sergei Taskaev



Eric Hayrapetyan

**Statement of financial position as of
31 December 2012**

(Thousands of Armenian Drams)

| | Notes | 2012 AMD'000 | 2011 (Restated) AMD'000 | 2010 (Restated) AMD'000 |
|--|-------|------------------|-------------------------------|-------------------------------|
| Assets | | | | |
| Cash and cash equivalents | 5 | 542,859 | 740,788 | 665,897 |
| Amounts due from credit institutions | 6 | 940,127 | 595,197 | 688,432 |
| Loans to customers | 7 | 4,716,052 | 2,902,558 | 802,433 |
| Property and equipment | 8 | 20,937 | 22,161 | 15,862 |
| Intangible assets | 9 | 3,943 | 3,862 | 4,402 |
| Other assets | | 1,094 | 333 | 345 |
| Total assets | | 6,225,012 | 4,264,899 | 2,177,371 |
| Liabilities | | | | |
| Loan received from the Ministry of Finance | 10 | 4,611,341 | 2,828,975 | 850,692 |
| Deferred tax liability | 11 | 32,335 | 24,893 | 10,775 |
| Current income tax liabilities | | 21,840 | 9,772 | 20,862 |
| Government grant | | 3,924 | 4,755 | 5,585 |
| Provision for unused vacation | 12 | 8,365 | - | - |
| Other liabilities | | 126 | 494 | 1,599 |
| Total liabilities | | 4,677,931 | 2,868,889 | 889,513 |
| Equity | 13 | | | |
| Share capital | | 1,150,500 | 1,150,500 | 1,150,500 |
| Retained earnings | | 290,638 | 201,245 | 136,657 |
| Other reserves | | 105,943 | 44,265 | 701 |
| Total equity | | 1,547,081 | 1,396,010 | 1,287,858 |
| Total equity and liabilities | | 6,225,012 | 4,264,899 | 2,177,371 |

Executive director



A. Badalyan

Chief accountant

T. Galstyan

4 April 2013

Statement of comprehensive income**For the year ended 31 December 2012***(Thousands of Armenian Drams)*

| | Notes | 2012 AMD'000 | 2011 (Restated) AMD'000 |
|--|-------|------------------|-------------------------------|
| Interest income | | | |
| Interest income / Cash and cash equivalents | | 3,079 | 729 |
| Interest income / Due from banks | | 185,666 | 170,052 |
| Interest income / Loans to customers | | 559,934 | 231,591 |
| | | <u>748,679</u> | <u>402,372</u> |
| Interest expense | | (312,436) | (142,401) |
| Net Interest income | | <u>436,243</u> | <u>259,971</u> |
| Allowance for impairment | 6,7 | (5,700) | (21,516) |
| Net interest income after allowance for loan impairment | | <u>430,543</u> | <u>238,455</u> |
| Net fee and commission income | | 8,234 | 5,201 |
| (Loss)/Gain on initial recognition | 7,10 | (50,756) | 49,740 |
| Other Income | 15 | 2,174 | 889 |
| Non-interest (loss) /income | | <u>(40,348)</u> | <u>55,830</u> |
| Personnel expenses | 16 | (103,729) | (61,147) |
| Depreciation and amortisation | 8,9 | (9,778) | (6,237) |
| Other operating expenses | 17 | (37,260) | (29,199) |
| Non-interest expense | | <u>(150,767)</u> | <u>(96,583)</u> |
| Profit before income tax expense | | <u>239,428</u> | <u>197,702</u> |
| Income tax expense | 11 | (48,357) | (39,550) |
| Profit for the year | | <u>191,071</u> | <u>158,152</u> |
| Other comprehensive income | | - | - |
| Total comprehensive income | | <u>191,071</u> | <u>158,152</u> |

Statement of changes in equity**For the year ended 31 December 2012***(Thousands of Armenian Drams)*

| | <i>Share capital</i> | <i>Retained earnings</i> | <i>Other reserves</i> | <i>Total</i> |
|---|----------------------|--------------------------|-----------------------|------------------|
| | <i>AMD'000</i> | <i>AMD'000</i> | <i>AMD'000</i> | <i>AMD'000</i> |
| 31 December 2010 as previously reported | 1,150,500 | 93,563 | 701 | 1,244,764 |
| Restatement | | 43,094 | | 43,094 |
| 31 December 2010 as restated | 1,150,500 | 136,657 | 701 | 1,287,858 |
| Total comprehensive income for the year (Restated, Note 2.1) | - | 158,152 | - | 158,152 |
| Profit transfer to other reserve | - | (43,564) | 43,564 | - |
| Dividends to shareholders of the Company | | (50,000) | | (50,000) |
| 31 December 2011(restated) | 1,150,500 | 201,245 | 44,265 | 1,396,010 |
| Total comprehensive income for the year | - | 191,071 | - | 191,071 |
| Profit transfer to other reserve | - | (61,678) | 61,678 | - |
| Dividends to shareholders of the Company | - | (40,000) | - | (40,000) |
| 31 December 2012 | 1,150,500 | 290,638 | 105,943 | 1,547,081 |

Statement of cash flows**For the year ended 31 December 2012***(Thousands of Armenian Drams)*

| | <i>Notes</i> | 2012 | 2011 |
|--|--------------|--------------------|--------------------|
| | | AMD'000 | AMD'000 |
| Cash flows from operating activities | | | |
| Interest received | | 620,259 | 340,666 |
| Interest paid | | (263,661) | (106,231) |
| Fees and commissions received | | 8,542 | 5,356 |
| Fees and commissions paid | | (307) | (155) |
| Payroll and other equivalent payments | | (93,312) | (64,700) |
| Other operating expenses paid | | (39,033) | (26,679) |
| Net cash flows from operating activities before changes in operating assets and liabilities | | 232,488 | 148,257 |
| <i>Amounts due to credit organisations</i> | | (334,267) | 95,917 |
| <i>Loans to customers</i> | | (1,868,468) | (2,173,365) |
| <i>Net increase in operating assets</i> | | (2,202,735) | (2,077,448) |
| Net cash flows (used)/from operating activities after changes in operating assets and liabilities | | (1,970,247) | (1,929,191) |
| Income tax paid | | (28,847) | (36,522) |
| Net cash (used)/ from in operating activities | | (1,999,094) | 1,965,713 |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | | (8,635) | (11,996) |
| Net cash used in investing activities | | (8,635) | (11,996) |
| Cash flows from financing activities | | | |
| Loan received from Ministry of Finance | | 1,849,800 | 2,102,600 |
| Dividends paid to shareholders of the Company | | (40,000) | (50,000) |
| Net cash used in financing activities | | 1,809,800 | 2,052,600 |
| Net (decrease)/increase in cash and cash equivalents | | (197,929) | 74,891 |
| Cash and cash equivalents, beginning | | 740,788 | 665,897 |
| Cash and cash equivalents, ending | 5 | 542,859 | 740,788 |

1. Principal activities

"SME Investments" Universal Credit Organization (UCO) CJSC was established by the decision N717-A of 26 June 2009 of the Government of the Republic of Armenia within the framework of an economy stabilization lending program. License N 28 of the Central Bank of the Republic of Armenia issued on 7 August 2009.

The mission of the Company is to promote the development of small and medium entrepreneurship which have a strategic importance for the Armenian economy with the focus on the proportional development of country's regions. Carrying out credit policy, the organization pays attention especially to programs which implementation has a strategic importance for the economy of the Republic of Armenia and promotes the development of Armenian regions

Small and Medium Entrepreneurship Development National Center of Armenia is the ultimate parent of the Company

2. Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on a historical cost basis.

The financial statements are presented in Armenian Dram ('AMD') and all values are rounded off to the nearest thousand except when otherwise indicated.

Correction of errors and adjustments of comparative information

In the course of preparation of 2012 financial statements the Company identified the following errors in its previously issued financial statements for 2011 and 2010.

- ▶ Market rates for the purpose of assessing fair value on initial recognition of loans to customers and loan from Ministry of Finance issued/ received in 2011 and 2010 were determined incorrectly;
- ▶ Certain cash and cash equivalents were incorrectly presented as amounts due from banks as at 31 December 2011 and 2010;
- ▶ Income tax prepayment and income tax payable were not netted off as at 31 December 2011 and 2010 while there was a right to set off these balances and intention to settle them on a net basis.

The above errors were corrected retrospectively in these financial statements. The effect of correction of these errors on comparative information is presented below.

Statement of financial position as at 31 December 2011

| Item | As previously reported AMD'000 | Effect of adjustment AMD'000 | Effect of Reclassification | As adjusted AMD'000 |
|---|--------------------------------------|------------------------------------|-------------------------------|------------------------|
| Assets | | | | |
| Cash and cash equivalents | 16,375 | - | 724,413 | 740,788 |
| Due from banks | 1,319,610 | - | (724,413) | 595,197 |
| Loans to customers | 2,985,916 | (83,358) | - | 2,902,558 |
| Property and equipment | 22,161 | - | - | 22,161 |
| Intangible assets | 3,862 | - | - | 3,862 |
| Other assets | 15,993 | - | (15,660) | 333 |
| Total assets | 4,363,917 | (83,358) | (15,660) | 4,264,899 |
| Liabilities | | | | |
| Loan received from the Ministry of Finance | 3,036,791 | (207,816) | - | 2,828,975 |
| Deferred tax liability | 1 | 24,892 | - | 24,893 |
| Current income tax liabilities | 25,432 | - | (15,660) | 9,772 |
| Government grant | 4,755 | - | - | 4,755 |
| Other liabilities | 494 | - | - | 494 |
| Total liabilities | 3,067,473 | (182,924) | (15,660) | 2,868,889 |
| Equity | | | | |
| Share capital | 1,150,500 | - | - | 1,150,500 |
| Retained earnings | 101,679 | 99,566 | - | 201,245 |
| Other reserves | 44,265 | - | - | 44,265 |
| Total equity | 1,296,444 | 99,566 | - | 1,396,010 |
| Total equity and liabilities | 4,363,917 | (83,358) | (15,660) | 4,264,899 |

2.1 Basis of preparation (continued)

Statement of financial position as at 1 January 2011

| Item | As previously reported | Effect of adjustment | Effect of reclassification | As adjusted |
|--|------------------------|----------------------|----------------------------|------------------|
| Assets | | | | |
| Cash and cash equivalents | 33,800 | - | 632,097 | 665,897 |
| Due from banks | 1,320,529 | - | (632,097) | 688,432 |
| Loans to customers | 823,690 | (21,257) | - | 802,433 |
| Property and equipment | 15,862 | - | - | 15,862 |
| Intangible assets | 4,402 | - | - | 4,402 |
| Other assets | 2,974 | - | (2,629) | 345 |
| Total assets | 2,201,257 | (21,257) | (2,629) | 2,177,371 |
| Liabilities | | | | |
| Loan received from the Ministry of Finance | 925,816 | (75,124) | - | 850,692 |
| Deferred tax liability | 2 | 10,773 | - | 10,775 |
| Current income tax liabilities | 23,491 | - | (2,629) | 20,862 |
| Government grant | 5,585 | - | - | 5,585 |
| Other liabilities | 1,599 | - | - | 1,599 |
| Total liabilities | 956,493 | (64,351) | (2,629) | 889,513 |
| Equity | | | | |
| Share capital | 1,150,500 | - | - | 1,150,500 |
| Retained earnings | 93,563 | 43,094 | - | 136,657 |
| Other reserves | 701 | - | - | 701 |
| Total equity | 1,244,764 | 43,094 | - | 1,287,858 |
| Total equity and liabilities | 2,201,257 | (21,257) | (2,629) | 2,177,371 |

2.1 Basis of preparation (continued)

Statement of comprehensive income for the year ended 31 December 2011

| | As previously reported | Effect of adjustment | As adjusted |
|--|---------------------------|-------------------------|-----------------|
| Interest income | | | |
| Interest income / Cash and cash equivalents | 729 | - | 729 |
| Interest income / Due from banks | 170,052 | - | 170,052 |
| Interest income / Loans to customers | 182,948 | 48,643 | 231,591 |
| | <u>353,729</u> | <u>48,643</u> | <u>402,372</u> |
| Interest expense | | | |
| Interest expense / due to the Ministry of Finance | (114,609) | (27,792) | (142,401) |
| Net Interest income | <u>239,120</u> | <u>20,851</u> | <u>259,971</u> |
| Allowance for loan impairment | (21,516) | - | (21,516) |
| Net interest income after allowance for loan impairment | <u>217,604</u> | <u>20,851</u> | <u>238,455</u> |
| Net fee and commission income | 5,201 | - | 5,201 |
| Gain on initial recognition | - | 49,740 | 49,740 |
| Other Income | 889 | - | 889 |
| Non-interest income | <u>6,090</u> | <u>49,740</u> | <u>55,830</u> |
| Personnel expenses | (61,147) | - | (61,147) |
| Depreciation and amortisation | (6,237) | - | (6,237) |
| Other operating expenses | (29,199) | - | (29,199) |
| Non-interest expense | <u>(96,583)</u> | <u>-</u> | <u>(96,583)</u> |
| Profit before income tax expense | <u>127,111</u> | <u>70,591</u> | <u>197,702</u> |
| Income tax expense | (25,432) | (14,118) | (39,550) |
| Profit for the year | <u>101,679</u> | <u>56,473</u> | <u>158,152</u> |
| Other comprehensive income | - | - | - |
| Total comprehensive income | <u>101,679</u> | <u>56,473</u> | <u>158,152</u> |

3. Summary of accounting policies

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets 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. The Company determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Company immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the income statement. However, interest calculated using the effective interest method is recognised in the income statement.

3. Summary of accounting policies (continued)

Financial assets (continued)

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- ▶ a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Company has the intention and ability to hold it for the foreseeable future or until maturity;
- ▶ other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Company has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBA, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the income statement. The obligation to return them is recorded at fair value as a trading liability.

3. Summary of accounting policies (continued)

Derivative financial instruments

In the normal course of business, the Company enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded 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 resulting from these instruments are included in the income statement as net gains / (losses) from trading securities or net gains / (losses) from foreign currencies dealing, depending on the nature of the instrument. Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognised in the income statement.

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Central Company and Government, amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the borrowings are derecognised as well as through the amortisation process.

Leases

i. Finance - Company as lessee

The Company recognises finance leases as assets and liabilities in the statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

ii. Finance - Company as lessor

The Company recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

iii. Operating - Company as lessee

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

iv. Operating - Company as lessor

The Company presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

3. Summary of accounting policies (continued)

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter Companyruptcy or other financial reorganisation 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.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. 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 risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company'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 on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of 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 years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Company assesses individually whether there is objective evidence of impairment. 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 and the amount of the loss is recognised in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the income statement.

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is reclassified from other comprehensive income to the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Renegotiated loans

Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- ▶ If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- ▶ If the loan restructuring is not caused by the financial difficulties of the borrower the Company uses the same approach as for financial liabilities described below.
- ▶ If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Company recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Company recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

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 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 under a 'pass-through' arrangement; and
- ▶ the Company 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 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.

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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 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, 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.

Securitisation

As part of its operational activities, the Company securitises financial assets, generally through the sale of these assets to special purposes entities which issue securities to investors. The transferred assets may qualify for derecognition in full or in part. Interests in the securitised financial assets may be retained by the Company and are primary classified as loans and receivables. Gains or losses on securitisations are based on the carrying amount of the financial assets derecognised and the retained interest, based on their relative fair values at the date of transfer.

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 income statement.

Financial guarantees

In the ordinary course of business, the Company gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement. The premium received is recognised in the income statement on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Armenia.

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.

Deferred tax assets are 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 reporting 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 that are assessed on the Company's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment is carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

3. Summary of accounting policies (continued)

Property and equipment (continued)

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

| | <u>Years</u> |
|--------------------------------|--------------|
| Buildings | 25-30 |
| Furniture and fixtures | 5 |
| Computers and office equipment | 1 |
| Motor vehicles | 5 |

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized 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 definite useful lives are reviewed at least at each financial year-end.

Assets classified as held for sale

The Company classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Company's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Company measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Company recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

Provisions are recognised when the Company 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.

Retirement and other employee benefit obligations

The Company 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 Company has no significant post-retirement benefits.

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. 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.

3. Summary of accounting policies (continued)

Share capital (continued)

Treasury shares

Where the Company or its subsidiaries purchases the Company's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

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

Fiduciary assets

Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Company.

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. 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 recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- ▶ *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

- ▶ *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Dividend income

Revenue is recognised when the Company's right to receive the payment is established.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Company will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – *Special Purpose Entities*. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IFRS 11 Joint Arrangements

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities–Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. In particular, the Company will need to disclose more information about the consolidated and unconsolidated structured entities with which it is involved or which it has sponsored.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Company's assets and liabilities accounted for at fair value. Currently the Company evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Amendments to IAS 19 Employee Benefits

The IASB has published amendments to IAS 19 *Employee Benefits*, effective for annual periods beginning on or after 1 January 2013, which involve major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. The Company expects that these amendments will have no impact on the Company's financial position.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

Amendments to IFRS 7 Disclosures - Offsetting Financial assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Company's financial position or performance and will become effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the Company by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right of offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While many settlement systems are expected to meet the new criteria, some may not. As the impact of the adoption depends on the Company's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

These amendments become effective for annual periods beginning on or after 1 January 2014.

Amendment to IFRS 1 - Government loans

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. The amendment will have no impact on the Company.

Improvements to IFRS

The amendments are effective for annual periods beginning on or after 1 January 2013. They will not have an impact on the Company.

- ▶ *IFRS 1 First-time Adoption of International Financial Reporting Standards:* This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.
- ▶ *IAS 1 Presentation of Financial Statements:* This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

- ▶ *IAS 16 Property Plant and Equipment:* This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- ▶ *IAS 32 Financial Instruments, Presentation:* This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.
- ▶ *IAS 34 Interim Financial Reporting:* The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

4. Significant accounting judgments and estimates

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the financial statements:

Estimation uncertainty

In the process of applying the Company's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant uses of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Allowance for loan impairment

The Company regularly reviews its loans and receivables to assess impairment. The Company uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Company estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Company uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

| | 2012 | 2011 | 2010 |
|--|----------------|-----------------------|-----------------------|
| | AMD'000 | (Restated) AMD'000 | (Restated) AMD'000 |
| Current accounts with credit institutions | 9,711 | 16,376 | 33,800 |
| Time deposits with credit institutions up to 90 days | 533,148 | 724,412 | 632,097 |
| Cash and cash equivalents | 542,859 | 740,788 | 665,897 |

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

| | 2012 | 2011 | 2010 |
|--|----------------|-----------------------|-----------------------|
| | AMD'000 | (Restated) AMD'000 | (Restated) AMD'000 |
| Time deposits for more than 90 days or overdue | 940,127 | 608,523 | 701,976 |
| Less - Allowance for impairment | - | (13,326) | (13,544) |
| Amounts due from credit institutions | 940,127 | 595,197 | 688,432 |

6. Amounts due from credit institutions (continued)

A reconciliation of the allowance for impairment of amounts due to credit institutions is as follows:

| | <i>AMD'000</i> |
|----------------------------|----------------------|
| As At 1 January 2012 | 13,326 |
| Recoveries | <u>(13,326)</u> |
| At 31 December 2012 | <u>-</u> |
| | <i>AMD'000</i> |
| At 1 January 2011 | 13,544 |
| Recoveries | <u>(218)</u> |
| At 31 December 2011 | <u>13,326</u> |

7. Loans to customers

| | <i>2012</i> | <i>2011</i> | <i>2010</i> |
|---------------------------------|-------------------------|-------------------------|-----------------------|
| | <i>AMD'000</i> | <i>(Restated)</i> | <i>(Restated)</i> |
| | <i>AMD'000</i> | <i>AMD'000</i> | <i>AMD'000</i> |
| Small business lending | 4,765,090 | 2,932,570 | 810,711 |
| Less - Allowance for impairment | <u>(49,038)</u> | <u>(30,012)</u> | <u>(8,278)</u> |
| Loans to customers | <u>4,716,052</u> | <u>2,902,558</u> | <u>802,433</u> |

Average contractual rates for loans given in 2012 is 12,3% in 2011 is 11,5% As loans are recognized at fair value at initial recognition, market rates 14,8% for 2012, 14,24% for 2011 were used. The difference between the fair value and contract value is recognized as loss on initial recognition.

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers is as follows:

| | <i>AMD'000</i> |
|----------------------------|----------------------|
| At 1 January 2012 | 30,012 |
| Charge for the year | <u>19,026</u> |
| At 31 December 2012 | <u>49,038</u> |
| | <i>AMD'000</i> |
| At 1 January 2011 | 8,278 |
| Charge for the year | <u>21,734</u> |
| At 31 December 2011 | <u>30,012</u> |

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

The collaterals mainly represent property, real estate and inventory.

7. Loans to customers (continued)

Concentration of loans to customers

As of 31 December 2012, the Company had a concentration of loans represented by AMD 2,985,978 thousand due from the ten largest third party entities (57% of gross loan portfolio) (2011: AMD1,694,888 or 58%).

Loans have been extended to private companies.

Loans are made principally within Armenia in the following industry sectors:

| | 2012 | 2011 (Restated) | 2010 (Restated) |
|--------------------------------------|------------------|--------------------|--------------------|
| | AMD'000 | AMD'000 | AMD'000 |
| Manufacturing | 2,436,790 | 1,669,960 | 560,361 |
| Agriculture and food processing | 1,961,748 | 768,955 | 199,476 |
| Services | 222,860 | 104,874 | 3,371 |
| Construction materials, metal mining | 48,494 | 354,322 | 39,225 |
| Trading enterprises | 22,982 | 4,447 | - |
| Other | 23,178 | - | - |
| | <u>4,716,052</u> | <u>2,902,558</u> | <u>802,433</u> |

8. Property and equipment

The movements in property and equipment were as follows:

| | Furniture and fixtures | Computers and office equipment | Motor vehicles | Other | Total |
|--------------------------|---------------------------|--------------------------------------|-------------------|------------|---------------|
| | AMD'000 | AMD'000 | AMD'000 | AMD'000 | AMD'000 |
| Cost | | | | | |
| 31 December 2011 | 4,877 | 7,787 | 21,270 | 84 | 34,018 |
| Additions | 1,646 | 6,198 | - | 168 | 8,012 |
| Disposals | - | (1,830) | - | - | (1,830) |
| 31 December 2012 | <u>6,523</u> | <u>12,155</u> | <u>21,270</u> | <u>252</u> | <u>40,200</u> |
| Accumulated depreciation | | | | | |
| 31 December 2011 | 1,114 | 7,144 | 3,576 | 23 | 11,857 |
| Depreciation charge | 1,384 | 3,580 | 4,254 | 18 | 9,236 |
| Disposals | - | (1,830) | - | - | (1,830) |
| 31 December 2012 | <u>2,498</u> | <u>8,894</u> | <u>7,830</u> | <u>41</u> | <u>19,263</u> |
| Net book value: | | | | | |
| 31 December 2011 | <u>3,763</u> | <u>643</u> | <u>17,694</u> | <u>61</u> | <u>22,161</u> |
| 31 December 2012 | <u>4,025</u> | <u>3,261</u> | <u>13,440</u> | <u>211</u> | <u>20,937</u> |

8. Property and equipment (continued)

| | <i>Furniture and fixtures</i> | <i>Computers and office equipment</i> | <i>Motor vehicles</i> | <i>Other</i> | <i>Total</i> |
|--------------------------|-----------------------------------|---|---------------------------|--------------|--------------|
| | AMD'000 | AMD'000 | AMD'000 | AMD'000 | AMD'000 |
| Cost | | | | | 22,022 |
| 31 December 2010 | 2,555 | 6,517 | 12,950 | - | 11,996 |
| Additions | 2,322 | 1,270 | 8,320 | 84 | 34,018 |
| 31 December 2011 | 4,877 | 7,787 | 21,270 | 84 | |
| Accumulated depreciation | | | | | 6,160 |
| 31 December 2010 | 516 | 5,212 | 432 | - | 5,697 |
| Depreciation charge | 598 | 1,932 | 3,144 | 23 | 11,857 |
| 31 December 2011 | 1,114 | 7,144 | 3,576 | 23 | |
| Net book value: | | | | | 15,862 |
| 31 December 2010 | 2,039 | 1,305 | 12,518 | - | 22,161 |
| 31 December 2011 | 3,763 | 643 | 17,694 | 61 | |

9. Intangible assets

| | <i>Licenses</i> | <i>Computer software</i> | <i>Other</i> | <i>Total</i> |
|--|-----------------|------------------------------|--------------|--------------|
| | AMD'000 | AMD'000 | AMD'000 | AMD'000 |
| Cost | | | | 5,048 |
| 31 December 2011 | - | 4,698 | 350 | 623 |
| Additions | 83 | 540 | - | (73) |
| Disposals | - | - | (73) | 5,598 |
| 31 December 2012 | 83 | 5,238 | 277 | |
| Accumulated amortization and impairment | | | | 1,186 |
| 31 December 2011 | - | 1,113 | 73 | 542 |
| Amortisation charge | 14 | 528 | - | (73) |
| Disposals | - | - | (73) | 1,655 |
| 31 December 2012 | 14 | 1,641 | - | |
| Net book value: | | | | 3,862 |
| 31 December 2011 | - | 3,585 | 277 | 3,943 |
| 31 December 2012 | 69 | 3,597 | 277 | |
| | <i>Licenses</i> | <i>Computer software</i> | <i>Other</i> | <i>Total</i> |
| | AMD'000 | AMD'000 | AMD'000 | AMD'000 |
| Cost | | | | 5,048 |
| 31 December 2010 | - | 4,698 | 350 | 5,048 |
| 31 December 2011 | - | 4,698 | 350 | |
| Accumulated amortization and impairment | | | | 646 |
| 31 December 2010 | - | 643 | 3 | 540 |
| Amortisation charge | - | 470 | 70 | 1,186 |
| 31 December 2011 | - | 1,113 | 73 | |
| Net book value: | | | | 4,402 |
| 31 December 2010 | - | 4,055 | 347 | 3,862 |
| 31 December 2011 | - | 3,585 | 277 | |

10. Loan received from Ministry of Finance

The Company signed the contract with Ministry of Finance for the loan with contractual interest rate 7% and effective interest rate 9%. The loan is received in tranches. The loan matures in 2019, the interest is to be repaid semi-annually, the principal is to be paid semi-annually starting from 2014.

As loans are recognized at fair value at initial recognition, market rate 9% is used. The difference between the fair value and contract value is recognized as gain on initial recognition.

11. Taxation

The corporate income tax expense comprises:

| | 2012 | 2011 (Restated) |
|--|---------------|--------------------|
| | AMD'000 | AMD'000 |
| Current tax charge | 40,915 | 25,432 |
| Deferred tax charge- origination and reversal of temporary differences | 7,442 | 14,118 |
| Income tax expense | 48,357 | 39,550 |

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

| | 2012 | 2011 (Restated) |
|---|---------------|--------------------|
| | AMD'000 | AMD'000 |
| Profit before tax | 239,429 | 197,702 |
| Statutory tax rate | 20% | 20% |
| Theoretical income tax expense at the statutory rate | 47,886 | 39,540 |
| Non-deductible expenditures: | 471 | 10 |
| Income tax expense | 48,357 | 39,550 |

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

| | 2010 (Restated) | Origination and reversal of temporary differences In the income statement | 2011 (Restated) | Origination and reversal of temporary differences | 2012 |
|--|--------------------|--|--------------------|--|-----------------|
| | AMD'000 | AMD'000 | AMD'000 | AMD'000 | AMD'000 |
| Tax effect of deductible temporary differences: | | | | | |
| Provision | - | - | - | 1,551 | 1,551 |
| Loans to customers | 4,250 | 12,420 | 16,670 | 8,859 | 25,529 |
| Deferred tax asset | 4,250 | 12,420 | 16,670 | 10,410 | 27,080 |
| Tax effect of taxable temporary differences: | | | | | |
| Due from banks | - | - | - | (2,965) | (2,965) |
| Loan from Ministry of Finance | (15,025) | (26,538) | (41,563) | (14,887) | (56,450) |
| Deferred tax liability | (15,025) | (26,538) | (41,563) | (17,852) | (59,415) |
| Deferred tax liability, net | (10,775) | (14,118) | (24,893) | (7,442) | (32,335) |

12. Provision for unused vacation

Provision for unused vacation calculates based on unused vacation days at the year end and average salary.

| | <i>Provision AMD'000</i> |
|---------------------|------------------------------|
| | - |
| 31 December 2011 | 8,365 |
| Charge for the year | 8,365 |
| 31 December 2012 | |

13. Equity*Authorised shares*

| | <i>Number of ordinary shares</i> | <i>Nominal value AMD'000</i> |
|------------------|--------------------------------------|--------------------------------------|
| 1 January 2011 | 767 | 1,500 |
| 31 December 2011 | 767 | 1,500 |
| 31 December 2012 | 767 | 1,500 |

As at 31 December 2012 the number of authorized ordinary shares is 767 with a nominal value per share of AMD 1,500 thousand (2011: 1,500)

Other reserve

The reserve has been created in accordance with the Company's charter, which provides for the creation of a reserve for these purposes of not less than 5%.

Dividends paid and proposed

In 2012 the Company proposed and paid dividends in amount of AMD 40,000 thousand (2011: AMD 50,000).

14. Commitments and contingencies**(i). Operating environment, risks and economic conditions in Armenia**

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. The global financial crisis had an impact on the Armenian economy. Despite some indications of recovery, there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Company's financial position, results of operations and business prospects. The Company management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

(ii). Tax risks

Armenian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Often, differing interpretations exist among numerous taxation authorities. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. These facts may create tax risks in the Republic of Armenia substantially more significant than in other countries.

As at 31 December 2012 management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax, currency and customs positions will be sustained.

(iii). Legal matters

In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from claims and complaints, both presented and potential, will not have a material adverse effect on the Company's financial position or the results of its future operations and is less than probable, accordingly no corresponding accrual was provided in these financial statements.

15. Other income

| | 2012 AMD'000 | 2011 AMD'000 |
|----------------------------------|-----------------|-----------------|
| Amortisation of government grant | 830 | 830 |
| Penalty income | 505 | 28 |
| Insurance reimbursement | 500 | - |
| Other | 339 | 31 |
| Total other income | 2,174 | 889 |

16. Personnel expenses

| | 2012 AMD'000 | 2011 AMD'000 |
|---------------------------|-----------------|-----------------|
| Salaries and bonuses | 96,121 | 56,727 |
| Social security costs | 7,608 | 4,420 |
| Personnel expenses | 103,729 | 61,147 |

17. Other operating expenses

| | 2012 AMD'000 | 2011 AMD'000 |
|------------------------------------|-----------------|-----------------|
| Rent expenses | 13,513 | 10,800 |
| Maintaince expenses | 8,484 | 7,445 |
| Professional services | 3,500 | 2,400 |
| Financial system meditary expenses | 3,055 | 2,326 |
| Communication expenses | 2,236 | 2,027 |
| Office expenses | 1,681 | 1,152 |
| Representation expenses | 978 | 581 |
| Other expenses | 3,813 | 2,468 |
| Other expenses | 37,260 | 29,199 |

18. Risk management**Introduction**

Risk is inherent in the Company 's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company 's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Company. The Management has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

18. Risk management (continued)

Introduction (continued)

Risk Management

The Management Board is also responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Company Treasury

Company Treasury is responsible for managing the Company's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Company.

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Company has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Company to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 7.

The credit quality of financial assets is managed by the Company internal credit ratings.

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

The Company has only 30 days overdue AMD 700 thousand as at 31 December 2012 (2011: Nil)

It is the Company's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Company's rating policy. The attributable risk ratings are assessed and updated regularly.

See Note 7 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

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 Company addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

No individual impairment is created as at 31 December 2012 and as at 31 December 2011.

18. Risk management (continued)

Introduction (continued)

| | Notes | Neither past due nor impaired | | | Total 2012 |
|--------------------------------------|-------|-------------------------------|---------------------------|--------------------------------------|------------------|
| | | High grade 2012 | Standard grade 2012 | Past due but not impaired 2012 | |
| Amounts due from credit institutions | 6 | 940,127 | - | - | 940,127 |
| Loans to customers | 7 | 4,714,681 | 671 | 700 | 4,716,052 |
| Total | | 5,654,808 | 671 | 700 | 5,656,179 |

| | Notes | Neither past due nor impaired | | | Total 2011 |
|--------------------------------------|-------|-------------------------------|---------------------------|--------------------------------------|------------------|
| | | High grade 2011 | Standard grade 2011 | Past due but not impaired 2011 | |
| Amounts due from credit institutions | 6 | 595,197 | - | - | 595,197 |
| Loans to customers | 7 | 2,901,680 | 878 | - | 2,902,558 |
| Total | | 3,496,877 | 878 | - | 3,497,755 |

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans 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 no 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 appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Company's overall policy.

Liquidity risk and funding management

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 basis. 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.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted repayment obligations.

18. Risk management (continued)

Introduction (continued)

| Financial liabilities As at 31 December 2012 | <i>Less than 3 months</i> AMD'000 | <i>3 to 12 months</i> AMD'000 | <i>1 to 5 years</i> AMD'000 | <i>Over 5 years</i> AMD'000 | <i>Total</i> AMD'000 |
|---|--|--------------------------------------|------------------------------------|------------------------------------|-------------------------|
| Loan received from Ministry of Finance | - | - | 3,524,689 | 1,329,259 | 4,873,948 |
| Total undiscounted financial liabilities | - | - | 3,524,689 | 1,329,259 | 4,873,948 |
| Financial liabilities As at 31 December 2011 | <i>Less than 3 months</i> AMD'000 | <i>3 to 12 months</i> AMD'000 | <i>1 to 5 years</i> AMD'000 | <i>Over 5 years</i> AMD'000 | <i>Total</i> AMD'000 |
| Loan received from Ministry of Finance | - | - | 2,102,600 | 922,000 | 3,024,600 |
| Total undiscounted financial liabilities | - | - | 2,102,600 | 922,000 | 3,024,000 |

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, foreign exchanges, and equity prices.

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. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Company's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December.

| <i>Currency</i> | <i>Increase in basis points 2012</i> | <i>Sensitivity of net interest income 2012</i> |
|-----------------|--|--|
| AMD | 5,8 | 21,296 |
| <i>Currency</i> | <i>Decrease in basis points 2012</i> | <i>Sensitivity of net interest income 2012</i> |
| AMD | 5,8 | (21,296) |
| <i>Currency</i> | <i>Increase in basis points 2011</i> | <i>Sensitivity of net interest income 2011</i> |
| AMD | 6,57 | 15,61 |
| <i>Currency</i> | <i>Decrease in basis points 2011</i> | <i>Sensitivity of net interest income 2011</i> |
| AMD | 6,57 | 15,61 |

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

19. Fair value of financial instruments

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Company's financial instruments are included in Level 2 of the fair value hierarchy.

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments.

| | Carrying value 2012 | Fair value 2012 | Unrecognised gain | Carrying value 2011 | Fair value 2011 | Unrecognised loss |
|--|---------------------------|--------------------|----------------------|---------------------------|--------------------|----------------------|
| Financial assets | | | | | | |
| Cash and cash equivalents | 542,859 | 542,859 | - | 740,788 | 740,788 | - |
| Amounts due from credit institutions | 940,127 | 940,127 | - | 595,197 | 595,197 | - |
| Loans to customers | 4,716,052 | 4,724,633 | 8,581 | 2,902,558 | 2,899,574 | (2,984) |
| | <u>6,199,038</u> | <u>6,207,619</u> | <u>8,581</u> | <u>4,238,543</u> | <u>4,235,559</u> | <u>(2,984)</u> |
| Financial liabilities | | | | | | |
| Loan received from Ministry of Finance | 4,611,341 | 4,611,341 | - | 2,828,975 | 2,828,975 | - |
| | <u>4,611,341</u> | <u>4,611,341</u> | <u>-</u> | <u>2,828,975</u> | <u>2,828,975</u> | <u>-</u> |

20. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

| | 2012 | | | 2011 | | |
|--------------------------------------|--------------------|-----------------------|------------------|--------------------|-----------------------|------------------|
| | Within one year | More than one year | Total | Within one year | More than one year | Total |
| | AMD'000 | AMD'000 | AMD'000 | AMD'000 | AMD'000 | AMD'000 |
| Cash and cash equivalents | 542,859 | - | 542,859 | 740,788 | - | 740,788 |
| Amounts due from credit institutions | 940,127 | - | 940,127 | 595,197 | - | 595,197 |
| Loans to customers | 1,200,000 | 3,516,052 | 4,716,052 | 1,000,000 | 1,902,558 | 2,902,558 |
| Property and equipment | - | 20,937 | 20,937 | - | 22,161 | 22,161 |
| Intangible assets | - | 3,943 | 3,943 | - | 3,862 | 3,862 |
| Other assets | - | 1,094 | 1,094 | - | 333 | 333 |
| Total | <u>2,682,986</u> | <u>3,542,026</u> | <u>6,225,012</u> | <u>2,335,985</u> | <u>1,928,914</u> | <u>4,264,899</u> |
| Loan from Ministry of Finance | - | 4,611,341 | 4,611,341 | - | 2,828,975 | 2,828,975 |
| Current income tax liabilities | - | 21,840 | 21,840 | - | 9,772 | 9,772 |
| Government grant | 1,200 | 2,724 | 3,924 | 831 | 3,924 | 4,755 |
| Deferred income tax liabilities | - | 32,335 | 32,335 | - | 24,893 | 24,893 |
| Provisions | 8,365 | - | 8,365 | - | - | - |
| Other liabilities | - | 126 | 126 | - | 494 | 494 |
| Total | <u>9,565</u> | <u>4,668,366</u> | <u>4,677,931</u> | <u>831</u> | <u>2,868,058</u> | <u>2,868,889</u> |
| Net | <u>2,673,421</u> | <u>(1,126,340)</u> | <u>1,547,081</u> | <u>2,335,154</u> | <u>(939,144)</u> | <u>1,396,010</u> |

21. Related party disclosures

The Company has loan from Ministry of Finance in amount of AMD 4,894,045 thousand as at 31 December 2012, AMD 3,036,791 thousand as at 31 December 2011.

The interest expense for the loan is AMD 312,436 thousand for the year ended 31 December 2012 (2011: 142,401)

Compensation to key management personnel comprises the following:

| | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|
| | <u>AMD'000</u> | <u>AMD'000</u> |
| Salaries and other short-term benefits | 13,890 | 10,890 |
| Social security costs | 863 | 684 |
| Total key management personnel compensation | <u>14,753</u> | <u>11,574</u> |

22. Capital adequacy

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 shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years. The Company complies with statutory requirement of minimum share capital.