Global Credit
Universal Credit Organization cjsc

Financial Statements
for the year ended 31 December 2013

Contents

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Independent Auditors' Report

To the Board
Global Credit Universal Credit Organization cjsc

We have audited the accompanying financial statements of Global Credit Universal Credit Organization cjsc (the "Organization"), which comprise the statement of financial position as at 31 December 2013, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organization as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to the fact that the corresponding figures presented, excluding the adjustments described in note 3 (l) to the financial statements, are based on the financial statements of the Organization as at and for the year ended 31 December 2012, which were audited by other auditors whose report dated 18 March 2013 expressed an unmodified opinion on those statements. As part of our audit of the 2013 financial statements, we have audited the adjustments described in note 3 (l) to the financial statements that were applied to restate the 2012 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2012 financial statements of the Organization other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2012 financial statements taken as a whole.

Andrew Coxshall
Director

Tigran Gasparyan
Head of Audit Department

KPMG Armenia cjsc

KPMG Armenia cjsc
20 May 2014

	Notes	2013 AMD'000	2012 AMD'000
Interest income	4	820,349	619,970
Interest expense	4	(435,720)	(325,092)
Net interest income		**384,629**	**294,878**
Fee and commission income		27,968	14,844
Fee and commission expense		(1,228)	(1,390)
Net fee and commission income		**26,740**	**13,454**
Net foreign exchange income		4,646	11,167
Other operating income	5	59,012	16,105
Operating income		**475,027**	**335,604**
Impairment losses on loans to customers		(85,865)	(28,010)
Personnel expenses		(72,947)	(59,174)
Other general administrative expenses	6	(79,087)	(62,131)
Profit before income tax		**237,128**	**186,289**
Income tax expense	7	(48,991)	(37,593)
Profit for the year		**188,137**	**148,696**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		6,848	-
Total comprehensive income for the year		**194,985**	**148,696**

The financial statements as set out on pages 5 to 46 were approved by management on 20 May 2014 and were signed on its behalf by:

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Luiza Igraryan
Executive Director

Susanna Khachatryan
Chief Accountant

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

	Notes	2013 AMD'000	2012 AMD'000
ASSETS			
Cash and cash equivalents	8	25,956	39,520
Available-for-sale financial assets			
- Held by the Organization	9	155,077	-
Amounts receivable under reverse repurchase agreements	10	140,971	279,127
Loans to customers	11	5,668,954	5,056,569
Property, equipment and intangible assets	12	33,763	14,524
Deferred tax assets	7	-	716
Receivables from factoring	13	124,091	-
Other assets		56,656	5,333
Total assets		**6,205,468**	**5,395,789**
LIABILITIES			
Loans and borrowings	14	5,251,978	4,648,969
Current tax liability		17,242	16,977
Deferred tax liabilities	7	1,745	-
Other liabilities		23,573	25,898
Total liabilities		**5,294,538**	**4,691,844**
EQUITY			
Share capital	15	700,000	550,000
Revaluation reserve for available-for-sale financial assets		6,848	-
Retained earnings		204,082	153,945
Total equity		**910,930**	**703,945**
Total liabilities and equity		**6,205,468**	**5,395,789**

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

	Notes	2013 AMD'000	2012 AMD'000
			Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		805,334	612,054
Interest payments		(430,818)	(311,776)
Fees and commissions received		27,968	14,844
Fees and commission payments		(1,228)	(1,390)
Net receipts from foreign exchange		3,783	4,795
Other income receipts		59,012	16,105
Salaries and other payments to employees		(72,084)	(54,941)
Other general administrative expenses payments		(72,549)	(56,852)
(Increase) decrease in operating assets			
Available-for-sale financial assets		(146,517)	-
Loans and advances to banks		-	99,499
Amounts receivable under reverse repurchase agreements		137,700	(182,239)
Loans to customers		(719,096)	(2,002,301)
Receivables from factoring		(124,091)	-
Other assets		(3,230)	(4,420)
Increase (decrease) in operating liabilities			
Other liabilities		(7,889)	9,254
Net cash used in operating activities before income tax paid		**(543,705)**	**(1,857,368)**
Income tax paid		(47,977)	(27,273)
Cash flows used in operations		**(591,682)**	**(1,884,641)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(25,777)	(4,415)
Cash flows used in investing activities		**(25,777)**	**(4,415)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital		150,000	99,297
Dividends paid		(138,000)	(99,000)
Receipts of loans and borrowings		2,442,642	3,269,288
Repayment of loans and borrowings		(1,850,569)	(1,356,968)
Cash flows from financing activities		**604,073**	**1,912,617**
Net (decrease)/increase in cash and cash equivalents		**(13,386)**	**23,561**
Effect of changes in exchange rates on cash and cash equivalents		(178)	419
Cash and cash equivalents as at the beginning of the year		39,520	15,540
Cash and cash equivalents as at the end of the year	8	**25,956**	**39,520**

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

AMD'000	Share capital	Revaluation reserve for available-for-sale financial assets	Retained earnings	Total
Balance as at 1 January 2012	450,703	-	104,249	554,952
Total comprehensive income				
Profit for the year	-	-	148,696	148,696
Transactions with owners, recorded directly in equity				
Shares issued	99,297	-	-	99,297
Dividends declared	-	-	(99,000)	(99,000)
Balance as at 31 December 2012	**550,000**	**-**	**153,945**	**703,945**
Balance as at 1 January 2013	550,000	-	153,945	703,945
Total comprehensive income				
Profit for the year	-	-	188,137	188,137
Other comprehensive income				
Net change in fair value of available-for-sale financial assets, net of income tax	-	6,848	-	6,848
Total comprehensive income for the year	**-**	**6,848**	**188,137**	**194,985**
Transactions with owners, recorded directly in equity				
Shares issued	150,000	-	-	150,000
Dividends declared	-	-	(138,000)	(138,000)
Balance as at 31 December 2013	**700,000**	**6,848**	**204,082**	**910,930**

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

1 Background

(a) Organization and operations

Global Credit Universal Credit Organization cjsc (the Organization) was established in the Republic of Armenia as a closed joint stock company on 26 October 2010 as a result of merger of Washington Capital Universal Credit Organization cjsc and Credit Union Universal Credit Organization cjsc. The principal activity of the Organization is provision of micro and medium size loans to individuals and legal entities in the Republic of Armenia. The activities of the Organization are regulated by the Central Bank of Armenia (CBA). The Organization has a credit organization license.

All assets and liabilities of the Organization are located in the Republic of Armenia. The Organization’s registered office is 16 Davit Anhaght Street, Yerevan, Republic of Armenia.

The Organization is owned by Gagik Vardanyan (33.5%), Eduard Marutyan (33.4%), Arayik Karapetyan (28.1%) and Karen Darbinyan (5.0%). Related party transactions are detailed in note 20.

(b) Armenian business environment

The Organization’s operations are located in the Republic of Armenia. Consequently, the Organization is exposed to the economic and financial markets of the Republic of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Republic of Armenia. The financial statements reflect management’s assessment of the impact of the Armenian business environment on the operations and the financial position of the Organization. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis, except that available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Organization is the Armenian Dram (AMD) as, being the national currency of the Republic of Armenia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The AMD is also the presentation currency for the purposes of these financial statements.

Financial information presented in AMD is rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 11 “Loans to customers”.

(e) Changes in accounting policies and presentation

The Organization has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 13 *Fair Value Measurements* (see (i))
- *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1 *Presentation of Financial Statements*) (see (ii))
- *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) (see (iii))

The nature and the effect of the changes are explained below.

(i) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 *Financial Instruments: Disclosures.*

As a result, the Organization adopted a new definition of fair value, as set out in note 3(c)(v). The change had no significant impact on the measurements of assets and liabilities.

(ii) Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Organization modified the presentation of items of other comprehensive income in its statement of profit or loss and other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be.

(iii) Financial instruments: Disclosures – Offsetting financial assets and financial liabilities

Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* introduced new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.

The Organization included new disclosures in the financial statements that are required under amendments to IFRS 7 and provided comparative information for new disclosures.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, except as explained in note 2(e), which addresses changes in accounting policies.

(a) Foreign currency

Transactions in foreign currencies are translated to the AMD at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, and unrestricted current accounts with banks. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(c) Financial instruments

(i) Classification

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

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

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

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

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

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

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

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

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

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

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

(ii) Recognition

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

(iii) Measurement

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

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

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

(iv) Amortized cost

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

(v) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Organization has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Organization measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Organization uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Organization determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Organization measures assets and long positions at the bid price and liabilities and short positions at the ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Organization on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell the net long position (or paid to transfer the net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Organization recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vi) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss
- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

(vii) Derecognition

The Organization derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Organization neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Organization is recognized as a separate asset or liability in the statement of financial position. The Organization derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Organization enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized.

In transactions where the Organization neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognizes the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Organization continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Organization writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(ix) Offsetting

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

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

- computer equipment	3 years
- fixtures and fittings	5 years
- motor vehicles	5 years

(e) Intangible assets

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

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

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful live is 15 years.

(f) Impairment

The Organization assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Organization determines the amount of any impairment loss.

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Organization would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

(i) Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Organization reviews its loans and receivables to assess impairment on a regular basis.

The Organization first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Organization determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Organization uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Organization writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that is recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

(iii) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(g) Provisions

A provision is recognized in the statement of financial position when the Organization has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(h) Credit related commitments

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

Financial guarantees are contracts that require the Organization to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognized, except for the followings:

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

(i) Share capital

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

(i) Dividends

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

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

(j) Taxation

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

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

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognized for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Organization expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

(k) Income and expense recognition

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

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

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

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

(l) Comparative information

Comparative information is reclassified to conform to changes in presentation in the current year.

During 2013 the Organization changed its accounting policy for the presentation of the Statement of Cash Flows from indirect method to direct method. Management is of the opinion that direct method provides more relevant information.

In addition, cash payments and cash receipts in 2012 related to loans and borrowings were presented separately in these financial statements in the statement of cash flows, whereas these were presented as net cash inflows in the amount of AMD 1,912,320 thousand in 2012 financial statements, changes in loans and advances to banks and changes in amounts receivable under reverse repurchase agreements in 2012 in the statement of cash flows were presented separately in these financial statements, whereas these items were presented in the same line item in 2012 financial statements.

(m) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2013, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Organization plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* will not be effective before 2017. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The Organization recognizes that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the financial statements. The impact of these changes will be analyzed during the course of the project as further phases of the standard are issued. The Organization does not intend to adopt this standard early.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2014. The Organization has not yet analyzed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2013 AMD'000	2012 AMD'000
Interest income		
Loans to customers	795,414	611,882
Available-for-sale financial assets	16,830	-
Amounts receivable under reverse repurchase agreements	7,615	6,392
Other	490	1,696
	820,349	**619,970**
Interest expense		
Loans and borrowings	435,720	325,092
	435,720	**325,092**
Net interest income	**384,629**	**294,878**

5 Other operating income

	2013 AMD'000	2012 AMD'000
Fines and penalties received	52,027	15,902
Income from factoring	6,985	-
Other	-	203
	59,012	**16,105**

6 Other general administrative expenses

	2013 AMD'000	2012 AMD'000
Operating lease expenses	19,200	11,500
Advertising and marketing expenses	16,554	14,548
Professional services	7,988	5,335
Repairs and maintenance	6,861	5,182
Depreciation and amortization	6,538	5,279
Taxes other than on income	5,734	4,977
Office expenses	3,810	4,191
Representation expenses	1,998	1,784
Encashment	1,673	1,598
Expenses for loan disbursement	1,319	1,082
Membership fees	1,275	1,380
Security	1,112	1,560
Other	5,025	3,715
	79,087	**62,131**

7 Income tax expense

	2013 AMD'000	2012 AMD'000
Current year tax expense	48,242	37,457
Deferred taxation movement due to origination and reversal of temporary differences	749	136
Total income tax expense	**48,991**	**37,593**

In 2013, the applicable tax rate for current and deferred tax is 20% (2012: 20%).

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

	2013 AMD'000	%	2012 AMD'000	%
Profit before tax	237,128		186,289	
Income tax at the applicable tax rate	47,426	20.0	37,258	20.0
Non-deductible expenses	1,565	0.7	335	0.2
	48,991	**20.7**	**37,593**	**20.2**

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2013 and net deferred tax assets as at 31 December 2012.

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2013 and 2012 are presented as follows:

2013 **AMD'000**	**Balance 1 January 2013**	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**Balance 31 December 2013**
Available-for-sale financial assets	-	-	(1,712)	(1,712)
Other assets	(9)	(631)	-	(640)
Other liabilities	725	(118)	-	607
	716	**(749)**	**(1,712)**	**(1,745)**

2012 **AMD'000**	**Balance 1 January 2012**	**Recognized in profit or loss**	**Balance 31 December 2012**
Other assets	-	(9)	(9)
Other liabilities	852	(127)	725
	852	**(136)**	**716**

(b) Income tax recognized in other comprehensive income

The tax effects relating to components of other comprehensive income for the year ended 31 December comprise the following:

	2013			**2012**		
AMD'000	**Amount before tax**	**Tax expense**	**Amount net-of-tax**	**Amount before tax**	**Tax expense**	**Amount net-of-tax**
Net change in fair value of available-for-sale financial assets	8,560	(1,712)	6,848	-	-	-
Other comprehensive income	**8,560**	**(1,712)**	**6,848**	**-**	**-**	**-**

8 Cash and cash equivalents

	2013 AMD'000	**2012 AMD'000**
Cash on hand	4,993	301
Current accounts		
- largest 5 Armenian banks	3,554	6,583
- medium size Armenian banks	17,409	32,636
Total current accounts	**20,963**	**39,219**
Total cash and cash equivalents	**25,956**	**39,520**

No cash and cash equivalents are impaired or past due.

As at 31 December 2013 and 2012 the Organization has no banks whose balances exceed 10% of equity.

9 Available-for-sale financial assets

	2013 AMD'000	**2012 AMD'000**
Held by the Organisation		
Debt and other fixed-income instruments		
- Government bonds		
Government securities of the Republic of Armenia	**155,077**	**-**

10 Amounts receivable under reverse repurchase agreements

	2013 AMD'000	**2012 AMD'000**
Amounts receivable from a medium size Armenian financial institution	**140,971**	**279,127**

Collateral

As at 31 December amounts receivable under reverse repurchase agreements were collateralized by securities with the following fair values:

	2013 AMD'000	2012 AMD'000
Government securities of the Republic of Armenia	**133,980**	**296,473**

11 Loans to customers

	2013 AMD'000	2012 AMD'000
Business loans		
Corporate customers	1,794,401	1,440,740
Sole entrepreneurs	190,944	249,026
Total business loans	**1,985,345**	**1,689,766**
Loans to individuals		
Mortgage loans	3,431,451	3,092,963
Consumer loans secured by gold	243,682	210,850
Auto loans	13,452	19,833
Other consumer loans	105,623	104,790
Total loans to individuals	**3,794,208**	**3,428,436**
Gross loans to customers	**5,779,553**	**5,118,202**
Impairment allowance	(110,599)	(61,633)
Net loans to customers	**5,668,954**	**5,056,569**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2013 are as follows:

	Business loans AMD'000	Loans to individuals AMD'000	Total AMD'000
Balance at the beginning of the year	28,134	33,499	61,633
Net charge	71,458	14,407	85,865
Net write-offs	(34,638)	(2,261)	(36,899)
Balance at the end of the year	**64,954**	**45,645**	**110,599**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2012 are as follows:

	Business loans AMD'000	Loans to individuals AMD'000	Total AMD'000
Balance at the beginning of the year	12,927	20,150	33,077
Net charge	14,661	13,349	28,010
Net recoveries	546	-	546
Balance at the end of the year	**28,134**	**33,499**	**61,633**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2013:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Business loans				
Corporate customers				
Loans without individual signs of impairment	1,648,561	16,486	1,632,075	1.0%
Overdue or impaired loans:				
- overdue less than 90 days	115,332	23,596	91,736	20.5%
- overdue 91-270 days	30,508	16,441	14,067	53.9%
Total overdue or impaired loans	145,840	40,037	105,803	27.5%
Total loans to corporate customers	**1,794,401**	**56,523**	**1,737,878**	**3.1%**
Sole entrepreneurs				
Loans without individual signs of impairment	164,393	1,644	162,749	1.0%
Overdue or impaired loans:				
- impaired not overdue	3,612	36	3,576	1.0%
- overdue less than 90 days	5,265	632	4,633	12.0%
- overdue 91-270 days	17,674	6,119	11,555	34.6%
Total overdue or impaired loans	26,551	6,787	19,764	25.6%
Total loans to sole entrepreneurs	**190,944**	**8,431**	**182,513**	**4.4%**
Total business loans	**1,985,345**	**64,954**	**1,920,391**	**3.3%**
Loans to individuals				
Mortgage loans				
- not overdue	3,398,630	34,055	3,364,575	1.0%
- overdue 90-179 days	32,821	3,282	29,539	10.0%
Total mortgage loans	**3,431,451**	**37,337**	**3,394,114**	**1.1%**
Consumer loans secured by gold				
- not overdue	230,568	-	230,568	0.0%
- overdue 90-179 days	576	161	415	28.0%
- overdue 180-270 days	12,538	3,511	9,027	28.0%
Total consumer secured by gold	**243,682**	**3,672**	**240,010**	**1.5%**
Auto loans				
- not overdue	13,452	135	13,317	1.0%
Total auto loans	**13,452**	**135**	**13,317**	**1.0%**
Other consumer loans				
- not overdue	96,547	965	95,582	1.0%
-overdue less than 30 days	630	63	567	10.0%
- overdue 30-89 days	1,874	187	1,687	10.0%
- overdue 180-270 days	6,572	3,286	3,286	50.0%
Total other consumer loans	**105,623**	**4,501**	**101,122**	**4.4%**
Total loans to individuals	**3,794,208**	**45,645**	**3,748,563**	**1.2%**
Total loans to customers	**5,779,553**	**110,599**	**5,668,954**	**1.9%**

The following table provides information on the credit quality of the loans to customers as at 31 December 2012:

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Business loans				
Corporate customers				
Loans without individual signs of impairment	1,395,128	14,117	1,381,011	1.0%
Overdue or impaired loans:				
- overdue less than 90 days	45,140	9,217	35,923	20.4%
- overdue 91-270 days	472	254	218	53.8%
Total overdue or impaired loans	45,612	9,471	36,141	20.8%
Total loans to corporate customers	**1,440,740**	**23,588**	**1,417,152**	**1.6%**
Sole entrepreneurs				
Loans without individual signs of impairment	236,532	2,426	234,106	1.0%
Overdue or impaired loans:				
- impaired not overdue	1,729	17	1,712	1.0%
- overdue less than 90 days	7,237	868	6,369	12.0%
- overdue 91-270 days	3,528	1,235	2,293	35.0%
Total overdue or impaired loans	12,494	2,120	10,374	17.0%
Total loans to sole entrepreneurs	**249,026**	**4,546**	**244,480**	**1.8%**
Total business loans	**1,689,766**	**28,134**	**1,661,632**	**1.7%**
Loans to individuals				
Mortgage loans				
- not overdue	3,086,076	30,772	3,055,304	1.0%
- overdue less than 30 days	6,887	689	6,198	10.0%
Total mortgage loans	**3,092,963**	**31,461**	**3,061,502**	**1.0%**
Consumer loans secured by gold				
- not overdue	206,042	-	206,042	0.0%
- overdue less than 30 days	1,438	-	1,438	0.0%
- overdue 30-89 days	305	15	290	5.0%
- overdue 90-179 days	3,065	153	2,912	5.0%
Total consumer loans secured by gold	**210,850**	**168**	**210,682**	**0.1%**
Auto loans				
- not overdue	19,833	200	19,633	1.0%
Total auto loans	**19,833**	**200**	**19,633**	**1.0%**
Other consumer loans				
- not overdue	97,877	979	96,898	1.0%
- overdue less than 30 days	6,913	691	6,222	10.0%
Total other consumer loans	**104,790**	**1,670**	**103,120**	**1.6%**
Total loans to individuals	**3,428,436**	**33,499**	**3,394,937**	**1.0%**
Total loans to customers	**5,118,202**	**61,633**	**5,056,569**	**1.2%**

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

(i) Business loans

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for business loans include the following:

- overdue payments under the loan agreement;
- significant difficulties in the financial conditions of the borrower;
- deterioration in business environment, negative changes in the borrower's markets.

The Organization estimates loan impairment for business loans based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment has been identified.

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- historic annual loss rate of 1% for non-impaired loans;
- a discount of between 20% and 30% to the originally appraised value if the property pledged is sold;
- a delay of 12 - 24 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on business loans as at 31 December 2013 would be AMD 19,204 thousand lower/higher (2012: AMD 16,616 thousand lower/higher).

(ii) Loans to individuals

The Organization estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- for loans to retail customers other than loans secured by gold and mortgage loans, loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 24 months;
- no loss is expected on non-overdue loans secured by gold considering loan to value ratio and liquidity of collateral;
- historic annual loss rate for mortgage loans of 1%. In respect of overdue mortgage loans, the management estimated a maximum of 10% costs related to the sale through court procedures of the property pledged within 24 months of the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to individuals as at 31 December 2013 would be AMD 112,457 thousand lower/higher (2012: AMD 101,848 thousand).

(c) Analysis of collateral

(i) Business loans

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be important indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Organization generally requests corporate borrowers to provide it.

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

	31 December 2013		31 December 2012	
AMD'000	**Loans to customers, carrying amount**	**Fair value of collateral assessed as of loan inception date**	**Loans to customers, carrying amount**	**Fair value of collateral assessed as of loan inception date**
Loans without individual signs of impairment				
Inventory	868,012	868,012	677,403	677,403
Real estate	421,418	421,418	585,051	585,051
Motor vehicles	44,549	44,549	62,028	62,028
Equipment	87,591	87,591	63,769	63,769
Guarantees	199,292	-	175,636	-
No collateral	173,962	-	51,230	-
Total loans without individual signs of impairment	**1,794,824**	**1,421,570**	**1,615,117**	**1,388,251**
Overdue or impaired loans				
Real estate	103,884	103,884	3,816	3,816
Equipment	4,176	4,176	-	-
Guarantees	-	-	42,699	-
No collateral	17,507	-	-	-
Total overdue or impaired loans	**125,567**	**108,060**	**46,515**	**3,816**
Total business loans	**1,920,391**	**1,529,630**	**1,661,632**	**1,392,067**

The tables above exclude overcollateralization.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Organization does not necessarily update the valuation of collateral as at each reporting date.

(ii) Loans to individuals

Mortgage loans are secured by the underlying housing real estate. The Organization's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 80%. The fair value of real estate securing mortgage loans is at least equal to the carrying amounts of individual loans based on the values determined at the loan inception date.

Auto loans are secured by the underlying cars.

The Organization's policy is to issue gold loans with a loan-to-value ratio of a maximum of 100%.

The fair values of the collateral were estimated at inception of the loans and were not adjusted for subsequent changes to the reporting date.

(d) Industry and geographical analysis of the loan portfolio

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

	2013 AMD'000	2012 AMD'000
Trade	935,182	948,815
Construction	378,166	250,781
Manufacturing	299,250	271,496
Agriculture	105,344	110,697
Other	267,403	107,977
Loans to individuals	3,794,208	3,428,436
	5,779,553	**5,118,202**
Impairment allowance	(110,599)	(61,633)
	5,668,954	**5,056,569**

(e) Significant credit exposures

As at 31 December 2013 the Organization has eight borrowers (2012: ten), whose loan balances exceed 10% of equity. These balances as at 31 December 2013 are AMD 875,625 thousand (2012: AMD 1,171,504 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in note 16 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

12 Property, equipment and intangible assets

AMD'000	Computer equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost					
Balance at 1 January 2013	9,044	11,213	3,500	5,238	28,995
Additions	8,922	469	7,900	8,486	25,777
Disposals/write-offs	(1,464)	(374)	-	-	(1,838)
Balance at 31 December 2013	**16,502**	**11,308**	**11,400**	**13,724**	**52,934**
Depreciation and amortization					
Balance at 1 January 2013	7,522	4,677	1,225	1,047	14,471
Depreciation and amortization for the year	2,947	2,146	849	596	6,538
Disposals/write-offs	(1,464)	(374)	-	-	(1,838)
Balance at 31 December 2013	**9,005**	**6,449**	**2,074**	**1,643**	**19,171**
Carrying amount					
At 31 December 2013	**7,497**	**4,859**	**9,326**	**12,081**	**33,763**

AMD'000	Computer equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost					
Balance at 1 January 2012	8,011	7,832	3,500	5,238	24,581
Additions	1,033	3,381	-	-	4,414
At 31 December 2012	**9,044**	**11,213**	**3,500**	**5,238**	**28,995**
Depreciation and amortization					
Balance at 1 January 2012	4,689	3,280	525	698	9,192
Depreciation and amortization for the year	2,833	1,397	700	349	5,279
Balance at 31 December 2012	**7,522**	**4,677**	**1,225**	**1,047**	**14,471**
Carrying amount					
At 31 December 2012	**1,522**	**6,536**	**2,275**	**4,191**	**14,524**

13 Receivables from factoring

	2013 AMD'000	2012 AMD'000
Receivables from factoring	**124,091**	**-**

No receivables from factoring are impaired or past due.

All receivables from factoring are from one customer with the right of regress.

14 Loans and borrowings

	2013 AMD'000	2012 AMD'000
Secured loans from financial institutions	2,611,965	2,036,242
Unsecured borrowings from shareholder	1,100,741	1,095,063
Unsecured loans from state non-commercial organizations	688,401	584,599
Secured loans from the CBA	389,599	503,396
Secured bank loans	310,601	228,705
Unsecured loans from financial institution	150,671	200,964
	5,251,978	**4,648,969**

(a) Secured loans from financial institutions

As at 31 December 2013 loans from financial institutions include "National Mortgage Company" Refincanicng credit organization cjsc and "Home for youth" Refincanicng credit organization cjsc.

The loans are provided for the purpose of providing mortgage loans and are secured by the total amount of loans provided by the Organization to sub-borrowers and all interest paid by sub-borrowers on their loans. As at 31 December 2013 the total gross amount of such loans is AMD 2,582,503 thousand (2012: AMD 2,001,079 thousand).

(b) Concentrations of loans and borrowings

As at 31 December 2013 the Organization has nine institutions (2012: eight institutions) whose balances exceed 10% of equity. These balances as at 31 December 2013 are AMD 5,176,900 thousand (2012: AMD 4,609,171 thousand).

15 Share capital

(a) Issued capital

The authorized, issued and outstanding share capital comprises 700,000 ordinary shares (2012: 550,000). All shares have a nominal value of AMD 1 thousand.

During 2013 150,000 ordinary shares (2012: 99,297) were issued at their nominal value.

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

(b) Nature and purpose of reserves

Revaluation reserve for available-for-sale financial assets

The revaluation reserve for available-for-sale financial assets comprises the cumulative net change in the fair value, until the assets are derecognized or impaired.

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Organization, which are determined according to legislation of the Republic of Armenia.

During 2013 dividends declared and paid by the Organisation amounted to AMD 138,000 thousand (2012: AMD 99,000 thousand). Dividends per share amounted to AMD 0.197 thousand (2012: AMD 0.180 thousand).

16 Risk management

Management of risk is fundamental to the business of credit organizations and is an essential element of the Organization's operations. The major risks faced by the Organization are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Organization, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Management has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

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

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees.

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

(b) Market risk

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

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Organization is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2013							
ASSETS							
Cash and cash equivalents	-	-	-	-	-	25,956	25,956
Available-for-sale financial assets	-	7,857	7,304	139,916	-	-	155,077
Amounts receivable under reverse repurchase agreements	140,971	-	-	-	-	-	140,971
Loans to customers	607,334	692,428	756,492	1,451,350	2,161,350	-	5,668,954
Receivables from factoring	97,330	26,761	-	-	-	-	124,091
	845,635	**727,046**	**763,796**	**1,591,266**	**2,161,350**	**25,956**	**6,115,049**
LIABILITIES							
Loans and borrowings	309,075	111,593	846,948	2,405,115	1,579,247	-	5,251,978
	309,075	**111,593**	**846,948**	**2,405,115**	**1,579,247**	**-**	**5,251,978**
	536,560	**615,453**	**(83,152)**	**(813,849)**	**582,103**	**25,956**	**863,071**
31 December 2012							
ASSETS							
Cash and cash equivalents	-	-	-	-	-	39,520	39,520
Amounts receivable under reverse repurchase agreements	279,127	-	-	-	-	-	279,127
Loans to customers	416,002	637,058	439,917	1,488,183	2,075,409	-	5,056,569
	695,129	**637,058**	**439,917**	**1,488,183**	**2,075,409**	**39,520**	**5,375,216**
LIABILITIES							
Loans and borrowings	357,222	103,608	165,813	2,750,491	1,271,835	-	4,648,969
	357,222	**103,608**	**165,813**	**2,750,491**	**1,271,835**	**-**	**4,648,969**
	337,907	**533,450**	**274,104**	**(1,262,308)**	**803,574**	**39,520**	**726,247**

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2013 and 2012. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2013 Average effective interest rate, %		2012 Average effective interest rate, %	
	AMD	**USD**	**AMD**	**USD**
Interest bearing assets				
Available-for-sale financial assets	14.5%	-	-	-
Amounts receivable under reverse repurchase agreements	8.3%	-	9.7%	-
Loans to customers	13.2%	16.0%	13.4%	15.8%
Receivables from factoring	29.9%	-	-	-
Interest bearing liabilities				
Loans and borrowings	8.0%	10.6%	7.9%	10.6%

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2013 and 2012 is as follows:

	2013 AMD'000	2012 AMD'000
100 bp parallel fall	5,512	2,957
100 bp parallel rise	(5,512)	(2,957)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	2013		2012	
	Net profit or loss AMD'000	Equit AMD'000	Net profit or loss AMD'000	Equity AMD'000
100 bp parallel fall	-	1,417	-	-
100 bp parallel rise	-	(1,417)	-	-

(ii) Currency risk

The Organization has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2013 and 2012:

	2013	2012
USD	**AMD'000**	**AMD'000**
ASSETS		
Cash and cash equivalents	7,597	4,212
Loans to customers	2,147,053	2,119,833
Total assets	**2,154,650**	**2,124,045**
LIABILITIES		
Loans and borrowings	(1,929,433)	(1,894,443)
Total liabilities	**(1,929,433)**	**(1,894,443)**
Net position	**225,217**	**229,602**

A weakening of the AMD, as indicated below, against the USD at 31 December 2013 and 2012 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Organization considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2013 AMD'000	**2012 AMD'000**
10% appreciation of USD against AMD	22,522	22,960

A strengthening of the AMD against the above currencies at 31 December 2013 and 2012 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

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

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (business loans and loans to individuals)
- methodology for the credit assessment of counterparties
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Credit applications are originated by the relevant credit officers and are then passed on to the Credit Committee, which is responsible for the loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The Credit Committee reviews and approves the loan credit application.

The Organization continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers.

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

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

	2013 AMD'000	2012 AMD'000
ASSETS		
Cash and cash equivalents	20,963	39,219
Available-for-sale financial assets	155,077	-
Amounts receivable under reverse repurchase agreements	140,971	279,127
Loans to customers	5,668,954	5,056,569
Receivables from factoring	124,091	-
Total maximum exposure	**6,110,056**	**5,374,915**

Collateral generally is not held against claims under investments in securities, except when securities are held as part of reverse repurchase and securities borrowing activities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 11.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 18.

As at 31 December 2013 the Organization has no debtors or groups of connected debtors (2012: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Organization's statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

The Organization receives and accepts collateral in the form of marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

The above arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Organization or the counterparties. In addition the Organization and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2013:

AMD'000

Types of financial assets/liabilities	Gross amounts of recognized financial asset/liability	Gross amount of recognized financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Amounts receivable under reverse repurchase agreements	140,971	-	140,971	(133,980)	-	6,991
Total financial assets	**140,971**	**-**	**140,971**	**(133,980)**	**-**	**6,991**
Loans and borrowings	(5,251,978)	-	(5,251,978)	2,966,581	-	(2,285,397)
Total financial liabilities	**(5,251,978)**	**-**	**(5,251,978)**	**2,966,581**	**-**	**(2,285,397)**

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2012:

AMD'000

Types of financial assets/liabilities	Gross amounts of recognized financial asset/liability	Gross amount of recognized financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Amounts receivable under reverse repurchase agreements	279,127	-	279,127	(279,127)	-	-
Total financial assets	**279,127**	**-**	**279,127**	**(279,127)**	**-**	**-**
Loans and borrowings	(4,648,969)	-	(4,648,969)	2,488,210	-	(2,160,759)
Total financial liabilities	**(4,648,969)**	**-**	**(4,648,969)**	**2,488,210**	**-**	**(2,160,759)**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position on the amortized cost basis.

(d) Liquidity risk

Liquidity risk is the risk that the Organization will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Organization maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board.

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

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

The maturity analysis for financial liabilities as at 31 December 2013 is as follows:

AMD’000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Loans and borrowings	178,189	233,388	220,307	1,053,292	4,924,652	6,609,828	5,251,978
Other financial liabilities	-	4,955	-	13,524	-	18,479	18,479
Total financial liabilities	**178,189**	**238,343**	**220,307**	**1,066,816**	**4,924,652**	**6,628,307**	**5,270,457**
Credit-related commitments	**672,583**	**-**	**-**	**-**	**-**	**672,583**	**672,583**

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

AMD’000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Loans and borrowings	150,508	300,115	197,562	347,367	5,007,123	6,002,675	4,648,969
Other financial liabilities	-	-	21,665	-	-	21,665	21,665
Total financial liabilities	**150,508**	**300,115**	**219,227**	**347,367**	**5,007,123**	**6,024,340**	**4,670,634**
Credit-related commitments	**343,757**	**-**	**-**	**-**	**-**	**343,757**	**343,757**

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at 31 December 2013:

AMD'000	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**No maturity**	**Overdue**	**Total**
ASSETS								
Cash and cash equivalents	25,956	-	-	-	-	-	-	25,956
Available-for-sale financial assets	-	-	15,161	139,916	-	-	-	155,077
Amounts receivable under reverse repurchase agreements	140,971	-	-	-	-	-	-	140,971
Loans to customers	125,024	444,227	1,448,920	1,451,350	2,161,350	-	38,083	5,668,954
Property, equipment and intangible assets	-	-	-	-	-	33,763	-	33,763
Receivables from factoring	-	97,330	26,761	-	-	-	-	124,091
Other assets	8,563	-	-	-	-	48,093	-	56,656
Total assets	**300,514**	**541,557**	**1,490,842**	**1,591,266**	**2,161,350**	**81,856**	**38,083**	**6,205,468**
LIABILITIES								
Loans and borrowings	149,698	159,377	958,541	2,405,115	1,579,247	-	-	5,251,978
Current tax liability	-	-	17,242	-	-	-	-	17,242
Deferred tax liabilities	-	-	-	-	-	1,745	-	1,745
Other liabilities	5,094	4,955	13,524	-	-	-	-	23,573
Total liabilities	**154,792**	**164,332**	**989,307**	**2,405,115**	**1,579,247**	**1,745**	**-**	**5,294,538**
Net position	**145,722**	**377,225**	**501,535**	**(813,849)**	**582,103**	**80,111**	**38,083**	**910,930**

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at 31 December 2012:

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	39,520	-	-	-	-	-	-	39,520
Amounts receivable under reverse repurchase agreements	279,127	-	-	-	-	-	-	279,127
Loans to customers	148,806	247,090	1,076,975	1,488,183	2,075,409	-	20,106	5,056,569
Property, equipment and intangible assets	-	-	-	-	-	14,524	-	14,524
Deferred tax assets	-	-	-	-	-	716	-	716
Other assets	5,333	-	-	-	-	-	-	5,333
Total assets	**472,786**	**247,090**	**1,076,975**	**1,488,183**	**2,075,409**	**15,240**	**20,106**	**5,395,789**
LIABILITIES								
Loans and borrowings	116,168	241,054	269,421	2,750,491	1,271,835	-	-	4,648,969
Current tax liability	-	-	16,977	-	-	-	-	16,977
Other liabilities	4,233	-	21,665	-	-	-	-	25,898
Total liabilities	**120,401**	**241,054**	**308,063**	**2,750,491**	**1,271,835**	**-**	**-**	**4,691,844**
Net position	**352,385**	**6,036**	**768,912**	**(1,262,308)**	**803,574**	**15,240**	**20,106**	**703,945**

17 Capital management

The Central Bank of Armenia sets and monitors capital requirements for the Organization.

The Organization defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, credit organizations conducting foreign exchange transactions in cash other than for the purpose of accepting loan repayments have to maintain a minimum share capital of AMD 600,000 thousand (AMD 300,000 thousand at 31 December 2012). The Organization is in compliance with the minimum share capital requirements as at 31 December 2013 and 2012.

As per CBA regulatory requirements which became effective in 2011, credit organizations conducting foreign exchange transactions in cash other than for the purpose of accepting loan repayments, have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2013 this minimum level is 10% (2012: 10%).

The Organization is in compliance with the statutory capital ratio as at 31 December 2013 and 2012. The calculation of statutory capital ratio based on requirements set by the CBA as at 31 December 2013 and 2012 is as follows:

	2013 AMD'000 Unaudited	**2012 AMD'000 Unaudited**
Share capital	700,000	550,000
Retained earnings	204,082	153,945
Adjustment to CBA accounting principles	(65,656)	3,220
Revaluation reserve for available-for-sale financial assets	6,848	-
Total capital	**845,274**	**707,165**
Risk weighted assets	**6,464,343**	**5,397,873**
Statutory capital ratio	**13.1%**	**13.1%**

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

There were no changes in the Organization's approach to capital management during the year.

18 Commitments

The Organisation has outstanding credit related commitments to extend loans. These credit-related commitments take the form of approved loans.

The Organization provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to 1 year.

The Organization applies the same credit risk management policies and procedures when granting credit commitments and financial guarantees as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2013 AMD'000	2012 AMD'000
Contracted amount		
Loan and credit line commitments	40,541	300
Guarantees	632,042	343,457
	672,583	**343,757**

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded.

Of these credit-related commitments, AMD 263,981 thousand (2012: AMD 274,152 thousand) are to two customers at 31 December 2013 (2012: two customers). This exposure represents a significant credit risk exposure to the Organization.

19 Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Organization does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Organization obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

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

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

(c) Taxation contingencies

The taxation system in the Republic of Armenia continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

These circumstances may create tax risks in the Republic of Armenia that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

20 Related party transactions

(a) Control relationships

The Organization has no party with ultimate control.

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

Total remuneration included in personnel expenses for the years ended 31 December is as follows:

	2013 AMD'000	**2012 AMD'000**
Short term employee benefits	**26,490**	**25,682**

The outstanding balances and average effective interest rates as at 31 December for transactions with the members of the Board and the Management are as follows:

	2013 AMD'000	**Average effective interest rate, %**	**2012 AMD'000**	**Average effective interest rate, %**
Statement of financial position				
Loans issued (gross)	7,226	10.7%	6,300	10.6%
Loan impairment allowance	(72)		(63)	

The loans are in AMD and repayable by 2020. Transactions with related parties are not secured.

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

	2013 AMD'000	**2012 AMD'000**
Profit or loss		
Interest income	357	504

(c) Transactions with shareholder

The outstanding balances and the related average interest rates as at 31 December 2013 and 2012 and related profit or loss amounts of transactions for the year ended 31 December 2013 and 2012 with the shareholder are as follows:

	2013 AMD'000	Average effective interest rate, %	2012 AMD'000	Average effective interest rate, %
Statement of financial position				
LIABILITIES				
Loans and borrowings				
- In USD				
Principal balance	1,100,741	11.0%	1,095,063	11.0%
Profit (loss)				
Interest expense	(121,641)		(64,973)	

The borrowings from the shareholder are repayable in 2015. Transactions with the shareholder are not secured.

(d) Transactions with other related parties

Other related parties include close family members of management and entities under control of shareholders. The outstanding balances and the related average effective interest rates as at 31 December 2013 and 2012 and related profit or loss amounts of transactions for the year ended 31 December with other related parties are as follows:

	2013 AMD'000	Average effective interest rate, %	2012 AMD'000	Average effective interest rate, %
Entities under control of the shareholders				
Statement of financial position				
ASSETS				
Amounts receivable under reverse repurchase agreements	140,971	8.3%	279,127	9.7%
Profit (loss)				
Interest income	7,615		6,392	
Other related parties				
Statement of financial position				
ASSETS				
Loans to customers				
Principal balance	14,622	17.5%	13,090	17.5%
Impairment allowance	(146)		(131)	
Profit (loss)				
Interest income	715		1,039	

21 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2013:

AMD'000	Loans and receivables	Available-for-sale	Other amortized cost	Total carrying amount	Fair value
Cash and cash equivalents	25,956	-	-	25,956	25,956
Available-for-sale financial assets	-	155,077	-	155,077	155,077
Amounts receivable under reverse repurchase agreements	140,971	-	-	140,971	140,971
Loans to customers:					
Business loans	1,920,391	-	-	1,920,391	1,920,391
Loans to individuals	3,748,563	-	-	3,748,563	3,748,563
Receivables from factoring	124,091	-	-	124,091	124,091
Other financial assets	8,563	-	-	8,563	8,563
	5,968,535	**155,077**	**-**	**6,123,612**	**6,123,612**
Loans and borrowings	-	-	5,251,978	5,251,978	5,251,978
Other financial liabilities	-	-	18,479	18,479	18,479
	-	**-**	**5,270,457**	**5,270,457**	**5,270,457**

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2012:

AMD '000	Loans and receivables	Other amortized cost	Total carrying amount	Fair value
Cash and cash equivalents	39,520	-	39,520	39,520
Amounts receivable under reverse repurchase agreements	279,127	-	279,127	279,127
Loans to customers:				
Business loans	1,661,632	-	1,661,632	1,661,632
Loans to individuals	3,394,937	-	3,394,937	3,394,937
	5,375,216	**-**	**5,375,216**	**5,375,216**
Loans and borrowings	-	4,648,969	4,648,969	4,648,969
Other financial liabilities	-	21,665	21,665	21,665
	-	**4,670,634**	**4,670,634**	**4,670,634**

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

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

- discount rates of 10% - 20% are used for discounting future cash flows from loans to customers;
- discount rates of 5% - 10% are used for discounting future cash flows from liabilities.

(b) Fair value hierarchy

The Organization measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

AMD’000	**Level 1**	**Level 2**	**Total**
Available-for-sale financial assets			
- Debt instruments	-	155,077	155,077
	-	**155,077**	**155,077**

22 Subsequent events

On 3 March 2014 the Organization signed a contract to purchase 100% shares of “GFC General Financial & Credit Company” Universal Credit Organization LLC. The sale was not completed by the date of issue of these financial statements. The principal activity of the “GFC General Financial & Credit Company” Universal Credit Organization LLC is provision of micro and medium size loans to individuals and legal entities in the Republic of Armenia. The Organisation has not yet completed the accounting of this transaction and has not yet determined the likely impact that the purchase will have on the financial statements.