



FINCA
UNIVERSAL CREDIT ORGANIZATION
CLOSED JOINT STOCK COMPANY

Financial Statements
For the Year Ended December 31, 2013

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INDEPENDENT AUDITOR'S REPORT

To: Shareholders and the Board of Directors of FINCA Universal Credit Organization Closed Joint-Stock Company

We have audited the accompanying financial statements of FINCA Universal Credit Organization Closed Joint-Stock Company, which comprise the statement of financial position as at December 31, 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and 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.

Auditor's Responsibility

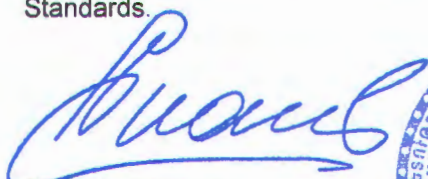
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about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

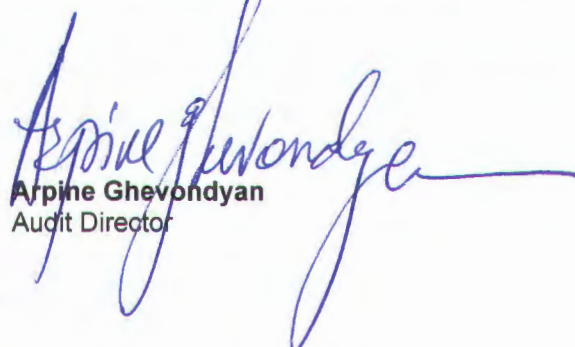
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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


Srбуhi Hakobyan
Executive Director




Arpine Ghevondyan
Audit Director

Deloitte Armenia cjsc
March 14, 2014

**Statement of profit or loss and other comprehensive income for the year ended
December 31, 2013**

In USD	Notes	2013	2012
Interest income	14	15,025,049	13,674,819
Interest expense	14	(4,895,021)	(4,207,912)
Net interest income before impairment losses on interest bearing assets		10,130,028	9,466,907
Impairment losses on interest bearing assets	6	(679,487)	(41,860)
Net interest income		9,450,541	9,425,047
Fee and commission expense		(61,445)	(27,762)
Net loss on financial assets and liabilities at fair value through profit or loss		(12,367)	(9,717)
Foreign exchange translation gain	15	26,771	21,395
Other income		11,129	17,857
Net non-interest (expense)/ income		(35,912)	1,773
Operating income		9,414,629	9,426,820
Staff costs	16	(5,530,341)	(4,859,246)
Depreciation and amortization	7, 8	(400,571)	(242,295)
Other operating expenses	17	(3,612,543)	(2,634,597)
Operating expenses		(9,543,455)	(7,736,138)
(Loss)/profit before income tax		(128,826)	1,690,682
Income tax benefit/ (expense)	18	31,601	(331,924)
Net (loss)/profit for the year		(97,225)	1,358,758
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Foreign currency translation difference		(74,330)	(204,121)
Other comprehensive income after income tax		(74,330)	(204,121)
Total comprehensive income		(171,555)	1,154,637

The financial statements were authorised for issue on March 14, 2014 by the Board of Directors.


General Director
Hrachya Tokhmakhyan


Chief Accountant
Artak Miqayelyan



Statement of changes in equity for the year ended December 31, 2013

In USD	Notes	Share capital	Foreign currency translation reserve	Retained earnings	Total equity
Balance at 1 January 2012		3,251,918	36,539	3,793,405	7,081,862
Profit for the year		-	-	1,358,758	1,358,758
Other comprehensive income after income tax		-	(204,121)	-	(204,121)
Total comprehensive income		-	(204,121)	1,358,758	1,154,637
Issue of ordinary shares	13	5,500,000	-	-	5,500,000
Transfer from retained earnings	13	2,063,657	-	(2,063,657)	-
Dividends declared	13	-	-	(788,964)	(788,964)
Balance at December 31, 2012		10,815,575	(167,582)	2,299,542	12,947,535
Profit for the year		-	-	(97,225)	(97,225)
Other comprehensive income after income tax		-	(74,330)	-	(74,330)
Total comprehensive income		-	(74,330)	(97,225)	(171,555)
Dividends declared	13	-	-	(722,236)	(722,236)
Balance at December 31, 2013		10,815,575	(241,912)	1,480,081	12,053,744

The financial statements were authorised for issue on March 14, 2014 by the Board of Directors.

General Director
Hrachya Tokhmakhyan

Chief Accountant
Artak Miqayelyan



Statement of cash flows for the year ended December 31, 2013

In USD	Notes	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss)/profit for the year		(97,225)	1,358,758
Adjustments for non-cash items:			
Provision for impairment losses on interest bearing assets		679,487	41,860
Loss from disposal of property and equipment and intangible assets		-	1,864
Translation differences, net and net gain on financial assets and liabilities at fair value through profit or loss		-	63,783
Net change in accrued interest		1,828,558	626,560
Depreciation and amortization		400,571	242,295
Income tax expense recognized in profit and loss		(31,601)	331,924
Cash inflow from operating activities before changes in operating assets and liabilities		2,779,790	2,667,044
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Loans to customers		(14,930,553)	(9,810,222)
Other assets		251,745	(388,444)
Increase/(decrease) in operating liabilities:			
Other liabilities		307,513	156,731
Cash outflow from operating activities before taxation and interest		(11,591,505)	(7,374,891)
Income tax paid		(222,156)	(533,875)
Net cash outflow from operating activities		(11,813,661)	(7,908,766)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase for property and equipment		(672,061)	(592,033)
Purchase for intangible assets		(116,794)	(98,975)
Net cash outflow from investing activities		(788,855)	(691,008)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of shares		-	5,500,000
Dividends paid on shares		(722,236)	(788,964)
Proceeds from borrowed funds		32,805,843	17,168,248
Repayment of borrowed funds		(21,732,047)	(10,404,179)
Net cash inflow from financing activities		10,351,560	11,475,105
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(44,367)	4,145
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(2,295,323)	2,879,476
CASH AND CASH EQUIVALENTS, beginning of period	5	6,077,913	3,198,437
CASH AND CASH EQUIVALENTS, end of period	5	3,782,590	6,077,913

The financial statements were authorised for issue on March 14, 2014 by the Board of Directors.

General Director
Hrachya Tokhmakhyan

Chief Accountant
Artak Miqayelyan





Notes to the financial statements for the year ended December 31, 2013

1. Organization

FINCA Universal Credit Organization cjsc (the "Organization") is a closed joint stock company - 100% subsidiary of FINCA Microfinance Coöperatief U.A. (Netherlands). The Organization is regulated by the Central Bank of Armenia (the "CBA") and conducts its business under license number 13, granted on 28 March 2006.

The Organization is involved in microfinance and provides individual business loans, solidarity group-based general and group-based agricultural micro loans. The loans are disbursed both in local and foreign currencies. In 2013 the Organization started to provide foreign currencies exchange services.

The registered office of the Organization is located at 2a, Agatangeghos str., Yerevan, Republic of Armenia.

As at December 31, 2013 the Organization had 28 branches operating in the Armenia (December 31, 2012: 25 branches).

The founder and ultimate controlling party of the Organization is FINCA International Inc., a network of microfinance institutions based in Washington, D.C., with affiliates/subsidiaries operating in 21 countries around the world. In 2011 FINCA INTERNATIONAL, INC. transferred 100% of issued shares (136,472 shares) of the Organization to FINCA Microfinance Coöperatief U.A. (a cooperative with exclusion on liability, having its official seat in Amsterdam, the Netherlands) as a member contribution to the Cooperative.

As of December 31, 2013, the members of the Cooperative were:

1. FINCA MICROFINANCE HOLDING COMPANY LLC, a limited liability company registered under the laws of the State of Delaware, United States of America and having its registered address at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, United States of America. FINCA MICROFINANCE HOLDING COMPANY LLC holds 99 voting rights as a Member A and 1 voting right as a Member B of the Cooperative.
2. FINCA INTERNATIONAL LLC, a limited liability company registered under the laws of the State of Maryland, United States of America and having its registered address at 11 East Chase Street, Baltimore, Maryland 21202, United States of America. FINCA INTERNATIONAL LLC holds 1 voting right as a Member B of the Cooperative.

As at December 31, 2013 and 2012 the following shareholders owned FINCA MICROFINANCE HOLDING COMPANY LLC:

	December 31, 2013 %	December 31, 2012 %
First level shareholders/ holders of the issued share capital:		
FINCA International LLC	60.80%	66.33%
International Finance Corporation	14.80%	14.99%
KfW	9.49%	7.19%
Nederlandse Financierings Maatschappij voor Ontwikkelingslanden N.V.	7.76%	6.71%
Credit Suisse Microfinance Fund Management Company	3.16%	2.39%
ASN-NOVIB FONDS	1.79%	2.39%
Triodos Custody B.V.	1.10%	-
Triodos SICAV II	1.10%	-
Total	100%	100%

FINCA International Inc. is a not-for-profit corporation under the laws of the United State of America and as such, its Members hold no ownership in the Organization and have no economic rights. As at December 31, 2013 the Members of FINCA International, Inc. are as follows: Rupert Scofield, John Hatch, Robert Hatch and Richard Williamson. FINCA International Inc. produces publicly available financial statements.



The purpose of FINCA is to "Help the poor help themselves". FINCA believes that world hunger and poverty cannot be cured simply by food handouts and grants but can be permanently affected by self-help and self-sufficiency of the poor.

FINCA provides self-help opportunity by establishing community revolving loan funds, or "village banks", in impoverished communities through affiliated organizations ("affiliates").

The affiliates are typically separate legal entities that enter into affiliate agreements with FINCA. Small loans support investment in individual or community productive micro enterprises. Participants build self-reliance, self-esteem, and a savings fund that remains within the community as a permanent source of capital for continued investment.

From the perspective of future growth, development and competitiveness, the Organization has launched the course of actions on restructuring into a microfinance bank, both as strategic need and essential step from the perspective of the Organization's mission. Currently the Organization has reached to such stage of development, that transforming to the microfinance bank become only way to support the increasing volume and complexity of its operations, to provide complete financial services to its customers, to have access to more affordable and long term borrowings to support growth of client's portfolio. The Organization has rapidly expanded the network of its operating offices and after transformation into a bank each branch will offer wider range of services to the Republic of Armenia's urban and rural communities though strengthening and enhancing marketing and advertising policies.

As part of planned transformation process, in June 2012 on the general meeting of shareholders was approved increase of the charter capital by means of additional issue of 312,699 shares of USD 7,563,657 from which USD 2,063,657 from retained earnings and USD 5,500,000 from the cash contribution provided by the shareholder.

2. Significant accounting policies

Statement of compliance: These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements have been prepared on the assumption that the Organization is a going concern and will continue in operation for the foreseeable future.

These financial statements are presented in United States Dollars ("*USD*"), unless otherwise indicated.

These financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Organization takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.



The Organization presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 23.

Functional currency: Items included in the financial statements are measured using the currency of the primary of the economic environment in which the entity operates ("the functional currency"). The functional currency of the Organization is the Armenian Drams ("AMD"). The presentational currency of the financial statements of the Organization is the USD.

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

- assets and liabilities are translated at the exchange rate at the reporting date,
- income and expense are translated at the average annual rate
- share capital and other reserve items of capital are translated at the historical rate
- the resulting differences are presented as a component of comprehensive income and are recognized directly into equity referred as the "Foreign Currency Translation Reserve".

Offsetting: Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Organization.

The principal accounting policies are set out below.

Revenue recognition

Recognition of interest income and expense: Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Organization and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Recognition of fee and commission income: Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Financial instruments

The Organization recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.



Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets: Financial assets are classified into the following specified categories: a) financial assets 'at fair value through profit or loss' ("FVTPL"), b) 'held to maturity' ("HTM") investments, c) 'loans and receivables' and d) 'available-for-sale' ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

a) Financial assets at FVTPL: Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Organization manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Organization's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend and interest earned on the financial asset and is included in the 'other gains and losses' and 'interest income' line item, respectively, in the statement of profit or loss and other comprehensive income.

b) Held to maturity investments: Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Organization has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortized cost using the effective interest method less any impairment.

If the Organization were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Organization would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

c) Loans and receivables: Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market (including due from banks, loans to customers and other financial assets) are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

d) Available-for-sale financial assets: Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, (b) held to maturity investments or (c) loans and receivables.



Impairment of financial assets: Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Organization's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Renegotiated loans: The contractual terms of a loan may be modified for a number of reasons including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. When the contractual payment terms of a loan have been modified because management have significant concerns about the borrower's ability to meet contractual payments when due, these loans are classified as 'renegotiated loans'. For retail lending, when considering whether there is 'significant concern' regarding a customer's ability to meet contractual loan repayments when due, management assess the customer's delinquency status, account behaviour, repayment history, current financial situation and continued ability to repay. Where the customer is not meeting contractual repayments or it is evident that they will be unable to do so without the renegotiation, there will be a significant concern regarding their ability to meet contractual payments, and the loan will be disclosed as impaired, unless the concession granted is insignificant and there are no other indicators of impairment.

Where the modification of contractual payment terms of a loan represents a concession for economic or legal reasons relating to the borrower's financial difficulty, and is a concession that management would not otherwise consider, then the renegotiated loan is disclosed as impaired.

A renegotiated loan is presented as impaired and impairment losses are measured when:

- there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider, and



- it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full.

The renegotiated loan will continue to be disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment. For loans that are assessed for impairment on a collective basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case by case basis.

Renegotiated loans are classified as unimpaired where the renegotiation has resulted from significant concern about a borrower's ability to meet their contractual payment terms but the renegotiated terms are based on current market rates and contractual cash flows are expected to be collected in full following the renegotiation. Unimpaired renegotiated loans also include previously impaired renegotiated loans that have demonstrated satisfactory performance over a period of time or have been assessed based on all available evidence as having no remaining indicators of impairment. Renegotiated loans are segregated from other parts of the loan portfolio for collective impairment assessment to reflect the possible higher rates of losses for these segments.

When determining whether a loan that is restructured should be derecognised and a new loan recognised, management consider the extent to which the changes to the original contractual terms result in the renegotiated loan, considered as a whole, being a substantially different financial instrument. Factors that may indicate that the revised loan is a substantially different financial instrument, include change in guarantees or loan covenants provided, less significant changes to collateral arrangements, the addition of repayment provisions or prepayment premium clauses.

Loans that have been identified as renegotiated retain this designation until maturity or derecognition.

Write off of loans and advances: Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Organization and after the Organization has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the statement of profit or loss and other comprehensive income in the period of recovery.

Derecognition of financial assets: The Organization derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Organization neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Organization recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Organization retains substantially all the risks and rewards of ownership of a transferred financial asset, the Organization continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Organization retains an option to repurchase part of a transferred asset), the Organization allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities: Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.



Financial liabilities: Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Organization manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Organization's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Other financial liabilities: Other financial liabilities (including borrowed funds, subordinated debt and other financial liabilities) are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities: The Organization derecognizes financial liabilities when, and only when, the Organization's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Derivative financial instruments: In the normal course of business the Organization enters into various derivative financial instruments including, currency swaps and currency exchange contracts. Such financial instruments are held for trading and are initially recognized in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses from transactions in the above instruments are reported in the statement of profit or loss as gains less losses arising from transactions in financial assets (liabilities) at fair value through profit or loss. Changes in the fair value of derivative instruments are included in gain/loss.

The Organization as lessee: Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.



Cash and cash equivalents: Cash and cash equivalents consist of cash on hand and amounts due from credit institutions with original maturity of less or equal to 90 days, which may be converted to cash within a short period of time and are free from contractual encumbrances.

Repossessed assets: In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

Property and equipment: Property and equipment is carried at historical cost less accumulated depreciation and any recognized impairment loss, if any.

Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight line basis at the following useful lives:

- communication devices and computers	— 3 years;
- office equipment	— 5 years;
- vehicles	— 5 years;
- other	— 5 years.

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Organisation will obtain ownership by the end of the lease term or renew the lease term.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets acquired separately: Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Derecognition of intangible assets: An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets other than goodwill: At the end of each reporting period, the Organization reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Organization estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of 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 which the estimates of future cash flows have not been adjusted.



If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax: The tax currently payable is based on taxable profit for the year. Taxable profit before tax differs from profit before income tax as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Organization's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax: Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with property and equipment and loans to customers, except where the Organization is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the assets realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from 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.

Current and deferred tax for the year: Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Operating taxes: The Republic of Armenia also has various other taxes, which are assessed on the Organization's activities. These taxes are included as a component of operating expenses in the statement of comprehensive income.

Provisions: Provisions are recognized when the Organization has a present obligation (legal or constructive) as a result of a past event, it is probable that the Organization will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.



The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

Foreign currencies: In preparing the financial statements, transactions in currencies other than the Organization's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

For the purposes of presenting these financial statements, the assets and liabilities of the Organization's operations are translated into USD using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

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

	Average Rate		Spot Rate	
	2013	2012	December 31, 2013	December 31, 2012
AMD/1 US Dollar	409.55	401.76	405.64	403.58

Collateral: The Organization obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Organization a claim on these assets for both existing and future customer liabilities.

Share Capital: Contributions to share capital are recognized at cost. Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any income taxes.

Equity reserves: The reserves recorded in equity (other comprehensive income) on the Organization's statement of financial position is 'Foreign currency translation reserve' which is used to record exchange differences arising from the translation of figures denominated in the functional currency into presentation currency.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Organization's accounting policies the Organization management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.



Key sources of estimation uncertainty: The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans: The Organization regularly reviews its loans and receivables to assess for impairment. The Organization's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Organization considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Organization's estimated losses and actual losses would require the Organization to record provisions which could have a material impact on its financial statements in future periods.

The Organization uses a combination of individual assessment and group assessment in determining the allowance for impairment required at any reporting date.

Individual assessment is performed on loans and receivables that are considered individually significant. Loans and receivables with outstanding balance greater than 0.5% of equity capital are considered to be individually significant. The Organization uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers.

Individually significant loans and receivables that are not impaired, as well as all other loans and receivables that have not been individually assessed are then included in the group of loans and receivables that are collectively assessed for impairment. The collectively assessed loans and receivables are grouped based on similar credit risk characteristics and on their past-due status and assessed accordingly. The Organization estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Organization uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data. The collectively assessed methodology strives to ensure the allowance for impairment reflects the loss events that have occurred, but have not yet been identified on an individual basis.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Organization is not in a position to predict what changes in conditions will take place in the Armenia and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at December 31, 2013 and 2012 the gross loans totalled USD 56,796,675 and USD 44,065,467, respectively, and allowance for impairment losses amounted to USD 412,403 and USD 210,848, respectively. Included in loans at year end are renegotiated loans in the amount of USD 871,691 and allowance for impairment of USD 3,661.

Useful lives of property and equipment: Items of property and equipment are stated at cost less accumulated depreciation and less any accumulated depreciation losses. The Organization reviews the estimated useful lives of property and equipment at the end of each annual reporting period. The estimation of the useful life of an item of property and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any one of these conditions or estimates may result in adjustments to future depreciation rates.

Recoverability of deferred tax assets: The management of the Organization has assessed that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely that the deferred tax asset will be fully realized. The carrying value of deferred tax assets amounted to USD 414,880 and USD 7,904 as at December 31, 2013 and 2012, respectively.

Impairment of Capital investments in software: The management of the Organization has assessed that the capital investment in software for the amount of USD 117,422 as at December 31, 2013, as part of its strategic plans to transforming to a bank continue to be of the intended use and that no impairment exists as at reporting date.

4. Application of new and revised International Financial Reporting Standards

4.1 Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

Standards affecting the financial statements

Amendments to IAS 1 Presentation of financial statements (amended June 2011): The Organization has applied the amendments to IAS 1 titled Presentation of Items of Other Comprehensive Income. The amendment increases the required level of disclosure within the statement of comprehensive income.

The impact of this amendment has been to analyse items within the statement of comprehensive income between items that will not be reclassified subsequently to profit or loss and items that will be reclassified subsequently to profit or loss in accordance with the respective IFRS standard to which the item relates. The financial statements have also been amended to analyse income tax on the same basis. The amendments have been applied retrospectively, and hence the presentation of items of comprehensive income has been restated to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 do not result in any impact on profit or loss, comprehensive income and total comprehensive income.

IFRS 13 Fair Value Measurement: The Organization has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Standards not affecting the reported results nor the financial position.

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements.

New and revised Standards on consolidation, joint arrangements, associates and disclosures: In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, the Organization has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) is not applicable to the Organization as it deals only with separate financial statements.

IAS 19 Employee Benefits (revised June 2011): In the current year, the Organization has applied IAS 19 (as revised in June 2011) Employee Benefits and the related consequential amendments in advance of their effective dates. The Group has applied IAS 19 (as revised in June 2011) retrospectively and in accordance with the transitional provisions as set out in IAS 19.173. These transitional provisions do not have an impact on future periods. The amendments to IAS 19 change the accounting for defined benefit schemes and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and scheme assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of scheme assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated balance sheet to reflect the full value of the scheme deficit or surplus. Furthermore, the interest cost and expected return on scheme assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount under IAS 19 (as revised in June 2011), which is calculated by applying a discount rate to the net defined benefit liability or asset. IAS 19 (as revised in June 2011) also introduces more extensive disclosures in the presentation of the defined benefit cost.

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012): The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Organization are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

Amendments to IAS 12 Income Taxes: The Organization has applied the amendments to IAS 12 (December 2010) titled Deferred tax: Recovery of underlying assets. The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in IAS 40 Investment Property. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

4.2 New and revised IFRSs in issue but not yet effective

The Organization has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	<i>Financial Instruments</i> Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures
Amendments to IFRS 10, IFRS 12 and IAS 27	<i>Investment Entities</i> : Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
Amendments to IAS 32	<i>Offsetting Financial Assets and Financial Liabilities</i> . Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

IFRS 9 Financial Instruments: IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The management of the Organization anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Organization's investments in redeemable notes that are currently classified as available-for-sale financial assets will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The management of the Organization do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Organization's consolidated financial statements as the Organization does not have any financial assets and financial liabilities that qualify for offset.



5. Cash and cash equivalent

In USD	December 31, 2013	December 31, 2012
Cash on hand	919,880	17,905
Correspondent accounts with banks	163,334	223,854
Placements with banks with original maturities of less than three months	2,699,376	5,836,154
Total cash and cash equivalents	3,782,590	6,077,913

As at December 31, 2013 and 2012 accrued interest included in cash and cash equivalents amounted to USD 2,130 and USD 6,489 respectively.

As at December 31, 2013 the Organization has one resident commercial bank (December 31 2012: one bank) whose balance exceeds 10% of equity. The carrying amount of these balances as at December 31, 2013 is USD 2,375,774 (December 31 2012: USD 5,157,088).

6. Loans to customers

In USD	December 31, 2013	December 31, 2012
Loans to customers	56,796,675	44,065,467
Less: allowance for impairment losses	(412,403)	(210,848)
Total loans to customers	56,384,272	43,854,619

Loans to customers per products are presented below:

in USD	December 31, 2013	December 31, 2012
Individual loans	27,509,083	20,167,320
Rural loans	19,256,158	15,841,947
Group loans*	10,031,434	8,056,200
Less allowance for impairment losses	(412,403)	(210,848)
Total loans to customers	56,384,272	43,854,619

*One of the products categories the Organization is offering to its' customers is so-called group loan category, which includes Group Rural and Solidary Credit Group loans. The main characteristic of these loans is that, they can be issued only to the group of individuals who agree to be legally obliged to cover other partners' inability to pay should the need arise.

Loans to customers per industry groups are presented below:

In USD	December 31, 2013	December 31, 2012
Agriculture	19,510,495	15,989,687
Trade	19,389,222	15,631,406
Production	4,764,399	3,803,268
Transport	2,942,607	1,899,447
Construction	1,385,034	1,013,398
Other	8,804,918	5,728,261
Less: allowance for impairment losses	(412,403)	(210,848)
Total loans to customers	56,384,272	43,854,619



The analysis of changes for loan impairment is presented in the table below:

In USD	Agriculture	Trade	Production	Transport	Construction	Other	Total
January 1, 2012	69,388	81,899	13,747	10,270	5,340	38,598	219,242
Additional provisions recognized	1,635	2,496	6,110	35,304	869	(4,554)	41,860
Write off of assets	(42,592)	-	(61,510)	(123,610)	(7,303)	(6,583)	(241,598)
Recovery of assets previously written off	44,749	95	60,378	87,433	5,804	2,566	201,025
Effects of foreign currency exchange difference	(3,077)	(3,626)	(629)	(450)	(233)	(1,666)	(9,681)
December 31, 2012	70,103	80,864	18,096	8,947	4,477	28,361	210,848
Additional provisions recognized	88,890	411,566	47,774	37,820	10,424	83,013	679,487
Write off of assets	(104,629)	(410,172)	(48,106)	(38,994)	(10,636)	(103,142)	(715,679)
Recovery of assets previously written off	51,847	98,279	24,473	10,575	5,504	46,207	236,885
Effects of foreign currency exchange difference	(8)	550	140	45	28	107	862
December 31, 2013	106,203	181,087	42,377	18,393	9,797	54,546	412,403

The table below summarizes carrying value of loans to customers analysed by type of collateral obtained by the Organization at December 31, 2013.

in USD	Agriculture	Trade	Production	Transport	Construction	Other	Total
Loans collateralized by personal guarantees of individuals	19,421,583	7,699,990	2,389,178	2,631,693	1,356,807	7,162,023	40,661,274
Loans collateralized by movable property	78,117	10,419,471	2,114,226	310,914	28,229	1,512,147	14,463,104
Loans collateralized by pledge of real estate	10,795	1,269,761	260,995	-	-	130,746	1,672,297
Less: allowance for impairment losses	(106,203)	(181,087)	(42,377)	(18,393)	(9,797)	(54,546)	(412,403)
Total loans to customers	19,404,292	19,208,135	4,722,022	2,924,214	1,375,239	8,750,370	56,384,272

The table below summarizes carrying value of loans to customers analysed by type of collateral obtained by the Organization at December 31, 2012.

in USD	Agriculture	Trade	Production	Transport	Construction	Other	Total
Loans collateralized by personal guarantees of individuals	15,874,570	4,387,088	1,391,224	1,582,372	994,267	4,058,704	28,288,225
Loans collateralized by movable property	95,208	11,022,915	2,310,270	317,075	19,131	1,648,384	15,412,983
Loans collateralized by pledge of real estate	19,909	221,403	101,774	-	-	21,173	364,259
Less: allowance for impairment losses	(70,103)	(80,864)	(18,096)	(8,947)	(4,477)	(28,361)	(210,848)
Total loans to customers	15,919,584	15,550,542	3,785,172	1,890,500	1,008,921	5,699,900	43,854,619

As at December 31, 2013 and 2012 all loans to customers (100% of total portfolio) are granted to individuals and companies operating in Republic of Armenia, which represents a significant geographical concentration in one region.

Analysis by credit quality of loans outstanding at December 31, 2013 is as follows:

in USD	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not overdue	56,196,002	236,026	55,959,976	0.42%
Overdue:				
- 1 to 30 days overdue	245,119	27,036	218,083	11.03%
- 31 to 60 days overdue	104,923	25,653	79,270	24.45%
- 61 to 90 days overdue	48,804	17,022	31,782	34.88%
- 91 to 180 days overdue	201,827	106,666	95,161	52.85%
Total loans to customers	56,796,675	412,403	56,384,272	0.73%

Analysis by credit quality of loans outstanding at December 31, 2012 is as follows:

in USD	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not overdue	43,818,975	179,658	43,639,317	0.41%
Overdue:				
- 1 to 30 days overdue	108,940	6,717	102,223	6.17%
- 31 to 60 days overdue	44,460	6,212	38,248	13.97%
- 61 to 90 days overdue	58,375	10,793	47,582	18.49%
- 91 to 180 days overdue	34,717	7,468	27,249	21.51%
Total loans to customers	44,065,467	210,848	43,854,619	0.48%

During 2013 the Organization renegotiated loans to farmer borrowers from Armavir region due to bad weather conditions (destructive hail) experienced in the region. Total of 641 agricultural loans for a total amount of USD 871,691 with impairment allowance of USD 3,661 as at December 31, 2013, were renegotiated due to impacts of bad weather conditions. Renegotiated terms included granting of grace period till 2014 season. All the renegotiated loans are included in not overdue category in the table above.

The modification to contractual terms was a temporary modification to the contractual terms of a loan that resulted in the giving up of the right to contractual cash flows over a pre-defined period. With the 2014 season these loans are expected to revert back to the original contractual terms, including the interest rate charges after the modification period. Renegotiated loans were in line with industry practice and regulatory guidance for the regions impacted by weather conditions.



7. Property and Equipment

in USD	Leasehold improvements	Communication devices and computers	Office equipment	Vehicles	Other	Total
Cost						
January 1, 2012	426,322	306,084	234,010	77,886	155,974	1,200,276
Additions	112,084	99,420	174,675	127,294	78,562	592,035
Disposals	(1,697)	-	-	-	(5,349)	(7,046)
Foreign currency translation difference	(19,309)	(13,953)	(11,111)	(4,008)	(7,211)	(55,592)
December 31, 2012	517,400	391,551	397,574	201,172	221,976	1,729,673
Additions	226,768	189,488	122,527	-	133,278	672,061
Disposals	-	(34)	(278)	-	-	(312)
Transfers	-	61	(330)	(1,814)	2,083	-
Foreign currency translation difference	(445)	(162)	(843)	(1,039)	178	(2,311)
December 31, 2013	743,723	580,904	518,650	198,319	357,515	2,399,111
Accumulated depreciation						
January 1, 2012	92,886	192,019	98,207	45,076	58,241	486,429
Depreciation charge	46,159	70,466	54,474	31,224	33,293	235,616
Disposals	(600)	-	-	-	(4,582)	(5,182)
Foreign currency translation difference	(4,304)	(8,791)	(4,579)	(2,129)	(2,699)	(22,502)
December 31, 2012	134,141	253,694	148,102	74,171	84,253	694,361
Depreciation charge	66,173	120,254	82,748	37,380	69,032	375,587
Disposals	-	(34)	(278)	-	-	(312)
Foreign currency translation difference	(48)	(68)	(117)	(16)	336	87
December 31, 2013	200,266	373,846	230,455	111,535	153,621	1,069,723
Net book value						
As at January 1, 2012	333,436	114,065	135,803	32,810	97,733	713,847
As at December 31, 2012	383,259	137,857	249,472	127,001	137,723	1,035,312
As at December 31, 2013	543,457	207,058	288,195	86,784	203,894	1,329,388

As at December 31, 2013 and 2012 the cost of fully depreciated assets that are still in use comprised USD 364,052 and USD 208,633 respectively. The Organization did not have any pledged property and equipment as at December 31, 2013 and 2012.



8. Intangible assets

in USD	Software	Capital investments in software	Total
At initial cost			
January 1, 2012	48,965	127,585	176,550
Additions	98,975	-	98,975
Foreign currency translation difference	(2,605)	(5,630)	(8,235)
December 31, 2012	145,335	121,955	267,290
Additions	116,794	-	116,794
Transfers	3,877	(3,877)	-
Foreign currency translation difference	425	(656)	(231)
December 31, 2013	266,431	117,422	383,853
Accumulated amortisation			
January 1, 2012	24,865	-	24,865
Amortization charge	6,679	-	6,679
Foreign currency translation difference	(1,129)	-	(1,129)
December 31, 2012	30,415	-	30,415
Amortization charge	24,986	-	24,986
Foreign currency translation difference	87	-	87
December 31, 2013	55,488	-	55,488
Net book value			
As at January 1, 2012	24,100	127,585	151,685
As at December 31, 2012	114,920	121,955	236,875
As at December 31, 2013	210,943	117,422	328,365

Capital investments in software represent banking software purchased in 2010 as part of the Organisations preparation to transform to a bank. As discussed in Note 1, the Organisation continues its strategic and operational initiatives to transform to a banking institution and, as such, management continues to believe that the capital investments in software will be put into use in time to support the planned usage. Amortisation will commence upon putting the software into use.

9. Other assets

in USD	December 31, 2013	December 31, 2012
Prepayments	198,612	222,768
Inventory	31,170	64,024
Prepaid Rent	21,179	217,702
Advances to employees	8,005	476
Other	-	248
Total other assets	258,966	505,218

10. Borrowed funds

in USD	Currency	Maturity	Nominal interest rate, %	December 31, 2013	Nominal interest rate, %	December 31, 2012
Loans from banks and financial institutions	USD	1-4 years	5.7%-6.5%	29,134,760	5.5% - 7.5%	11,018,599
Loans from banks and financial institutions	AMD	1-3 years	12.2%-15.5%	17,588,586	12.7% - 16%	24,494,097
				46,723,346		35,512,696



As at December 31, 2013 the Organization has borrowings from eight financial institutions (December 31 2012: nine financial institutions and one resident bank) whose balances each exceeding 10% of equity. The gross value of these balances as at December 31, 2013 is USD 46,723,346 (December 31 2012: USD 35,512,696). These liabilities are measured at amortized cost.

The Organization is obligated to comply with financial covenants in relation to borrowed funds. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Organization has not breached any of these covenants during the years ended December 31, 2013 and 2012, except for one financial performance related ratio (ROA) waived by the lenders.

11. Other liabilities

in USD	December 31, 2013	December 31, 2012
Other financial liabilities		
Payables for services	270,363	101,514
Payables to employees	125,251	97,800
Other financial liabilities	525	-
	396,139	199,314
Other non-financial liabilities		
Vocation reserve	365,573	296,343
Taxes payable, other than income tax	286,032	242,177
	651,605	538,520
Total other liabilities	1,047,744	737,834

12. Subordinated debt

In 2009 the Organization received subordinated loan from FINCA Microfinance Fund B.V. in the amount of USD 2,500,000. The FINCA Microfinance Fund B.V. is owned by a Dutch Foundation called "Stichting Holding Microfinance Fund", the founder of which is Deutsche Bank. The loan is provided for 7 years with effective interest rate of 14.98%.

As at December 31, 2013 subordinated debt amounted to USD 2,536,653 (December 31, 2012: USD 2,533,686) and included accrued interest of USD 49,113 (December 31, 2012: USD 49,115).

In the event of bankruptcy or liquidation of the Organization, repayment of this debt is subordinate to the repayments of the Organization's liabilities to all other creditors.

The Organization is obligated to comply with financial covenants in relation to subordinated debt. These covenants include stipulated ratios: debt to equity and various other financial performance ratios. The Organization has not breached any of these covenants during the years ended December 31, 2013 and 2012, except for one financial performance related ratio (ROA) waived by the lender.

13. Equity

As at December 31, 2013 and 2012 Organization's registered, issued, outstanding and fully paid share capital consisted of 449,171 ordinary shares with par value of AMD 10,000 each. 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 annual and general meetings of the Organization.

In June 2012 at the general meeting of shareholders an approval was given for the increase of the charter capital by means of additional issue of 312,699 shares of AMD 3,126,990,000 (equivalent of USD 7,563,657), from which AMD 850,000,000 (USD 2,063,657) from retained earnings and AMD 2,276,990,000 (equivalent of USD 5,500,000) from the cash contribution provided by the shareholder.



As at December 31, 2013 and 2012 the Organization did not possess any of its own shares. The share capital of the Organization was contributed by the shareholders in AMD and they are entitled to dividends and any capital distribution in AMD.

The Organization's distributable reserves among shareholders are limited to the amount of its accumulated retained earnings as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations. The reserve fund of the Organization is formed by compulsory annual deductions in the amount of 5% from net profits of the Organization until the fund reaches 15% of its Share Capital. The reserve fund may be used to cover losses of the Organization, as well as for retirement of debentures and redemption of stock of the Organization in the event that no other funds are available. The reserve fund shall not be used for any other purposes.

In 2013 the Organization declared dividends in respect of the year ended December 31, 2012 totalling AMD 296,066 thousand, equivalent to USD 722,236 (2012: AMD 329,502 thousand, equivalent to USD 788,964).

14. Net interest income

in USD	2013	2012
Interest income:		
loans to customers	14,850,912	13,227,558
placements with banks with original maturities of less than three month	174,137	447,261
Total interest income on financial assets recorded at amortized cost	15,025,049	13,674,819
Interest expense:		
Interest expense on financial liabilities recorded at amortized cost		
- borrowed funds	4,486,629	3,805,831
- subordinated debt	339,954	339,851
	4,826,583	4,145,682
Interest expense on financial instruments at fair value through profit or loss	68,438	62,230
Total interest expense	4,895,021	4,207,912
Net interest income before provision for impairment losses on interest bearing financial assets	10,130,028	9,466,907

15. Net Gain on Foreign Exchange Operations

in USD	2013	2012
Dealing, net	18,591	75,461
FX gain/ (loss), net	8,180	(54,066)
Total net gain on foreign exchange operations	26,771	21,395

16. Staff Costs

in USD	2013	2012
Salaries, bonuses and other employee benefits	5,507,448	4,377,266
Social security costs	-	432,596
Training costs	22,893	49,384
Total staff cost	5,530,341	4,859,246

Effective January 1, 2013 as a result of legislative amendment the employers were relieved from social security payments obligations, which together with employee's income tax and social security contribution payment were replaced with unified income tax.

17. Other Operating Expenses

in USD	2013	2012
Royalty and management fee	1,079,287	799,938
Taxes, other than income tax	699,885	388,780
Operating leases	657,107	422,702
Property and equipment maintenance	330,704	225,250
Business trip expenses	137,771	157,346
Office supplies	116,208	144,555
Insurance	105,018	6,006
Security expenses	88,067	72,270
Communications	86,217	80,967
Professional services	73,141	100,495
Representative expenses	59,702	62,401
Advertising costs	43,055	1,966
Other expenses	136,381	171,921
Total other operating expenses	3,612,543	2,634,597

In 2013 the Organisation introduced negotiated a new insurance policy for borrower death while the loan is in service. Previously, in the case of borrower death the loan was grandfathered.

18. Income tax

The Organization measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Armenia, which differ from IFRS.

The Organization is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2013 and 2012 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the Republic of Armenia on taxable profits (as defined) under tax law of the Republic of Armenia.

Temporary differences as at December 31, 2013 and 2012 comprise:

in USD	December 31, 2013	December 31, 2012
<i>Deferred tax assets/ (liabilities) in relation to:</i>		
Placements with banks with original maturities of less than three month	(6,119)	(13,199)
Loans to customers	324,504	(53,516)
Borrowed funds	(21,798)	(15,294)
Other liabilities	118,293	89,913
Net deferred tax asset	414,880	7,904
	2013	2012
(Loss)/ profit before income tax	(128,826)	1,690,682
Tax at the statutory tax rate (20%)	(25,765)	338,136
Tax effect of permanent differences	(5,836)	(6,212)
Income tax (benefit)/ expense	(31,601)	331,924
Current income tax expense	371,529	317,615
Deferred tax (benefit)/expense recognized in the current year	(403,130)	14,309
Income tax (benefit)/ expense	(31,601)	331,924
Deferred income tax assets/ (liabilities)	2013	2012
As at January 1 – deferred tax assets	7,904	23,172
Changes in deferred tax balances recognized in comprehensive income	403,130	(14,309)
Effect of foreign currency exchange difference	3,846	(959)
As at December 31- deferred tax assets	414,880	7,904



19. Commitments and contingencies

In the normal course of business, the Organization is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position. The Organization's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The Organization has no provision for losses on contingent liabilities as at December 31, 2013 and 2012.

Capital commitments: The Organization had capital commitments in respect of intangible assets totalling USD 64,165 and USD 128,334 as at December 31, 2013 and 2012, respectively.

Operating lease commitments: the Organization leases a number of offices under operating leases. The leases typically run for a period of 3-5 years, with an option to renew the lease after that date. Lease payments are increased every 2-3 years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

Where the Organization is the lessee, the future minimum lease payments under non-cancellable operating leases of rented offices are as follows:

in USD	December 31, 2013	December 31, 2012
Less than 1 year	757,645	659,805
Later than 1 year and not later than 5 years	2,193,129	2,308,544
Later than 5 years	624,026	548,454
Total operating lease commitments	3,574,800	3,516,803

Legal proceeding: In the ordinary course of business, the Organization is subject to legal actions and complaints. Management believes that the ultimate liability arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Organization. No provision has been made in these financial statements in these aspects.

Taxation: Commercial legislation of the Republic of Armenia, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Organization's business activities, was to be challenged by the tax authorities, the Organization may be assessed additional taxes, penalties and interest. Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit.

Operating Environment: Emerging markets such as Armenia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Armenia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Armenia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The global financial turmoil that has negatively affected the Republic of Armenia's financial and capital markets in 2009 and 2010 has receded and the Republic of Armenia's economy returned to growth rates post crisis. However significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt the Republic of Armenia's economy, adversely affect the Organization's access to capital and cost of capital for the Organization and, more generally, its business, results of operations, financial condition and prospects.



20. Transactions with related parties

in USD	Note	December 31, 2013		December 31, 2012	
		Related party balances	Total category as per the financial statements caption	Related party balances	Total category as per the financial statements caption
Other liabilities	11				
- the parent		158,722	1,047,744	1,898	737,834
- other related parties		7,122	1,047,744	-	737,834

in USD	Note	December 31, 2013		December 31, 2012	
		Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Interest expense	14				
- entities with joint control or significant influence over the Organization		-	4,895,021	15,598	4,207,912
Other operating expenses	17				
- the parent		1,096,748	3,612,543	834,017	2,634,597
- other related parties		56,709	3,612,543	-	2,634,597

in USD	Note	December 31, 2013		December 31, 2012	
		Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Key management personnel compensation:	16				
Short-term employee benefits		702,574	5,530,341	528,435	4,859,246
Social security costs		-	-	28,010	4,859,246
		702,574		556,445	

21. Fair value of financial instruments

IFRS defines 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. The estimates presented herein are not necessarily indicative of the amounts the Organization could realize in a market exchange from the sale of its full holdings of a particular instrument.

However, judgment is required to interpret market data to determine the estimated fair value. Republic of Armenia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Fair values versus carrying amounts

Because of the short term nature of most financial assets and financial liabilities, management believes that their carrying amounts approximate their fair values. For certain other financial assets and financial liabilities, management uses discounted cash flows to estimate fair value. Interest rates used to discount these estimated cash flows are based on the government yield curve at the reporting date plus currency, maturity of the instrument and credit risk of the counterparty.

22. Capital risk Management

The Organization manages its capital to ensure that the Organization will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The CBA sets and monitors capital requirements for the Organisation. Under the current capital requirements set by the CBA, universal credit organizations as at December 31, 2013 have to maintain a minimum share capital of AMD 150,000 thousand, equivalent to USD 369,787 (December 31 2012: 150,000 thousand).

As per CBA regulatory requirement which became effective in 2011, credit organisations 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. In 2013 the Organisation changed its charter so that it has the right to conduct foreign exchange cash transactions as a separate activity, thus the Organisation has to measure and comply with this statutory capital requirements and capital ratio. As at December 31, 2013, total capital requirements was AMD 600,000 thousand, equivalent to USD 1,479,145 and minimum capital ratio level was 10%.

The calculation of statutory capital ratio based on requirements set by the Central Bank of Armenia is as follows:

in USD	December 31, 2013 Unaudited
Primary capital	11,522,185
Additional capital	-
Total capital	11,522,185
Risk weighted assets	54,978,910
Statutory capital ratio (%)	21%
Minimum required statutory capital ratios	10 %
Compliance with the minimum share capital and total capital requirements	No breaches during the year ended December 31, 2013

The Management Board reviews the capital structure on a semi-annual basis. The adequacy of the Organization's capital is set and monitored using the ratios established by CBA. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Organization balances its overall capital structure through payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. In addition the Organization manages its capital in order to meet covenant requirements.

23. Risk Management

Management of risk is fundamental to the Organization's business and is an essential element of the Organization's operations. The main risks inherent to the Organization's operations are those related to:

- Credit exposures;
- Liquidity risk;
- Market risk.

The Organization recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Organization has established a risk management framework, whose main purpose is to protect the Organization from risk and allow it to achieve its performance objectives.

The Board of Directors has overall responsibility for the determination of the Organization's risk management objectives, policies and oversight of the Organization's risk management framework. The overall objective of the Board of Directors is to set policies that seek to reduce risks as far as possible without unduly affecting the Organization's competitiveness and flexibility. Whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Organization.

The Organization's risk management policies are established to identify and analyse the risks faced by the Organization, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Organization, through its training and management standards and procedures, aim to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). ALCO is responsible for developing, monitoring risk management policies and exercising control over the risk in the legislation and regulatory arena and assesses its influence on the Organization's activity. This approach allows the Organization to minimize potential losses from the investment climate fluctuations in the Republic of Armenia.

Credit Risk

The Organization is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The main business of the Organization is to provide micro-loans. Respectively credit risk is of crucial importance in the Micro Financing Organisation risk management. To avoid significant financial damage caused by this the Organization uses various methods to identify and manage effectively the credit risks.

The Microfinance industry is generally exposed to credit risk through its loans to customers and bank deposits. With regard to the loans to customers this risk exposure is concentrated within the Republic of Armenia.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Committees and the Organization's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Credit Department. Daily risk management is performed by the Head of Credit Departments and Internal Control Departments.

The Organization's credit policy is determined by the Credit Manual, where all the related procedures and requirements, along with respective controls are clearly defined, including loan disbursement, monitoring of delinquent loans, etc.

The Credit Committee is the analytical body responsible for analysing the information in the loan applications, assessing and reducing the credit risks as far as possible. The Credit Committee is the independent body within the Organization authorized to make the final decision about financing or rejecting the loan application.

Accuracy and correctness of information presented to the Credit Committee is the responsibility of the credit officer, who fills in the initial application after the due scrutiny of the applicant's business and its credit risks. Eventually the Credit Committee members assess the application against the established criteria (applicant's credit history, financial condition, competitive ability, etc.).

Each branch is required to implement Organization's credit policies and procedures, with credit approval authorities delegated from the Organisation's Credit Committee. Each branch manager reports on all credit related matters to management and the Credit Committee. Each branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. Internal Audit undertakes regular audits of branches and Organization's credit processes.

The Organization's credit department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk.

The Organization structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved monthly by the Management Board. The exposure to any one borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily to ensure that the credit limits and credit worthiness guidelines established by the Organization's risk management policy are not breached.



Where appropriate, and in the case of most loans, the Organization obtains collateral and personal guarantee. However, a significant portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and are subject to annual or more frequent reviews.

Loans with renegotiated terms: Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Organization has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring.

Allowances for impairment: The Organization establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main component of this allowance is a collective loan loss allowance established for the Organization; homogeneous assets in respect of losses that have been incurred but not been identified on loans.

Maximum exposure of credit risk: The Organization's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet financial assets. For the financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral.

in USD	December 31, 2013	December 31, 2012
Cash and cash equivalents	2,862,710	6,060,008
Loans to customers	56,384,272	43,854,619
	59,246,982	49,914,627

Off-balance sheet risk

The Organization applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks.

The geographical concentration of the Organization's assets and liabilities as at December 31, 2013 is set out below:

in USD	Republic of Armenia	OECD countries	Total
Non-derivative financial assets			
Cash and cash equivalents	3,782,590	-	3,782,590
Loans to customers	56,384,272	-	56,384,272
Total non-derivative financial assets	60,166,862	-	60,166,862
Non-derivative financial liabilities			
Borrowed funds	-	46,723,346	46,723,346
Other financial liabilities	396,139	-	396,139
Subordinated debt	-	2,536,653	2,536,653
Total non-derivative financial liabilities	396,139	49,259,999	49,656,138
Net position on non-derivative financial investments	59,770,723	(49,259,999)	10,510,724

The geographical concentration of the Organization's assets and liabilities as at December 31, 2012 is set out below:

in USD	Republic of Armenia	OECD countries	Total
Non-derivative financial assets			
Cash and cash equivalents	6,077,913	-	6,077,913
Loans to customers	43,854,619	-	43,854,619
Total non-derivative financial assets	49,932,532	-	49,932,532
Non-derivative financial liabilities			
Borrowed funds	2,951,962	32,560,734	35,512,696
Other financial liabilities	199,314	-	199,314
Subordinated debt	-	2,533,686	2,533,686
Total non-derivative financial liabilities	3,151,276	35,094,420	38,245,696
Net position on non-derivative financial investments	46,781,256	(35,094,420)	11,686,836



The Organization enters into numerous transactions where the counterparties that are not rated by international rating agencies. The Organization has developed internal models, which allow it to determine the creditability of counterparties.

A model of the borrower's scoring assessment has been developed in the Organization to assess and decide on loans to small and medium-sized businesses. The scoring model is developed relating to standard loan products and includes key performance indicators of borrowers: financial situation, relations with the borrower, management quality, target use, location, credit history, collateral, etc.

Liquidity risk

Liquidity risk management: Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Organization's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Organization's reputation.

The ALCO controls these types of risks by means of maturity analysis and determining the Organization's strategy for the next financial period. In order to manage liquidity risk, the Organization performs daily monitoring of future expected cash flows on clients' operations, which is a part of assets/liabilities management process. Current liquidity is managed by Treasurer, so Treasury maintains a portfolio of short-term liquid assets, largely made up of short-term deposits, to ensure that sufficient liquidity is maintained for current liquidity support and cash flow optimization.



An analysis of liquidity and interest rate risk is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the entity

in USD	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	December 31, 2013 Total
NON-DERIVATIVE FINANCIAL ASSETS						
<i>Fixed interest rate instruments</i>						
Cash and cash equivalents	7.79%	2,862,710	-	-	-	2,862,710
Loans to customers	35.20%	1,167,767	6,790,711	32,296,122	16,129,672	56,384,272
Total fixed interest bearing financial assets		4,030,477	6,790,711	32,296,122	16,129,672	59,246,982
<i>Non-interest bearing financial assets</i>						
Cash and cash equivalents		919,880	-	-	-	919,880
Total non-interest bearing financial assets		919,880	-	-	-	919,880
Total non-derivative financial assets		4,950,357	6,790,711	32,296,122	16,129,672	60,166,862
NON-DERIVATIVE FINANCIAL LIABILITIES AND COMMITMENTS						
<i>Fixed interest rate instruments</i>						
Borrowed funds	10.87%	4,111,032	4,391,162	2,336,865	22,601,665	33,440,724
Subordinate debt	14.14%	-	-	36,653	2,500,000	2,536,653
Total fixed interest bearing financial liabilities		4,111,032	4,391,162	2,373,518	25,101,665	35,977,377
<i>Variable interest rate instruments</i>						
Borrowed funds	13.62%	19,177	1,753,893	4,516,349	6,993,203	13,282,622
Total variable interest bearing financial liabilities		19,177	1,753,893	4,516,349	6,993,203	13,282,622
<i>Non-interest bearing financial liabilities</i>						
Other financial liabilities		396,139	-	-	-	396,139
Total non-interest bearing financial liabilities		396,139	-	-	-	396,139
Total non-derivative financial liabilities		4,526,348	6,145,055	6,889,867	32,094,868	49,656,138
Interest sensitivity gap		(99,732)	645,656	25,406,255	(15,965,196)	
Cumulative interest sensitivity gap		(99,732)	545,924	25,952,179	9,986,983	
Liquidity gap		424,009	645,656	25,406,255	(15,965,196)	
Cumulative liquidity gap		424,009	1,069,665	26,475,920	10,510,724	



in USD	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	December 31, 2012 Total
NON-DERIVATIVE FINANCIAL ASSETS						
<i>Fixed interest rate instruments</i>						
Cash and cash equivalents	7.80%	5,429,665	400,000	-	-	5,829,665
Loans to customers	35.30%	2,592,599	5,964,983	23,596,908	11,700,129	43,854,619
Total fixed interest bearing financial assets		8,022,264	6,364,983	23,596,908	11,700,129	49,684,284
<i>Non-interest bearing financial assets</i>						
Cash and cash equivalents		248,248	-	-	-	248,248
Total non-interest bearing financial assets		248,248	-	-	-	248,248
Total non-derivative financial assets		8,270,512	6,364,983	23,596,908	11,700,129	49,932,532
NON-DERIVATIVE FINANCIAL LIABILITIES AND COMMITMENTS						
<i>Fixed interest rate instruments</i>						
Borrowed funds	13.29%	2,169,084	5,212,037	11,338,857	8,512,664	27,232,642
Subordinate debt	14.14%	-	-	33,686	2,500,000	2,533,686
Total fixed interest bearing financial liabilities		2,169,084	5,212,037	11,372,543	11,012,664	29,766,328
<i>Variable interest rate instruments</i>						
Borrowed funds	14.36%	4,857	2,046,801	2,521,470	3,706,926	8,280,054
Total variable interest bearing financial liabilities		4,857	2,046,801	2,521,470	3,706,926	8,280,054
<i>Non-interest bearing financial liabilities</i>						
Other financial liabilities		199,314	-	-	-	199,314
Total non-interest bearing financial liabilities		199,314	-	-	-	199,314
Total non-derivative financial liabilities		2,373,255	7,258,838	13,894,013	14,719,590	38,245,696
Interest sensitivity gap		5,848,323	(893,855)	9,702,895	(3,019,461)	
Cumulative interest sensitivity gap		5,848,323	4,954,468	14,657,363	11,637,902	
Liquidity gap		5,897,257	(893,855)	9,702,895	(3,019,461)	
Cumulative liquidity gap		5,897,257	5,003,402	14,706,297	11,686,836	

Cumulative liquidity gap: The tables above show the expected maturity analysis of non-derivative financial assets and liabilities at their carrying amounts and based on their contractual maturities. The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period. Impaired loans are included at their carrying amounts net of allowance for impairment and based on the expected timing of cash inflows.



The following tables detail the Organization's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities on the basis of their earliest possible contractual maturity. It is not expected that cash flows included in the table below could occur significantly earlier, or at significantly different amounts. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

in USD	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total	December 31, 2013 Carrying amount
<i>Fixed interest rate instruments</i>						
Borrowed funds	4,262,393	4,629,625	3,825,237	25,118,477	37,835,732	33,440,724
Subordinate debt	-	-	320,134	3,147,286	3,467,420	2,536,653
Total fixed interest bearing financial liabilities	4,262,393	4,629,625	4,145,371	28,265,763	41,303,152	35,977,377
<i>Variable interest rate instruments</i>						
Borrowed funds	22,619	1,908,540	5,577,998	7,958,564	15,467,721	13,282,622
Total variable interest bearing financial liabilities	22,619	1,908,540	5,577,998	7,958,564	15,467,721	13,282,622
<i>Non-interest bearing financial liabilities</i>						
Other financial liabilities	396,139	-	-	-	396,139	396,139
Total non-interest bearing financial liabilities	396,139	-	-	-	396,139	396,139
Total financial liabilities	4,681,151	6,538,165	9,723,369	36,224,327	57,167,012	49,656,138
in USD	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total	December 31, 2012 Carrying amount
<i>Fixed interest rate instruments</i>						
Borrowed funds	2,262,932	5,471,579	12,410,402	8,985,814	29,130,727	27,232,642
Subordinate debt	-	-	319,258	3,467,419	3,786,677	2,533,686
Total fixed interest bearing financial liabilities	2,262,932	5,471,579	12,729,660	12,453,233	32,917,404	29,766,328
<i>Variable interest rate instruments</i>						
Borrowed funds	49,658	2,111,703	2,866,227	4,277,273	9,304,861	8,280,054
Total variable interest bearing financial liabilities	49,658	2,111,703	2,866,227	4,277,273	9,304,861	8,280,054
<i>Non-interest bearing financial liabilities</i>						
Other financial liabilities	199,314	-	-	-	199,314	199,314
Total non-interest bearing financial liabilities	199,314	-	-	-	199,314	199,314
Total financial liabilities	2,511,904	7,583,282	15,595,887	16,730,506	42,421,579	38,245,696



Market Risk

Market risk is the risk that the Organization's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk and currency risk that the Organization is exposed to. There have been no changes as to the way the Organization measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

Interest rate risk: The Organization's cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates and the fair value interest rate risk is the risk that the value of financial instruments will fluctuate because of changes in the prevailing levels of market interest rates on both the value and cash flow risks.

Interest rate sensitivity: The Organization manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Organization's management conducts monitoring of the Organization's current financial performance, estimates the Organization's sensitivity to changes in fair value interest rates and its influence on the Organization's profitability.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 200 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 200 basis points higher/lower and all other variables were held constant, the Organisation's profit for the year ended December 31, 2013 and 2012 would decrease/increase by USD 150,840 thousand and USD 186 310, respectively.

Currency Risk: Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Organization is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALCO controls currency risk by management of the open currency position on the estimated basis of USD devaluation and other macroeconomic indicators, which gives the Organization an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasurer performs daily monitoring of the Organization's open currency position.

The Organization's exposure to foreign currency exchange rate risk as at December 31, 2013 is presented in the table below:

in USD	AMD	USD	Other	Total
Non-derivative financial assets				
Cash and cash equivalents	2,260,073	1,272,099	250,418	3,782,590
Loans to customers	37,259,706	19,124,566	-	56,384,272
Total non-derivative financial assets	39,519,779	20,396,665	250,418	60,166,862
Non-derivative financial liabilities				
Borrowed funds	29,134,760	17,588,586	-	46,723,346
Other financial liabilities	227,393	165,844	2,902	396,139
Subordinated debt	-	2,536,653	-	2,536,653
Total non-derivative financial liabilities	29,362,153	20,291,083	2,902	49,656,138
OPEN BALANCE SHEET POSITION	10,157,626	105,582	247,516	10,510,724



The Organization's exposure to foreign currency exchange rate risk as at December 31, 2012 is presented in the table below:

in USD	AMD	USD	Other	Total
Non-derivative financial assets				
Cash and cash equivalents	4,300,099	1,776,027	1,787	6,077,913
Loans to customers	31,276,550	12,578,069	-	43,854,619
Total non-derivative financial assets	35,576,649	14,354,096	1,787	49,932,532
Non-derivative financial liabilities				
Borrowed funds	24,494,098	11,018,598	-	35,512,696
Other financial liabilities	197,416	1,898	-	199,314
Subordinated debt	-	2,533,686	-	2,533,686
Total non-derivative financial liabilities	24,691,514	13,554,182	-	38,245,696
OPEN BALANCE SHEET POSITION	10,885,135	799,914	1,787	11,686,836

Currency risk sensitivity

The following table details the Organization's sensitivity to a 10% increase and decrease in the AMD against the USD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit and equity where the AMD strengthens 10% against USD.

in USD	As at December 31, 2013	As at December 31, 2012
Impact on profit or loss	10,558	79,991
Impact on equity	10,558	79,991

Limitations of sensitivity analysis: The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Organization's assets and liabilities are actively managed. Additionally, the financial position of the Organization may vary at the time that any actual market movement occurs. For example, the Organization's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Organization's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Price risks: Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Organization is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Organization manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Organization is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is



less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Operational Risk: Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Organization cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

24. Subsequent Events

As of the date of issuance of these financial statements the Organization has entered into various loan extensions and/or issuance of loan or credit line arrangement, with international and local financial institutions as part of its cash management and business operations.

The total cash received as part of these arrangements was as of the date of issuance of these financial statements USD 3.5 million.