

SME Investments UCO CJSC

Financial statements

Year ended 31 December 2013
together with independent auditors' report

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Independent auditors' report

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Ernst & Young CJSC
1 Northern Ave., office 27
Yerevan, 0001, Armenia
Tel: +374 (10) 500 790
+374 (10) 500 705
Fax: +374 (10) 500 706
www.ey.com/arm

«Էրնսթ քնո Յանգ» ՓԲԸ
ՀՀ, ք. Երևան 0001
Հյուսիսային պող. 1, գրասենյակ 27
Հեռ. +374 (10) 500 790
+374 (10) 500 705
Ֆաքս. +374 (10) 500 706

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

We have audited the accompanying financial statements of SME Investments UCO CJSC (the "Company"), which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year 2013, and a summary of significant accounting policies and other explanatory information.

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

Our responsibility is to express an opinion on the fairness of these financial statements based on our audit.

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

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

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

Opinion

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

Ernst & Young CJSC

9 April 2014

Partner (Audit department)
Sergei Taskaev

On behalf of General Director H. Sarkisyan
Eric Hayrapetyan
(by power of authority dated 31 July 2013)



Statement of financial position as of 31 December 2013

(Thousands of Armenian Drams)

	Notes	2013 AMD'000	2012 AMD'000
Assets			
Cash and cash equivalents	5	1,101,017	542,859
Amounts due from credit institutions	6	4,507,052	940,127
Loans to customers	7	5,806,473	4,716,052
Net investment in finance lease	8	236,973	-
Property and equipment	9	37,116	20,937
Intangible assets	10	4,862	3,943
Other assets		1,593	1,094
Total assets		11,695,086	6,225,012
Liabilities			
Loan received from the Ministry of Finance	11	9,611,562	4,611,341
Deferred tax liability	12	49,297	32,335
Current income tax liabilities		4,528	21,840
Government grant		3,095	3,924
Provision for unused vacation	13	12,625	8,365
Deferred revenue	11	321,437	-
Other liabilities		873	126
Total liabilities		10,003,417	4,677,931
Equity			
Share capital	14	1,150,500	1,150,500
Retained earnings		427,471	290,638
Other reserves	14	113,698	105,943
Total equity		1,691,669	1,547,081
Total equity and liabilities		11,695,086	6,225,012

Executive director

A. Badalyan

Chief accountant

T. Galstyan

9 April 2014

Statement of comprehensive income**For the year ended 31 December 2013***(Thousands of Armenian Drams)*

	<i>Notes</i>	2013 <i>AMD'000</i>	2012 <i>AMD'000</i>
Interest income			
Interest income / Cash and cash equivalents		8,085	3,079
Interest income / Due from banks		286,383	185,666
Interest income / Loans to customers		729,680	559,934
		1,024,148	748,679
Interest expense		(484,574)	(312,436)
Net Interest income		539,574	436,243
Allowance for impairment	7,8	(106,996)	(5,700)
Net interest income after allowance for loan impairment		432,578	430,543
Net fee and commission income		10,481	8,234
Net loss on initial recognition	7,11	(11,663)	(50,756)
Other Income	16	19,400	2,174
Non-interest income/(loss)		18,218	(40,348)
Personnel expenses	17	(126,601)	(103,729)
Depreciation and amortisation	9,10	(13,605)	(9,778)
Other operating expenses	18	(53,803)	(37,260)
Non-interest expense		(194,009)	(150,767)
Profit before income tax expense		256,787	239,428
Income tax expense	12	(52,199)	(48,357)
Profit for the year		204,588	191,071
Other comprehensive income		–	–
Total comprehensive income		204,588	191,071

Statement of changes in equity**For the year ended 31 December 2013***(Thousands of Armenian Drams)*

	<i>Share capital</i>	<i>Retained earnings</i>	<i>Other reserves</i>	<i>Total</i>
	<i>AMD'000</i>	<i>AMD'000</i>	<i>AMD'000</i>	<i>AMD'000</i>
31 December 2011 (restated)	1,150,500	201,245	44,265	1,396,010
Total comprehensive income for the year	-	191,071	-	191,071
Profit transfer to other reserve	-	(61,678)	61,678	-
Dividends to shareholders of the Company	-	(40,000)	-	(40,000)
31 December 2012	1,150,500	290,638	105,943	1,547,081
Total comprehensive income for the year	-	204,588	-	204,588
Profit transfer to other reserve	-	(7,755)	7,755	-
Dividends to shareholders of the Company	-	(60,000)	-	(60,000)
31 December 2013	1,150,500	427,471	113,698	1,691,669

Statement of cash flows**For the year ended 31 December 2013***(Thousands of Armenian Drams)*

	<i>Notes</i>	2013	2012
		AMD'000	AMD'000
Cash flows from operating activities			
Interest received		843,723	620,259
Interest paid		(388,973)	(263,661)
Fees and commissions received		10,995	8,542
Fees and commissions paid		(514)	(307)
Payroll and other equivalent payments		(121,889)	(93,312)
Other operating expenses paid		(34,875)	(39,033)
Net cash flows from operating activities before changes in operating assets and liabilities		308,467	232,488
Amounts due to credit organisations		(3,509,278)	(334,267)
Loans to customers		(1,440,723)	(1,868,468)
Net increase in operating assets		(4,950,001)	(2,202,735)
Net cash flows used in operating activities after changes in operating assets and liabilities		(4,641,534)	(1,970,247)
Income tax paid		(53,274)	(28,847)
Net cash used in operating activities		(4,694,808)	(1,999,094)
Cash flows from investing activities			
Purchase of property and equipment		(30,984)	(8,635)
Net cash used in investing activities		(30,984)	(8,635)
Cash flows from financing activities			
Loan received from Ministry of Finance		5,343,950	1,849,800
Dividends paid to shareholders of the Company		(60,000)	(40,000)
Net cash from financing activities		5,283,950	1,809,800
Net increase/(decrease) in cash and cash equivalents		558,158	(197,929)
Cash and cash equivalents, beginning		542,859	740,788
Cash and cash equivalents, ending	5	1,101,017	542,859

1. Principal activities

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

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

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

2. Basis of preparation

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

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

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

3. Summary of accounting policies

Changes in accounting policies

The Company has adopted the following amended IFRS during the year:

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation - Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

IFRS 10 had no impact on the consolidation of investments held by the Company.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Company.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: The Company provides these disclosures in Note 20.

Amendments to IAS 19 Employee Benefits

The IASB has published amendments to IAS 19 Employee Benefits, effective for annual periods beginning on or after 1 January 2013, which involve major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset/(liability) recognised in profit or loss to net interest income/(expense) and service costs.

These amendments had no impact on the Company's financial position.

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries.

IFRS 12 had no impact on the consolidation of investments held by the Company.

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

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings).

The amendments affect presentation only and have no impact on the Company's financial position or performance.

IAS 1 Clarification of the Requirement for Comparative Information (amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes.

The amendments affect presentation only and have no impact on the Company's financial position or performance.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32.

These amendments had no impact on the Company's financial position or performance.

Fair value measurement

The Company measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 20.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3. Summary of accounting policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- ▶ Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

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

Date of recognition

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

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial assets

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

3. Summary of accounting policies (continued)

Financial assets (continued)

Reclassification of financial assets

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

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

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

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

Cash and cash equivalents

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

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

Promissory notes

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

3. Summary of accounting policies (continued)

Borrowings

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

Leases

i. Finance - Company as lessee

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

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

ii. Finance - Company as lessor

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

iii. Operating - Company as lessee

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

iv. Operating - Company as lessor

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

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Company determines that the fair value at initial recognition differs from the transaction price, then:

- ▶ if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Company recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- ▶ in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Company recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

3. Summary of accounting policies (continued)

Offsetting

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

Impairment of financial assets

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

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Held-to-maturity financial investments

For held-to-maturity investments the Company assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

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

Available-for-sale financial investments

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

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

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

Renegotiated loans

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

The accounting treatment of such restructuring is as follows:

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

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

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Where continuing involvement takes the form of a written and / or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

Financial guarantees

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

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

Taxation

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

3. Summary of accounting policies (continued)

Taxation (continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Republic of Armenia also has various operating taxes that are assessed on the Company's activities. These taxes are included as a component of other operating expenses.

Property and equipment

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

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

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

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

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

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

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with definite useful lives are reviewed at least at each financial year-end.

Assets classified as held for sale

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

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

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

3. Summary of accounting policies (continued)

Provisions

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

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

Retirement and other employee benefit obligations

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

Share capital

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

Treasury shares

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

Dividends

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

Fiduciary assets

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

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

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

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

3. Summary of accounting policies (continued)

Deferred revenue

The Company provides loans to customers from the funds attracted from Ministry of Finance. The Company earns gains on recognition of loans with low than market interest rate and incurs losses on the recognition of loans to customers with low than market interest rate in the same reporting period. The gains from loan received and losses from loans given should be recognized simultaneously. If the Company attracts funds but has not yet granted them as loans to customers, the initial recognition gain is deferred until the respective loans are granted to customers to avoid the accounting mismatch.

Fee and commission income

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

- ▶ *Fee income earned from services that are provided over a certain period of time*
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.
- ▶ *Fee income from providing transaction services*
Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

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

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

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

The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

It is not expected that this amendment would be relevant to the Company.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014.

These amendments are not expected to be relevant to the Company.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014.

The Company does not expect that IFRIC 21 will have a material impact on its financial statements.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014.

The Company has no derivatives during the current period.

4. Significant accounting judgments and estimates

Estimation uncertainty

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

Fair value of financial instruments

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

Allowance for loan impairment

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

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<i>2013</i> <i>AMD'000</i>	<i>2012</i> <i>AMD'000</i>
Current accounts with credit institutions	69,780	9,711
Time deposits with credit institutions up to 90 days	1,031,237	533,148
Cash and cash equivalents	1,101,017	542,859

6. Amounts due from credit institutions

Amounts due from credit institutions comprise time deposits in Armenian drams placed in Armenian banks for more than 90 days with interest rate 11%-14% p.a. in the amount AMD 4,507,052 thousand as at 31 December 2013 and AMD 940,127 thousand as at 31 December 2012.

None of amounts due from credit institutions was impaired as at 31 December of 2012 and 2013.

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

	<i>AMD'000</i>
At 1 January 2012	13,326
Reversal	(13,326)
At 31 December 2012	-

7. Loans to customers

Average contractual rates for loans given are 11.6% in 2013 and 12.3% in 2012. As loans are recognized at fair value at initial recognition, market rates 15,2% for 2013, 14,8% for 2012 were used. The difference between the fair value and contract value is recognized as loss on initial recognition (AMD 129,556 thousand in 2013 and AMD 166,964 thousand in 2012).

	2013	2012
	AMD'000	AMD'000
Small business lending	5,959,267	4,765,090
Less: allowance for impairment	(152,794)	(49,038)
Loans to customers	5,806,473	4,716,052

Allowance for impairment of loans to customers

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

	AMD'000
At 1 January 2012	30,012
Charge for the year	19,026
At 31 December 2012	49,038
Charge for the year	104,587
Write-off	(831)
At 31 December 2013	152,794
Individual impairment	14,897
Collective impairment	137,897
	152,794
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	148,971

Collateral and other credit enhancements

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

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

The collaterals mainly represent property, real estate and inventory.

Concentration of loans to customers

As of 31 December 2013, the Company had a concentration of loans represented by AMD 2,799,425 thousand due from the ten largest third party entities (46% of gross loan portfolio) (2012: AMD 2,985,978 or 57%).

Loans have been extended to private companies.

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

	2013	2012
	AMD'000	AMD'000
Manufacturing	3,124,966	2,436,790
Agriculture and food processing	2,017,225	1,961,748
Services	574,103	222,860
Construction materials, metal mining	38,515	48,494
Trading enterprises	32,153	22,982
Other	19,511	23,178
	5,806,473	4,716,052

8. Net investment in finance lease

	2013 AMD'000	2012 AMD'000
Investment in finance lease	239,382	-
Less: allowance for impairment	(2,409)	-
Net investment in finance lease	236,973	-

Allowance for impairment of lease

A reconciliation of the allowance for investment in finance lease is as follows:

	AMD'000
At 1 January 2012	-
Charge for the year	-
At 31 December 2012	-
Charge for the year	2,409
At 31 December 2013	2,409

Leases are made principally within Armenia in the Agricultural sector.

9. Property and equipment

The movements in property and equipment were as follows:

	<i>Furniture and fixtures</i> AMD'000	<i>Computers and office equipment</i> AMD'000	<i>Motor vehicles</i> AMD'000	<i>Other</i> AMD'000	<i>Total</i> AMD'000
Cost					
31 December 2011	4,877	7,787	21,270	84	34,018
Additions	1,646	6,198	-	168	8,012
Disposals	-	(1,830)	-	-	(1,830)
31 December 2012	6,523	12,155	21,270	252	40,200
Additions	2,126	4,243	22,440	312	29,121
Disposals	-	(765)	-	-	(765)
31 December 2013	8,649	15,633	43,710	564	68,556
Accumulated depreciation					
31 December 2011	1,114	7,144	3,576	23	11,857
Depreciation charge	1,384	3,580	4,254	18	9,236
Disposals	-	(1,830)	-	-	(1,830)
31 December 2012	2,498	8,894	7,830	41	19,263
Depreciation charge	1,642	5,177	5,750	373	12,942
Disposals	-	(765)	-	-	(765)
31 December 2013	4,140	13,306	13,580	414	31,440
Net book value:					
31 December 2011	3,763	643	17,694	61	22,161
31 December 2012	4,025	3,261	13,440	211	20,937
31 December 2013	4,509	2,327	30,130	150	37,116

10. Intangible assets

	<i>Licenses</i>	<i>Computer software</i>	<i>Other</i>	<i>Total</i>
	<i>AMD'000</i>	<i>AMD'000</i>	<i>AMD'000</i>	<i>AMD'000</i>
Cost				
31 December 2011	-	4,698	350	5,048
Additions	83	540	-	623
Disposals	-	-	(73)	(73)
31 December 2012	83	5,238	277	5,598
Additions	159	900	800	1,859
Disposals	-	-	(277)	(277)
31 December 2013	242	6,138	800	7,180
Accumulated amortization and impairment				
31 December 2011	-	1,113	73	1,186
Amortisation charge	14	528	-	542
Disposals	-	-	(73)	(73)
31 December 2012	14	1,641	-	1,655
Amortisation charge	110	553	-	663
Disposals	-	-	-	-
31 December 2013	124	2,194	-	2,318
Net book value:				
31 December 2011	-	3,585	277	3,862
31 December 2012	69	3,597	277	3,943
31 December 2013	118	3,944	800	4,862

11. Loan received from Ministry of Finance

The Company signed the contract in 2009 with Ministry of Finance for the loan with contractual interest rate 7% and effective interest rate 9%. The loan is received in tranches. The loan matures in 2019, the interest is to be repaid semi-annually, and the principal is to be paid semi-annually starting from 2014.

The Company signed the second contract in 2013 with Ministry of Finance for the loan with contractual interest rate 7% and effective interest rate 9%. Total amount of the contract is AMD 3,900,000 thousand, the interest is to be repaid semi-annually and the principal is to be paid wholly in 2020.

The total amount of loan received from Ministry of Finance under both contracts is AMD 9,442,783 thousand and AMD 4,611,341 thousand as at 31 December 2013 and 2012 respectively.

The Company signed the contract in 2013 with Foreign Financing Projects Management Center of the RA Ministry of Finance (FFPMC) for financing lease with contractual interest rate 4% and effective interest rate 9%. The loan is received in tranches. The loan matures in 2020, the interest is to be repaid quarterly, and the principal is to be paid in accordance with lease payment starting from 2014. The total amount of loan received from FFPMC is AMD 168,779 thousand as at 31 December 2013 (2012:0).

As loans are recognized at fair value at initial recognition, market rate 9% is used. The difference between the fair value and contract value for the first contract and loan received from FFPMC is recognized as gain on initial recognition (AMD 117,893 thousand for the period ended 31 December 2013 and AMD 116,208 thousand for the period ended 31 December 2012), and for the second contract from Ministry of Finance is recognized as deferred revenue (AMD 321,437 thousand for the period ended 31 December 2013).

12. Taxation

The corporate income tax expense comprises:

	2013	2012
	AMD'000	AMD'000
Current tax charge	35,237	40,915
Deferred tax charge- origination and reversal of temporary differences	16,962	7,442
Income tax expense	52,199	48,357

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

	2013	2012
	AMD'000	AMD'000
Profit before tax	256,787	239,429
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	51,357	47,886
Non-deductible expenditures:	842	471
Income tax expense	52,199	48,357

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

	2011 (Restated)	Origination and reversal of temporary differences In the profit or loss	2012	Origination and reversal of temporary differences	2013
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
Tax effect of deductible temporary differences:					
Provision	-	1,551	1,551	1,628	3,179
Deferred revenue	-	-	-	64,288	64,288
Loans to customers	16,670	8,859	25,529	2,696	28,225
Deferred tax asset	16,670	10,410	27,080	68,612	95,692
Tax effect of taxable temporary differences:					
Due from banks	-	(2,965)	(2,965)	(9,212)	(12,177)
Loan from Ministry of Finance	(41,563)	(14,887)	(56,450)	(76,362)	(132,812)
Deferred tax liability	(41,563)	(17,852)	(59,415)	(85,574)	(144,989)
Deferred tax liability, net	(24,893)	(7,442)	(32,335)	(16,962)	(49,297)

13. Provision for unused vacation

	Provision AMD'000
31 December 2011	-
Charge for the year	8,365
31 December 2012	8,365
Charge for the year	4,260
31 December 2013	12,625

14. Share capital and other reserves

Authorised shares

	<i>Number of ordinary shares</i>	<i>Nominal Value</i>
		<i>AMD'000</i>
1 January 2012	767	1,500
31 December 2012	767	1,500
31 December 2013	767	1,500

As at 31 December 2013 the number of authorized ordinary shares is 767 with a nominal value per share of AMD 1,500 thousand (2012: 1,500).

Other reserve

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

Dividends paid and proposed

In 2013 the Company proposed and paid dividends in amount of AMD 60,000 thousand (2012: AMD 40,000).

15. Commitments and contingencies

(i). Operating environment, risks and economic conditions in Armenia

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

The Company management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

(ii). Tax risks

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

As at 31 December 2013 management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax, currency and customs positions will be sustained.

(iii). Legal matters

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

16. Other income

	<i>2013</i>	<i>2012</i>
	<i>AMD'000</i>	<i>AMD'000</i>
Penalty income	18,082	505
Amortisation of government grant	830	830
Insurance reimbursement	52	500
Other	436	339
Total other income	19,400	2,174

17. Personnel expenses

	<i>2013</i>	<i>2012</i>
	<i>AMD'000</i>	<i>AMD'000</i>
Salaries and social security cost	125,501	103,729
Financial assistance to employees	1,100	–
Personnel expenses	126,601	103,729

18. Other operating expenses

	<i>2013</i>	<i>2012</i>
	<i>AMD'000</i>	<i>AMD'000</i>
Rent expenses	18,045	13,513
Maintenance expenses	8,764	8,484
Social packages to employees	4,653	–
Financial system mediatory expenses	4,438	3,055
Professional services	4,400	3,500
Insurance services	3,796	602
Office expenses	2,090	1,681
Communication expenses	2,005	2,236
Representation expenses	1,127	978
Non-refundable taxes	725	721
Personnel training expenses	691	642
Loss on disposal	277	–
Other expenses	2,792	1,848
Other expenses	53,803	37,260

19. Risk management**Introduction**

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

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

Risk management structure

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

Board of Directors

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

Management Board

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

Risk Management

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

19. Risk management (continued)

Company Treasury

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

Credit risk

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

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

Credit-related commitments risks

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

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

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

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

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

Impairment assessment

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

Individually assessed allowances

The Company has fully impaired loan with amount of AMD 678 thousand and one individually assessed loan with amount AMD 148,971 thousand as at 31 December 2013.

No individual impairment was created as at 31 December 2012.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

19. Risk management (continued)

Collectively assessed allowances (continued)

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Company's overall policy.

	Notes	Neither past due nor impaired		Past due but not individually impaired 2013	Individually impaired 2013	Total 2013
		High grade 2013	Standard grade 2013			
Amounts due from credit institutions	6	4,507,052	-	-	-	4,507,052
Loans to customers	7	-	5,244,712	565,584	148,971	5,959,267
Net investment in finance lease	8	-	236,973	-	-	236,973
Total		4,507,052	5,481,685	565,584	148,971	10,703,292

	Notes	Neither past due nor impaired		Past due but not individually impaired 2012	Individually impaired 2012	Total 2012
		High grade 2012	Standard grade 2012			
Amounts due from credit institutions	6	940,127	-	-	-	940,127
Loans to customers	7	-	4,764,492	608	-	4,765,090
Total		940,127	4,764,492	608	-	5,705,217

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

Aging analysis of past due but not individually impaired loans

	Less than 30 days 2013	31 to 60 days 2013	61 to 90 days 2013	More than 90 days 2013	Total 2013
Loans to customers	-	279,353	11,375	274,856	565,584

	Less than 30 days 2012	31 to 60 days 2012	61 to 90 days 2012	More than 90 days 2012	Total 2012
Loans to customers	-	-	608	-	608

Liquidity risk and funding management

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

19. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturities

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

Financial liabilities As at 31 December 2013	<i>Less than 3 months</i> <i>AMD'000</i>	<i>3 to 12 months</i> <i>AMD'000</i>	<i>1 to 5 years</i> <i>AMD'000</i>	<i>Over 5 years</i> <i>AMD'000</i>	<i>Total</i> <i>AMD'000</i>
Loan received from Ministry of Finance	85,112	1,798,631	6,410,771	5,127,110	13,421,624
Total undiscounted financial liabilities	85,112	1,798,631	6,410,771	5,127,110	13,421,624
Financial liabilities As at 31 December 2012	<i>Less than 3 months</i> <i>AMD'000</i>	<i>3 to 12 months</i> <i>AMD'000</i>	<i>1 to 5 years</i> <i>AMD'000</i>	<i>Over 5 years</i> <i>AMD'000</i>	<i>Total</i> <i>AMD'000</i>
Loan received from Ministry of Finance	-	341,176	4,475,170	1,422,307	6,238,653
Total undiscounted financial liabilities	-	341,176	4,475,170	1,422,307	6,238,653

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Company's profit or loss.

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

<i>Currency</i>	<i>Increase in basis points 2013</i>	<i>Sensitivity of net interest income 2013</i>
AMD	4,66	27,058
<i>Currency</i>	<i>Decrease in basis points 2013</i>	<i>Sensitivity of net interest income 2013</i>
AMD	4,66	(27,058)
<i>Currency</i>	<i>Increase in basis points 2012</i>	<i>Sensitivity of net interest income 2012</i>
AMD	5,8	21,296
<i>Currency</i>	<i>Decrease in basis points 2012</i>	<i>Sensitivity of net interest income 2012</i>
AMD	5,8	(21,296)

Operational risk

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

20. Fair value measurements

The Company determines the policies and procedures for both recurring fair value measurement.

At each reporting date, the Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Company also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Fair value hierarchy

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

		Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Date of valuation					
Assets measured at fair value					
Cash and cash equivalents	-	1,101,017	-	-	1,101,017
Assets for which fair values are disclosed					
Amounts due from credit institutions	-	-	-	4,507,052	4,507,052
Loans to customers	-	-	-	5,806,473	5,806,473
Net investment in finance lease	-	-	-	236,973	236,973

	Fair value measurement using				Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Date of valuation					
Liabilities measured at fair value					
Loan received from Ministry of Finance	-	-	-	9,611,562	9,611,562

Fair value hierarchy for financial instruments measured at fair value as at 31 December 2012

<i>At 31 December 2012</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets				
Cash and cash equivalents	542,859	-	-	542,859

Fair value of financial assets and liabilities not carried at fair value

The carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the statement of financial position are approximately the same, except those presented below:

	<i>Carrying value 2013</i>	<i>Fair value 2013</i>	<i>Unrecognised gain/(loss) 2013</i>	<i>Carrying value 2012</i>	<i>Fair value 2012</i>	<i>Unrecognised gain/(loss) 2012</i>
Financial assets						
Loans to customers	5,806,473	5,744,722	(61,751)	4,716,052	4,724,533	8,581

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

20. Fair value measurements (continued)

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial assets and financial liabilities carried at amortized cost

The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the CBA and credit institutions and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

21. Maturity analysis of assets and liabilities

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

	2013			2012		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
	<i>AMD'000</i>	<i>AMD'000</i>	<i>AMD'000</i>	<i>AMD'000</i>	<i>AMD'000</i>	<i>AMD'000</i>
Cash and cash equivalents	1,101,017	-	1,101,017	542,859	-	542,859
Amounts due from credit institutions	4,507,052	-	4,507,052	940,127	-	940,127
Loans to customers	2,757,425	3,049,048	5,806,473	1,200,000	3,516,052	4,716,052
Net investment in finance lease	40,285	196,688	236,973	-	-	-
Property and equipment	-	37,116	37,116	-	20,937	20,937
Intangible assets	-	4,862	4,862	-	3,943	3,943
Other assets	1,593	-	1,593	-	1,094	1,094
Total	8,407,372	3,287,714	11,695,086	2,682,986	3,542,026	6,225,012
Loan from Ministry of Finance	1,294,805	8,316,757	9,611,562	-	4,611,341	4,611,341
Deferred tax liabilities	-	49,297	49,297	-	32,335	32,335
Current income tax liabilities	-	4,528	4,528	-	21,840	21,840
Government grant	830	2,265	3,095	1,200	2,724	3,924
Provisions	12,625	-	12,625	8,365	-	8,365
Deferred revenue	1,750	319,687	321,437	-	-	-
Other liabilities	873	-	873	-	126	126
Total	1,310,883	8,692,534	10,003,417	9,565	4,668,366	4,677,931
Net	7,096,489	(5,404,820)	1,691,669	2,673,421	(1,126,340)	1,547,081

22. Related party disclosures

The Company has loan from Ministry of Finance in amount of AMD 9,611,562 thousand as at 31 December 2013, AMD 4,611,341 thousand as at 31 December 2012.

The interest expense for the loan is AMD 484,574 thousand for the year ended 31 December 2013 and AMD 312,436 thousand for the year ended 31 December 2012, .

Compensation to key management personnel comprises the following:

	<i>2013</i>	<i>2012</i>
	<i>AMD'000</i>	<i>AMD'000</i>
Salaries, other short-term benefits and social security costs	22,944	14,753
Total key management personnel compensation	22,944	14,753

23. Capital adequacy

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years. The Company complies with statutory requirement of minimum share capital.