Grant Thornton

Financial Statements and Independent Auditor's Report

“SME Investments” universal credit organization closed joint stock company

31 December 2014

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Statement of profit or loss and other comprehensive income

In thousand Armenian drams	Notes	**Year ended December 31, 2014**	Year ended December 31, 2013
Interest and similar income	6	**1,379,635**	1,035,144
Interest and similar expense	6	**(794,890)**	(484,574)
Net interest income		**584,745**	550,570
Fee and commission expense		**(532)**	(515)
Net fee and commission expense		**(532)**	(515)
Net loss from initial recognition of financial assets and liabilities	14,19	**(92,337)**	(11,663)
Other income	7	**74,637**	19,400
Impairment charge	8	**(323,314)**	(106,996)
Staff costs	9	**(143,010)**	(131,945)
Depreciation of property and equipment	16	**(13,454)**	(12,942)
Amortization of intangible assets	17	**(845)**	(663)
Other expenses	10	**(54,429)**	(48,459)
Profit before income tax		**31,461**	256,787
Income tax expense	11	**(6,852)**	(52,199)
Profit for the year		**24,609**	204,588
Other comprehensive income		**-**	-
Total comprehensive income for the year		**24,609**	204,588

The accompanying notes on pages 7 to 37 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2014	As of December 31, 2013
ASSETS			
Cash and cash equivalents	12	**1,216,851**	1,101,017
Amounts due from other financial institutions	13	**3,084,976**	4,507,052
Loans to customers	14	**5,697,575**	5,806,473
Net investment in finance lease	15	**403,335**	236,973
Prepaid income taxes		**17,138**	-
Property, plant and equipment	16	**455,095**	37,116
Intangible assets	17	**4,061**	4,862
Other assets	18	**12,303**	1,593
TOTAL ASSETS		**10,891,334**	11,695,086
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to RA Ministry of Finance	19	**8,692,676**	9,611,562
Current income tax liabilities		**-**	4,528
Deferred tax liabilities	11	**46,819**	49,297
Deferred income	19	**311,432**	321,437
Other liabilities	20	**124,129**	16,593
Total liabilities		**9,175,056**	10,003,417
Equity			
Share capital	21	**1,150,500**	1,150,500
Statutory general reserve		**232,254**	113,698
Retained earnings		**333,524**	427,471
Total equity		**1,716,278**	1,691,669
TOTAL LIABILITIES AND EQUITY		**10,891,334**	11,695,086

The financial statements from pages 3 to 37 were signed by the Company’s Executive Director and Chief Accountant on 15 March, 2015.

Arthur Badalyan
Executive Director

Tatevik Galstyan
Chief accountant

The accompanying notes on pages 7 to 37 are an integral part of these financial statements.

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Retained earnings	Total
As of January 1, 2013	1,150,500	105,943	290,638	1,547,081
Dividends to shareholders	-	-	(60,000)	(60,000)
Distribution to reserve	-	7,755	(7,755)	-
Transactions with owners	-	7,755	(67,755)	(60,000)
Profit for the year	-	-	204,588	204,588
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	204,588	204,588
As of December 31, 2013	**1,150,500**	**113,698**	**427,471**	**1,691,669**
Distribution to reserve	**-**	**118,556**	**(118,556)**	**-**
Transactions with owners	**-**	**118,556**	**(118,556)**	**-**
Profit for the year	**-**	**-**	**24,609**	**24,609**
Other comprehensive income	**-**	**-**	**-**	**-**
Total comprehensive income for the year	**-**	**-**	**24,609**	**24,609**
As of December 31, 2014	**1,150,500**	**232,254**	**333,524**	**1,716,278**

The accompanying notes on pages 7 to 37 are an integral part of these financial statements.

Statement of cash flows

In thousand Armenian drams	**Year ended December 31, 2014**	Year ended December 31, 2013
Cash flows from operating activities		
Interests receivable	**1,314,547**	854,718
Interests payable	**(639,533)**	(388,973)
Commissions paid	**(532)**	(515)
Salary and other equal payments	**(135,825)**	(121,889)
Other operating expenses paid	**(61,794)**	(52,091)
Other operating income received	**56,861**	17,217
Cash flows from operating activities before changes in operating assets and liabilities	**533,724**	308,467
(Increase)/decrease in operating assets		
Amounts due to financial institutions	**1,392,310**	(3,509,278)
Loans to customers	**(210,199)**	(1,199,819)
Net investment in finance lease	**(165,543)**	(240,904)
Cash flows from operating activities before changes in operating assets and liabilities	**1,550,292**	(4,641,534)
Income tax paid	**(30,996)**	(53,274)
Net cash from/(used in) operating activities	**1,519,296**	(4,694,808)
Cash flows from investing activities		
Purchase of property and equipment and intangible assets	**(329,320)**	(30,984)
Net cash used in investing activities	**(329,320)**	(30,984)
Cash flows from financing activities		
Amounts due to RA Government	**(1,074,142)**	5,343,950
Dividends paid to shareholders	**-**	(60,000)
Net cash from/(used in) financing activities	**(1,074,142)**	5,283,950
Net increase in cash and cash equivalents	**115,834**	558,158
Cash and cash equivalents at the beginning of the period	**1,101,017**	542,859
Cash and cash equivalents at the end of the period (Note 12)	**1,216,851**	1,101,017

The accompanying notes on pages 7 to 37 are an integral part of these financial statements.

Accompanying notes to the financial statements

1 Principal activities

"SME Investments" UCO CJSC (the "Company") is a closed joint-stock company and is regulated by the legislation of the Republic of Armenia (RA). The Company was established by the decision of the Board of Trustees of "Small and Medium Entrepreneurship Development National Center of Armenia" dated 9 June 2009, by the decision N 717A of RA Government dated 26 June 2009 within the framework of an economy stabilization lending program.
The Company was registered on 7 August 2009 under license number 28, granted by the Central Bank of Armenia (the "CBA").

The Company's main activity is the crediting of small and medium enterprises. The Company's mission is to promote the development of small and medium entrepreneurship which have a strategic importance for the economy of Armenia, focusing on the development of regions. Carrying out credit policies the Company pays special attention to programs which implementation contribute to the production volume growth, the establishment of new jobs, have strategic importance for the economy of RA and promote the development of RA regions.

The head office of the Company is located in Yerevan, A. Armenakyan str. 2/5.

2 Business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base.

Deterioration of economic situation of countries collaborating with the RA led to the shortage of money transfers from abroad, upon which the economy of Armenia is significantly dependant. Further decline in international prices of mining products, uncertainties due to possibilities of attraction of direct capital investments, inflation, may lead to deterioration of the situation of Armenian economy and of the Company. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Company may be affected.

Management of the Company believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Company.

3 Basis of preparation

3.1 Statement of compliance

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

3.2 Basis of measurement

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

3.3 Functional and presentation currency

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

3.4 Changes in accounting policies

In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2014.

IAS 32* (Amendment) *Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32’s criteria for offsetting financial assets and financial liabilities in the following two areas:

- The meaning of ‘currently has a legally enforceable right of set-off’: the amendments clarify that a right of set-off is required to be legally enforceable in the normal course of business, the event of default and the event of insolvency or bankruptcy of the entity and all of the counterparties, and that the right must also exist for all counterparties.
- Since there was diversity in practice related to the interpretation of ‘simultaneous settlement’ in IAS 32, the IASB has therefore clarified the principle behind net settlement and included an example of a gross settlement system with characteristics that would satisfy the IAS 32 criterion for net settlement.

The amendments have been applied retrospectively in accordance with their transitional provisions. As the Company does not currently present any of its financial assets and financial liabilities on a net basis using the provisions of IAS 32, these amendments had no material effect on the financial statements for any period presented.

3.5 Standards and Interpretations not yet applied by the Company

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

Management anticipates that all of the pronouncements will be adopted in the Company’s accounting policy for the first period beginning after the effective date of the pronouncement.

Management does not anticipate a material impact on the Company’s financial statements from these Amendments, they are presented below.

***IFRS 9 Financial Instruments* (2014)**

The IASB recently released *IFRS 9 Financial Instruments* (2014), representing the completion of its project to replace *IAS 39 Financial Instruments: Recognition and Measurement.* The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.
The Company's management have yet to assess the impact of IFRS 9 on these financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

The following new or amended standards are not expected to have a significant impact of the Company's financial statements.

- IFRS 14 *Regulatory Deferral Accounts.*
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).*
- *Annual Improvements to IFRSs 2010–2012 Cycle.*
- *Annual Improvements to IFRSs 2011–2013 Cycle.*

4 Summary of significant accounting policies

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

4.1 Recognition of income and expenses

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

Interest income and expense

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

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

Deferred income

The Company provides loans to customers from the funds attracted from the RA Government. The Company receives income on recognition of loans with low than market interest rate and incurs losses on recognition of loans to customers with low than market interest rate in the same reporting period.

Gains from received loans and losses from extended loans should be recognised simultaneously. If the Company attracts funds but has not yet extended them as loans to customers, then income from initial recognition is deferred until the respective loans are extended to customers to avoid accounting mismatch.

Fee and commission income and expense

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

4.2 Taxation

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

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

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

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

The Republic of Armenia also has various operating taxes, which are assessed on the Company's activities. These taxes are included as a component of other expenses in the statement of profit or loss and other comprehensive income.

4.3 Cash and cash equivalents

Cash and cash equivalents comprise amounts due from banks, which can be converted into cash at short notice, including highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortized cost.

4.4 Amounts due from other financial institutions

In the normal course of business, the Company maintains advances or deposits for various periods of time with other banks. Deposits and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.5 Financial instruments

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

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

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

The Company classified its financial assets into the following categories: loans and receivables and held-to-maturity investments. The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. Were the Company to sell other than insignificant amount of held-to-maturity assets not close to their maturity, the entire category would be reclassified as available-for-sale. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

Loans and receivables

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

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

4.6 Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

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

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

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

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

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the 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 recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If future write-off is later recovered, the recovery is credited to the allowance account.

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. 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 effective interest rate.

4.7 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 statement of profit or loss and other comprehensive income.

4.8 Leases

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. The arrangement is presented within loans and advances. 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.

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 in other operating expenses.

4.9 Property, plant and equipment

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

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

	Useful life (years)	Rate (%)
Computers and other communication means	1	100%
Transportation	5	20%
Other fixed assets	5	20%

Leasehold improvements are capitalized and depreciated over the shorter of the lease term and their useful lives on a straight-line basis. Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property plant and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

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

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

4.10 Intangible assets

Intangible assets include computer software, licences and other.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Company can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

4.11 Grants

Grants relating to the assets are included in other liabilities and are credited to the statement of profit or loss and other comprehensive income on a straight line basis over the expected lives of the related assets.

4.12 Borrowings

Borrowings which include loans received from the RA Ministry of Finance and Foreign Financing Projects Management Centre of the RA Ministry of Finance are initially recognised at the fair value of the consideration received less directly attributable transaction costs. When fair value of received funds differs from the fair value of the loan, e.g. when the loan is received in low than market interest rate, during initial recognition of loan the difference between the received amount and fair value of loan is formulated as income from attraction of funds in low than market rates in the statement of profit or loss and other comprehensive income. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

4.13 Share capital

Share capital

Ordinary shares are 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.

Retained earnings
Include retained earnings of current and previous periods.

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

4.14 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount 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 realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

5 Critical accounting estimates and judgements

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

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

Measurement of fair values
Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 24).

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

Allowance for impairment of loans and receivables
The Company reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the statement of profit or loss and other comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such

estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

Useful Life of PPE

Useful life evaluation of PPE is the result of judgement, based on the experience with similar assets. Future economic benefits are embodied in assets and mainly consumed along with usage. However, such factors as operational, technical or commercial depreciation often lead to decrease of asset's economic benefit. Management evaluates the remaining useful life according to the asset's current technical condition and estimated period, during which the Company expects to receive benefits. For the evaluation of remaining useful life are considered the following main factors: expectable usage of assets, depending on the operational factors and maintenance program, that is depreciation and technical and commercial depreciation arising from the changes in the market conditions.

Tax legislation

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

6 Interest and similar income and expense

In thousand Armenian drams	2014	2013
Cash and cash equivalents	**27,410**	8,085
Amounts due from other financial institutions	**594,583**	286,383
Loans to customers	**731,062**	732,794
Financial lease	**26,580**	7,882
Total interest and similar income	**1,379,635**	1,035,144
Amounts due to RA Ministry of Finance	**794,890**	484,574
Total interest and similar expenses	**794,890**	484,574

7 Other income

In thousand Armenian drams	2014	2013
Fines and penalties received	**72,982**	18,082
Government grant amortization	**830**	830
Other income	**825**	488
Total other income	**74,637**	19,400

8 Impairment charge

In thousand Armenian drams	2014	2013
Loans to customers (Note 14)	**320,148**	104,587
Net investments in respect of financial lease (Note 15)	**1,666**	2,409
Other assets (Note 18)	**1,500**	-
Total impairment charge for possible losses of assets	**323,314**	106,996

9 Staff costs

In thousand Armenian drams	2014	2013
Compensations to employees, relating taxes included	**138,250**	125,501
Material aid to employees	**-**	1,100
Social security payments	**4,372**	4,653
Staff training costs	**388**	691
Total staff costs	**143,010**	131,945

10 Other expenses

In thousand Armenian drams	2014	2013
Leasehold expenses	**18,055**	18,045
Fixed assets' maintenance and servicing expenses	**10,088**	8,764
Payments to Financial system mediator	**8,247**	4,438
Consulting and other services	**4,400**	4,400
Insurance expenses	**2,422**	3,796
Office supplies	**1,784**	2,090
Communication	**1,978**	2,005
Representative expenses	**1,531**	1,127
Taxes, other than income tax, duties	**1,077**	725
Losses from disposal of PPE	**-**	277
Advertising costs	**2,525**	264
Other expenses	**2,322**	2,528
Total other expense	**54,429**	**48,459**

11 Income tax expense

In thousand Armenian drams	2014	2013
Current tax	**9,330**	35,237
Deferred tax	**(2,478)**	16,962
Total income tax expense/(benefit)	**6,852**	52,199

The corporate income tax within the Republic of Armenia is levied at the rate of 20% (2013: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

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

In thousand Armenian drams	2014	Effective rate (%)	2013	Effective rate (%)
Profit before tax	**31,461**		256,787	
Income tax at the rate of 20%	**6,292**	**20**	51,357	20
Non-deductible expenses	**560**	**1.8**	842	0.3
Total income tax expense	**6,852**	**21.8**	52,199	20.3

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	**As of December 31, 2013**	**Recognized in the statement of profit or loss and other comprehensive income**	**As of December 31, 2014**
Loans to customers	**28,225**	**(20,011)**	**8,214**
Fixed assets	**-**	**55**	**55**
Other liabilities	**3,179**	**(632)**	**2,547**
Total deferred tax assets	**31,404**	**(20,588)**	**10,816**
Amounts due from other financial institutions	**(12,177)**	**3,470**	**(8,707)**
Amounts due to RA Ministry of Finance	**(68,524)**	**19,610**	**(48,914)**
Other assets	**-**	**(14)**	**(14)**
Total deferred tax liability	**(80,701)**	**23,066**	**(57,635)**
Net deferred tax liability	**(49,297)**	**2,478**	**(46,819)**

In thousand Armenian drams	As of December 31, 2012	Recognized in the statement of profit or loss and other comprehensive income	As of December 31, 2013
Loans to customers	25,529	2,696	28,225
Other liabilities	1,551	1,628	3,179
Total deferred tax assets	27,080	4,324	31,404
Amounts due from other financial institutions	(2,965)	(9,212)	(12,177)
Amounts due to RA Ministry of Finance	(56,450)	(12,074)	(68,524)
Total deferred tax liability	(59,415)	(21,286)	(80,701)
Net deferred tax liability	(32,335)	(16,962)	(49,297)

12 Cash and cash equivalents

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Correspondent accounts with banks	**43,304**	69,780
Deposits for less than 90 days	**1,173,547**	1,031,237
Total cash and cash equivalents	**1,216,851**	1,101,017

13 Amounts due from other financial institutions

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Deposited funds with banks	**3,084,976**	4,507,052
Total amounts due from other financial institutions	**3,084,976**	4,507,052

Deposits include deposits for more than 90 days or overdue.

As of 31 December 2014 amounts due from other financial institutions are not impaired (2013: nil).

As of 31 December 2014 accounts in amount of AMD 2,834,542 thousand (67%) are due from one bank (2013: AMD 4,052,616 thousand (73%)).

As of 31 December 2014 average weighted effective interest rate of time deposits was 12.22% (2013: 11.86%).

14 Loans to customers

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Loans to customers	**5,846,340**	5,959,267
Less allowance for loan impairment	**(148,765)**	(152,794)
Total loans and advances to customers	**5,697,575**	5,806,473

As of 31 December 2014 accrued interest income included in loans to customers amounted to AMD 28,896 thousand (2013: AMD 31,769 thousand).

As of 31 December 2014 the average weighted contractual interest rate on loans to customers was 11.6% (2103: 11.6%). As loans are initially recognised at cost, for 2014 the following market interest rate was used 14.7% (2013: 15.2%). The difference between the fair value and contractual cost of loans issued in 2014 is recognised as loss from initial recognition in the statement of financial position in AMD 102,444 thousand (2013: AMD 129,556 thousand).

As of 31 December 2014 the total amount of the ten largest borrowers comprises AMD 2,376,300 thousand (41% of gross loan portfolio) (2013: AMD 2,799,425 thousand or 46%). An allowance of AMD 43,233 thousand (2013: AMD 71,945 thousand) was made against these loans.

Analysis of extended loans by economy sectors is as follows:

							As of December 31, 2014
In thousand Armenian drams	**Industry**	**Construction**	**Trading**	**Agriculture**	**Services**	**Other**	**Total**
Loans	**3,553,194**	**29,992**	**23,071**	**1,657,998**	**544,425**	**37,660**	**5,846,340**
Impairment reserves on loans	**(98,434)**	**(300)**	**(231)**	**(43,978)**	**(5,444)**	**(378)**	**(148,765)**
Net loans	**3,454,760**	**29,692**	**22,840**	**1,614,020**	**538,981**	**37,282**	**5,697,575**

							As of December 31, 2013
In thousand Armenian drams	Industry	Construction	Trading	Agriculture	Services	Other	Total
Loans	3,214,077	39,430	32,917	2,065,132	587,737	19,974	5,959,267
Impairment reserves on loans	(89,111)	(915)	(764)	(47,907)	(13,634)	(463)	(152,794)
Net loans	3,124,966	38,515	32,153	2,017,225	574,103	19,511	5,806,473

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

							As of December 31, 2014
In thousand Armenian drams	**Industry**	**Construction**	**Trading**	**Agriculture**	**Services**	**Other**	**Total**
At 1 January 2014	**89,111**	**915**	**764**	**47,907**	**13,634**	**463**	**152,794**
Charge/(reversal) for the year	**333,500**	**(615)**	**(533)**	**(3,929)**	**(8,190)**	**(85)**	**320,148**
Amounts written off	**(338,070)**	**-**	**-**	**-**	**-**	**-**	**(338,070)**
Recoveries	**13,893**	**-**	**-**	**-**	**-**	**-**	**13,893**
At 31 December 2014	**98,434**	**300**	**231**	**43,978**	**5,444**	**378**	**148,765**
Individual impairment	**68,159**	**-**	**-**	**28,717**	**-**	**-**	**96,876**
Collective impairment	**30,275**	**300**	**231**	**15,261**	**5,444**	**378**	**51,889**
	98,434	**300**	**231**	**43,978**	**5,444**	**378**	**148,765**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**525,658**	**-**	**-**	**150,068**	**-**	**-**	**675,726**

							As of December 31, 2013
In thousand Armenian drams	Industry	Construction	Trading	Agriculture	Services	Other	Total
At 1 January 2013	25,338	504	239	20,399	2,317	241	49,038
Charge for the year	64,604	411	525	27,508	11,317	222	104,587
Amounts written off	(831)	-	-	-	-	-	(831)
At 31 December 2013	89,111	915	764	47,907	13,634	463	152,794
Individual impairment	14,897	-	-	-	-	-	14,897
Collective impairment	74,214	915	764	47,907	13,634	463	137,897
	89,111	915	764	47,907	13,634	463	152,794
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	148,971	-	-	-	-	-	148,971

As of 31 December 2014 the loan right in amount of AMD 5,025,748 thousand (2013: AMD 5,032,015 thousand) was pledged by the Company for loans received from RA Ministry of Finance (Note 19).

As it is mentioned in Note 24 at 31 December 2014 and 31 December 2013 the estimated fair value of loans to customers approximates their carrying value.

Credit, currency, liquidity and interest rate risks inherent in the loan portfolio are disclosed in Note 27. The information on related party balances is disclosed in Note 23.

Maturity analysis of loans and advances to customers are disclosed in Note 26.

15 Net investments in finance lease

Information on financial lease is presented below:

In thousand Armenian drams	As of December 31, 2014	As of December 31, 2013
Gross investment in finance leases		
Not later than 1 year	**71,688**	42,816
Later than 1 year and not later than 5 years	**356,167**	213,966
Later than 5 years	**103,701**	46,210
	531,556	302,992
Unearned future finance income on finance leases		
Not later than 1 year	**(3,443)**	(1,894)
Later than 1 year and not later than 5 years	**(79,285)**	(44,863)
Later than 5 years	**(41,418)**	(16,853)
	(124,146)	(63,610)
Impairment charge on finance lease	**(4,075)**	(2,409)
Net investment in finance leases	**403,335**	236,973

The movement in allowance for impairment losses on financial lease is as follows:

In thousand Armenian drams	Total
At 1 January 2013	**-**
Charge for the year	2,409
At 31 December 2013	**2,409**
Charge for the year	**1,666**
At 31 December 2014	**4,075**
Collective impairment	**4,075**

As of 31 December 2014 supposed interest rate in respect of financial lease is 9.1% (2013: 9%).

Maturity analysis of amounts to customers in respect of financial lease is disclosed in Note 26.

16 Property, plant and equipment

In thousand Armenian drams	Capital investments	Office equipment and furniture	Computers	Vehicles	Other	Total
COST						
At January 1, 2013	-	6,523	12,155	21,270	252	40,200
Additions	-	2,126	4,243	22,440	312	29,121
Disposal	-	-	(765)	-	-	(765)
At December 31, 2013	**-**	**8,649**	**15,633**	**43,710**	**564**	**68,556**
Additions	**422,000**	**2,426**	**6,980**	**-**	**27**	**431,433**
Disposal	**-**	**-**	**(38)**	**-**	**-**	**(38)**
At December 31, 2014	**422,000**	**11,075**	**22,575**	**43,710**	**591**	**499,951**

In thousand Armenian drams	Capital investments	Office equipment and furniture	Computers	Vehicles	Other	Total
ACCUMULATED DEPRECIATION						
At January 1, 2013	-	2,498	8,894	7,830	41	19,263
Charge for the year	-	1,642	5,177	5,750	373	12,942
Disposal	-		(765)	-	-	(765)
At December 31, 2013	**-**	**4,140**	**13,306**	**13,580**	**414**	**31,440**
Charge for the year	**-**	**1,577**	**3,073**	**8,742**	**62**	**13,454**
Disposal	**-**	**-**	**(38)**	**-**	**-**	**(38)**
At December 31, 2014	**-**	**5,717**	**16,341**	**22,322**	**476**	**44,856**
CARRYING VALUE						
At December 31, 2014	**422,000**	**5,358**	**6,234**	**21,388**	**115**	**455,095**
At December 31, 2013	-	4,509	2,327	30,130	150	37,116
At January 1, 2013	-	4,025	3,261	13,440	211	20,937

Fully depreciated items

As of 31 December 2014 fixed assets included fully depreciated assets in amount of AMD 12,343 thousand (2013: AMD 11,748 thousand).

In 2014 the Company has acquired building for exploitation as the Company's head office. The building is not exploited yet, it is in the stage of reconstruction.

As at 31 December 2014, the Company did not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

17 Intangible assets

In thousand Armenian drams	Licenses and certificates	Computer software	Other	Total
COST				
At January 1, 2013	83	5,238	277	5,598
Additions	159	900	800	1,859
Disposal	-	-	(277)	(277)
At December 31, 2013	**242**	**6,138**	**800**	**7,180**
Additions	**44**	**-**	**-**	**44**
At December 31, 2014	**286**	**6,138**	**800**	**7,224**
ACCUMULATED AMORTISATION				
At January 1, 2013	14	1,641	-	1,655
Amortization	110	553	-	663
At December 31, 2013	**124**	**2,194**	**-**	**2,318**
Amortization	**139**	**706**	**-**	**845**
At December 31, 2014	**263**	**2,900**	**-**	**3,163**
CARRYING VALUE				
At December 31, 2014	**23**	**3,238**	**800**	**4,061**
At December 31, 2013	118	3,944	800	4,862
At January 1, 2013	69	3,597	277	3,943

As at 31 December 2014 the Company did not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

18 Other assets

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Prepayments and other debtors	**3,539**	319
Total other financial assets	**3,539**	319
Prepayments	**3,344**	-
Unamortised insurance payments	**2,973**	-
Future expenses	**59**	86
Small value items	**2,388**	1,188
Total non-financial assets	**8,764**	1,274
Total other assets	**12,303**	1,593

Reconciliation of allowance account for losses on other assets is as follows:

In thousand Armenian drams	**Total**
At January 1, 2013	**-**
Charge for the year	-
At December 31, 2013	**-**
Charge for the year	**1,500**
Amounts written off	**(1,500)**
At December 31, 2014	**-**

19 Amounts due to RA Ministry of Finance

In thousand Armenian drams	**As of 31 December 2014**	As of December 31, 2013
Loans from RA Ministry of Finance	**8,491,519**	9,442,783
Loans from International Financial program management centre	**201,157**	168,779
Total amounts due to RA Ministry of Finance	**8,692,676**	9,611,562

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

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

The total contractual amount of loans received from the RA Ministry of Finance under both contracts is AMD 8,892,790 thousand and AMD 10,002,300 thousand as of 31 December 2014 and 2013 respectively.

In 2013 the Company signed the contract with Foreign Financing Projects Management Centre of the RA Ministry of Finance (FFPMC) for financing the finance lease. The contractual interest rate is 4%. The loan is received in tranches. The loan matures in 2020, the interest is to be paid quarterly, and the principal is to be paid in accordance with lease payment starting from 2014. As of 31 December 2014 the total contractual amount received from FFPMC is AMD 251,418 thousand (31 December 2013: AMD 216,051 thousand).

As the loans are initially recognised at fair value, market rate 9% is used. The difference between the first loan received from the RA Ministry of Finance and loan received from FFPMC is recognised as gain on initial recognition in amount of AMD 10,107 thousand for the period ended in 31 December 2014 and in amount of AMD 117,893 thousand for the period ended in 31 December 2013.

For the second loan received from the RA Ministry of Finance for the period ended in 31 December 2013 was recognised deferred income in AMD 321,437 thousand, the balance of deferred income as of 31 December 2014 was AMD 311,432 thousand.

The Company has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2013: nil).

20 Other liabilities

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Accounts payables	**106,436**	469
Due to personnel	**14,805**	12,625
Total other financial liabilities	**121,241**	13,094
Tax payable, other than income tax	**623**	5
Grants related to assets	**2,265**	3,095
Other	**-**	399
Total other non-financial liabilities	**2,888**	3,499
Total other liabilities	**124,129**	16,593

As of 31 December 2014 in the payable amounts are included amounts on acquisition of fixed assets in AMD 105,000 thousand.

Grants related to assets

In thousand Armenian drams	**2014**	2013
At January 1	**3,095**	3,925
Recognition of income	**(830)**	(830)
At December 31	**2,265**	3,095

21 Equity

As of 31 December 2014 the Company's registered and paid-in charter capital was AMD 1,150,500 thousand. In accordance with the Company's statues, the share capital consists of 767 shares, all of which have a nominal value of AMD 1,500,000 each.

As of 31 December 2014 and 2013 the 100% shareholder of the Company was "SME DNC of Armenia" Fund.

As of 31 December 2014 and 2013, the Company did not possess any of its own shares.

During shareholders meeting in 2014 the Company has not declared dividends.

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Company's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Company's share capital reported in statutory books.

22 Contingent liabilities and commitments

Tax and legal matters

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

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

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

As at 31 December 2014 there were no legal actions and complaints taken against the Company. Therefore, the Company has not made any respective provision related to such tax and legal matters.

Loan commitment, guarantee and other financial facilities

In the normal course of business, the Company 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.

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	**As of December 31 2014**	As of December 31, 2013
Undrawn loan commitments	**207,000**	219,500
Total commitments and contingent liabilities	**207,000**	219,500

The maximum exposure to credit risk of Loan commitments, guarantee and other financial facilities is best represented by the total amount of these commitments and contingent liabilities.

As of 31 December 2014 the Company did not have any capital commitment.

23 Transactions with related parties

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

The ultimate controlling party of the Company is SME DNC of Armenia.

A number of organizational transactions are entered into with related parties in the normal course of business.

The volumes of related party transactions are as follows:

In thousand Armenian drams	**2014**		2013	
	Key management personnel and parties related with them	**Shareholders and parties related with them**	Key management personnel and parties related with them	Shareholders and parties related with them
Statement of financial position				
Loans to customers				
Contractual balance of loans at January 1	**-**	**-**	**-**	**-**
Loans issued during the year	**-**	**19,900**	**-**	**-**
Loan repayments during the year	-	**-**	-	-
Contractual balance of loans at December 31	-	**19,900**	-	-
Balance sheet amount of loans at December 31	-	**18,992**	-	-
Less: allowance for loan impairment	**-**	**(190)**	**-**	**-**
Loans outstanding at December 31	-	**18,802**	-	-
Amounts due to RA Ministry of Finance				
Contractual balance at January 1	**10,218,351**	**-**	4,874,400	-
Received during the year	**44,608**	**-**	5,343,951	-
Repaid during the year	**(1,118,751)**	**-**	-	-
Contractual balance at December 31	**9,144,208**	**-**	10,218,351	-
Balance sheet amount at December 31	**8,692,676**	**-**	9,611,562	-
Acquisition of financial leasing items	**306,580**	**-**	345,240	-
Statement of profit or loss and other comprehensive income				
Interest income on loans	**-**	**949**	-	-
Impairment charge	**-**	**190**	-	-
Interest expense on loans received	**794,890**	**-**	484,574	

Loans extended to related parties are subject to repayment till 2019 and their contractual interest rate is 11% (2013: nil). Extended loans are collateralised by real estate.

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	2014	2013
Salaries and other short-term benefits	55,772	48,191
Other compensations (insurance, leasing and etc.)	736	735
Total key management compensation	**56,508**	48,926

24 Fair value measurement

Financial and non-financial assets and liabilities measured at fair value in the statement of financial position are presented below. This hierarchy groups financial and non-financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

24.1 Financial instruments that are not measured at fair value

The table below presents the fair value of financial assets and liabilities not measured at their fair value in the statement of financial position and analyses them by the level in the fair value hierarchy into which teach fair value measurement is categorised.

In thousand Armenian drams	**As of 31 December 2014**				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
FINANCIAL ASSETS					
Cash and cash equivalents	**-**	**1,216,851**	**-**	**1,216,851**	**1,216,851**
Amounts due from other financial institutions	**-**	**3,084,976**	**-**	**3,084,976**	**3,084,976**
Loans to customers	**-**	**5,697,575**	**-**	**5,697,575**	**5,697,575**
Net investment in finance lease	**-**	**403,335**	**-**	**403,335**	**403,335**
Other assets	**-**	**3,539**	**-**	**3,539**	**3,539**
FINANCIAL LIABILITIES					
Amounts due to the RA Ministry of Finance	**-**	**8,692,676**	**-**	**8,692,676**	**8,692,676**
Other liabilities	**-**	**121,241**	**-**	**-**	**121,241**

In thousand Armenian drams	As of 31 December 2013				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
FINANCIAL ASSETS					
Cash and cash equivalents	-	1,101,017	-	1,101,017	1,101,017
Amounts due from other financial institutions	-	4,507,052	-	4,507,052	4,507,052
Loans to customers	-	5,806,473	-	5,744,722	5,806,473
Net investment in finance lease	-	236,973	-	236,973	236,973
Other assets	-	319	-	319	319
FINANCIAL LIABILITIES					
Amounts due to the RA Ministry of Finance	-	9,611,562	-	9,611,562	9,611,562
Other liabilities	-	13,094	-	13,094	13,094

Amounts due from other financial institutions

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

Loans and advances to customers

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The fair value of the impaired loans is calculated based on expected cash flows from the sale of collateral. The value of collateral is based on appraisals performed by independent, professionally-qualified property valuers.

Amounts due to the RA Ministry of Finance

The fair value of these liabilities is estimated by using the discounted cash flow techniques, applying the rates that are offered for instruments of similar maturities and terms.

25 Offsetting of financial assets and financial liabilities

In the ordinary course of business, the Company performs different operations with financial instruments which may be presented in net amounts when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

As of December 31, 2014 and 2013 the Company does not have financial assets and financial liabilities in the statement of financial position which are presented in net amount or will be offset due to presence of the master netting arrangements or similar agreements.

26 Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 27.3 for the Company's contractual undiscounted repayment obligations.

In thousand Armenian drams	As of December 31, 2014							
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	***Subtotal less than 12 months***	**From 1 to 5 years**	**More than 5 years**	***Subtotal over 12 months***	**Total**
ASSETS								
Cash and cash equivalents	**815,685**	**401,166**	**-**	***1,216,851***	**-**	**-**	**-**	**1,216,851**
Amounts due from other financial institutions	**-**	**-**	**3,084,976**	***3,084,976***	**-**	**-**	**-**	**3,084,976**
Loans to customers	**225,698**	**286,824**	**1,522,111**	***2,034,633***	**3,662,942**	**-**	***3,662,942***	**5,697,575**
Net investment in finance lease	**2,847**	**3,353**	**62,115**	***68,315***	**273,679**	**61,341**	***335,020***	**403,335**
Other assets	**3,539**	**-**	**-**	***3,539***	**-**	**-**	**-**	**3,539**
	1,047,769	**691,343**	**4,669,202**	***6,408,314***	**3,936,621**	**61,341**	***3,997,962***	**10,406,276**
LIABILITIES								
Amounts due to the RA Ministry of Finance	**2,468**	**75,923**	**1,062,609**	***1,141,000***	**3,161,666**	**4,390,010**	***7,551,676***	**8,692,676**
Other liabilities	**53,686**	**-**	**67,555**	***121,241***	**-**	**-**	**-**	**121,241**
	56,154	**75,923**	**1,130,164**	***1,262,241***	**3,161,666**	**4,390,010**	***7,551,676***	**8,813,917**
Net position	**991,615**	**615,420**	**3,539,038**	***5,146,073***	**774,955**	**(4,328,669)**	***(3,553,714)***	**1,592,359**
Accumulated gap	**991,615**	**1,607,035**	**5,146,073**		**5,921,028**	**1,592,359**		

In thousand Armenian drams	As of December 31, 2013							
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	*Subtotal less than 12 months*	From 1 to 5 years	More than 5 years	*Subtotal over 12 months*	Total
ASSETS								
Cash and cash equivalents	698,315	402,702	-	*1,101,017*	-	-	-	1,101,017
Amounts due from other financial institutions	-	-	4,507,052	*4,507,052*	-	-	-	4,507,052
Loans to customers	332,597	372,276	2,052,552	*2,757,425*	3,049,048	-	*3,049,048*	5,806,473
Net investment in finance lease	2,522	1,579	36,184	*40,285*	167,379	29,309	*196,688*	236,973
Other assets	319	-	-	*319*	-	-	-	319
	1,033,753	776,557	6,595,788	*8,406,098*	3,216,427	29,309	3,245,736	11,651,834
LIABILITIES								
Amounts due to the RA Ministry of Finance	2,259	-	1,292,546	*1,294,805*	4,089,079	4,227,678	8,316,757	9,611,562
Other liabilities	469	-	12,625	*13,094*	-	-	-	13,094
	2,728	-	1,305,171	*1,307,899*	4,089,079	4,227,678	*8,316,757*	9,624,656
Net position	1,031,025	776,557	5,290,617	7,098,199	(872,652)	(4,198,369)	(5,071,021)	2,027,178
Accumulated gap	1,031,025	1,807,582	7,098,199		6,225,547	2,027,178		

27 Risk management

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

The aim of the Company's risk management policy is to identify and analyse risks and manage them efficiently. The Company periodically revises risk management policy and systems to reflect in the market and follow the best practice.

Risk management is performed by the Management of the Company according to the lending policy and internal regulation approved by the Management of the Company. The Management identifies, assesses and undertakes measures for mitigating financial risks.

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 the Company

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

Executive Director

Executive Director has the responsibility to monitor the overall risk process within the Company, is responsible for the management of the Company's assets and liabilities. Also is responsible for the Company's liquidity risk and for the financial risk management.

Credit Committee

The Credit Committee is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Controller

Risk management processes throughout the Company are audited by the controller, that examines both the adequacy of the procedures and the Company's compliance with the procedures. Controller discusses the results of all assessments with management, and reports its findings and recommendations during the General meeting.

Monitoring and controlling risks is primarily performed based on the Company's business strategy and market environment, as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Company's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio.

The most important risks are credit risk, liquidity risk, market risk and other operating risk. Market risk includes interest rate risk and other price risks.

27.1 Credit risk

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

The carrying amounts of the Company’s financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

27.1.1 Risk concentrations of the maximum exposure to credit risk

Geographical sectors

As of 31 December 2014 and 2013 the Company’s credit risks are entirely centralised in the RA.

Industry sectors

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

In thousand Armenian drams	**Financial sector**	**Industry**	**Construction**	**Trading**	**Agriculture and food industry**	**Services**	**Other**	**Total**
ASSETS								
Cash and cash equivalents	**1,216,851**	**-**	**-**	**-**	**-**	**-**	**-**	**1,216,851**
Amounts due from other financial institutions	**3,084,976**	**-**	**-**	**-**	**-**	**-**	**-**	**3,084,976**
Loans to customers	**-**	**3,454,760**	**29,692**	**22,840**	**1,614,020**	**538,981**	**37,282**	**5,697,575**
Net investment in finance lease	**-**	**-**	**-**	**-**	**403,335**	**-**	**-**	**403,335**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**3,539**	**3,539**
As at 31 December 2014	**4,301,827**	**3,454,760**	**29,692**	**22,840**	**2,017,355**	**538,981**	**40,821**	**10,406,276**
As at 31 December 2013	5,608,069	3,124,966	38,515	32,153	2,254,198	574,103	19,830	11,651,834

27.1.2 Risk limit control and mitigation policies

With the aim to mitigate its credit risk the Company may define maximum limits on loan extension for the entities cooperating with him. Separate limit may be defined for each entity.

Some other specific control and mitigation measures are outlined below.

Collateral

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

- Cash,

- Real estate pledged,
- Operating assets of the companies
- Cars, agricultural mechanisms, equipment,
- State and corporate securities.

In order to minimise the credit loss the Company requires additional collateral and guarantees from the borrower.

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

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Loans collateralized by immovable property	**5,287,074**	5,104,450
Loans collateralized by circulating funds	**209,345**	124,534
Guarantees of Companies	**319,050**	730,283
Cash*	**30,871**	-
Total loans and advances (gross)	**5,846,340**	5,959,267

Within the scopes of the contract signed between the Company and "SME DNC of Armenia" Fund as of 31 December 2014 the Fund has pledged its monetary funds for the extended loans from the Company in amount of AMD 71,368 thousand (2013: AMD 29,400 thousand).

The amounts presented in the table above are carrying values of the loans, and do not necessarily represent the fair value of the collaterals. Estimates of market values of collaterals are based on valuation of the collateral at the date when loans were provided. Generally they are not updated unless loans are assessed as individually impaired.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Company monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

27.1.3 Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue 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 into areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

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

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

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Loans and advances neither past due or impaired

The table below shows the credit quality by class of asset for loans and advances neither past due or impaired, based on the historical counterparty default rates.

In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Loans and advances to customers		
Industry	**3.3%**	0.01%

As of 31 December 2014 and 31 December 2013 the Company has not had any losses on other financial assets bearing credit risk.

Past due but not impaired loans

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

Analysis of past due loans by age and by class is provided below.

In thousand Armenian drams	**As of December 31, 2014**				
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans to customers	**-**	**1,939**	**18,392**	**15,026**	**35,357**
Total	**-**	**1,939**	**18,392**	**15,026**	**35,357**

In thousand Armenian drams					As of December 31, 2013
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans to customers	-	279,353	11,375	274,856	565,584
Total	-	279,353	11,375	274,856	565,584

27.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Company classifies exposures to market risk into either trading or non-trading portfolios. As of 31 December, 2014 and 2013 the Company does not hold trading portfolio. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, as of 31 December, 2014 and 2013 the Company has no significant concentration of market risk.

27.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. At 31 December 2014 and 2013 the Company does not hold floating rate financial assets or liabilities.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. At 31 December 2014 and 2013 the Company does not hold financial assets or liabilities denominated in foreign currencies, therefore it is not exposed to foreign currency risk.

27.3 Liquidity risk

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 manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily bases. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Company.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2014 based on contractual undiscounted repayment obligations. See note 26 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

In thousand Armenian drams						**As of December 31, 2014**
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Financial liabilities						
Amounts due to the RA Ministry of Finance	**2,626**	**137,858**	**1,582,199**	**5,560,476**	**4,434,809**	**11,717,968**
Other liabilities	**53,686**	**-**	**67,555**	**-**	**-**	**121,241**
Total undiscounted financial liabilities	**56,312**	**137,858**	**1,649,754**	**5,560,476**	**4,434,809**	**11,839,209**

In thousand Armenian drams						As of December 31, 2013
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Financial liabilities						
Amounts due to the RA Ministry of Finance	2,259	82,853	1,798,631	6,410,771	5,127,110	13,421,624
Other liabilities	469	-	12,625	-	-	13,094
Total undiscounted financial liabilities	2,728	82,853	1,811,256	6,410,771	5,127,110	13,434,718

27.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board of Directors. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;

- ethical and business standards;
- risk mitigation.

The Company's compliance with the standards is accompanied by the periodic reviews performed by the internal audit. The observations of the internal audit are discussed with the representative of the Company's Management to whom those observations refer. The summaries of the reviews are presented to General meeting.

28 Capital adequacy

The Company maintains an actively managed capital base to cover risks inherent in the business. The Company's capital is controlled by using rules and normative approved by the Central Bank of RA.

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

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.

Regulatory capital consists of Tier 1 capital, which comprises share capital, general reserve, retained earnings including current year profit.

The Central Bank of Armenia has set the minimum value of the total normative capital amounting to AMD 150,000 thousand from September, 2011.

As of 31 December 2014 and 2013 the capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Not audited	
In thousand Armenian drams	**As of December 31, 2014**	As of December 31, 2013
Tier 1 capital	**1,479,608**	1,494,107
Tier 2 capital	**-**	-
Total regulatory capital	**1,479,608**	1,494,107

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