Farm Credit Armenia
Universal Credit Organization
Commercial Cooperative

Financial Statements

for the year ended 31 December 2013

Contents

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Independent Auditors' Report

To the Shareholders
Farm Credit Armenia Universal Credit Organization Commercial Cooperative

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Andrew Coxshall
Director

Tigran Gasparyan
Head of Audit Department

KPMG Armenia cjsc

KPMG Armenia cjsc
28 April 2014

	Notes	2013 AMD'000	2012 AMD'000
Interest income	4	779,046	552,764
Interest expense	4	(316,215)	(225,393)
Net interest income		**462,831**	**327,371**
Income from grants received	5	170,510	347,441
Net foreign exchange (loss) income		(2,946)	6,632
Other operating income		10,323	5,018
Operating income		**640,718**	**686,462**
Impairment losses	6	(75,612)	(13,559)
Personnel expenses		(326,030)	(265,916)
Other general administrative expenses	7	(170,448)	(128,998)
Profit before income tax		**68,628**	**277,989**
Income tax expense	8	(21,545)	(56,381)
Profit and total comprehensive income for the year		**47,083**	**221,608**

The financial statements as set out on pages 4 to 42 were approved by management on 28 April 2014 and were signed on its behalf by:

Armen Gabrielyan
Chief Executive Director

Nelli Kirakosyan
Chief Accountant

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

	Notes	2013 AMD'000	2012 AMD'000
ASSETS			
Cash and cash equivalents	9	127,749	753,637
Loans to customers	10	5,117,432	3,676,611
Receivables from finance lease	11	145,805	167,882
Current tax asset		21,758	-
Property, equipment and intangible assets	12	94,053	105,755
Other assets		24,894	15,411
Total assets		**5,531,691**	**4,719,296**
LIABILITIES			
Loans and borrowings	13	4,420,836	3,727,561
Grants related to assets		41,322	59,960
Current tax liability		-	40,348
Deferred tax liabilities	8	9,589	4,342
Other liabilities	14	104,158	50,490
Total liabilities		**4,575,905**	**3,882,701**
EQUITY			
Share capital	15	560,891	488,783
Retained earnings		394,895	347,812
Total equity		**955,786**	**836,595**
Total liabilities and equity		**5,531,691**	**4,719,296**

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

	Notes	2013 AMD'000	2012 AMD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		743,024	566,549
Interest payments		(306,626)	(166,657)
Net (payments) receipts from foreign exchange		(157)	13,298
Other income receipts		162,195	351,895
Personnel and other general administrative expenses payments		(445,393)	(363,590)
(Increase) decrease in operating assets			
Loans to customers		(1,489,226)	(1,227,250)
Receivables under finance leases		23,648	(7,586)
Other assets		(9,484)	26,475
Increase in operating liabilities			
Other liabilities		39,277	16,169
Net cash used in from operating activities before income tax paid		**(1,282,742)**	**(790,697)**
Income tax paid		(78,404)	(15,053)
Cash flows used in operations		**(1,361,146)**	**(805,750)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(26,498)	(62,608)
Sales of property, equipment and intangible assets		321	237
Cash flows used in investing activities		**(26,177)**	**(62,371)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of other borrowed funds		936,518	1,453,066
Repayment of other borrowed funds		(250,184)	(189,346)
Proceeds from issuance of share capital		72,108	97,827
Cash flows from financing activities		**758,442**	**1,361,547**
Net (decrease) increase in cash and cash equivalents		**(628,881)**	**493,426**
Effect of changes in exchange rates on cash and cash equivalents		2,993	7,663
Cash and cash equivalents as at the beginning of the year		753,637	252,548
Cash and cash equivalents as at the end of the year	9	**127,749**	**753,637**

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

AMD'000	**Share capital**	**Retained earnings**	**Total**
Balance as at 1 January 2012	390,957	126,204	517,161
Total comprehensive income			
Profit for the year	-	221,608	221,608
Transactions with owners, recorded directly in equity			
Increase in share capital	97,826	-	97,826
Balance as at 31 December 2012	**488,783**	**347,812**	**836,595**
Balance as at 1 January 2013	488,783	347,812	836,595
Total comprehensive income			
Profit for the year	-	47,083	47,083
Transactions with owners, recorded directly in equity			
Increase in share capital	72,108	-	72,108
Balance as at 31 December 2013	**560,891**	**394,895**	**955,786**

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

1 Background

(a) Organization and operations

Farm Credit Armenia Universal Credit Organization Commercial Cooperative (the Organization) was established in the Republic of Armenia as a Universal Credit Organization Commercial Cooperative in 2007. The principal activity of the Organization is provision of micro and medium size agricultural loans to individuals and legal entities in the Republic of Armenia. The activities of the Organization are regulated by the Central Bank of Armenia (CBA). The Organization has a credit organization license.

The Organization has four branches from which it conducts business throughout the Republic of Armenia. All assets and liabilities are located in the Republic of Armenia. The registered office of the Organization is 18 Kajaznuni Street, Yerevan 0018, Republic of Armenia.

The Organization is governed by the principle of one member - one vote. Each member of the cooperative has the right of one vote regardless of its share of participation. Related party transactions are detailed in note 20.

(b) Armenian business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 10 “Loans to customers”.

(e) Changes in accounting policies and presentation

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

- IFRS 13 *Fair Value Measurements* (see (i))
- *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) (see (ii))

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

(i) Fair value measurement

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

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

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

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

As the Organization is not setting off financial instruments in accordance with IAS 32 *Financial instruments: disclosure and presentation* and does not have relevant offsetting arrangements, the amendment does not have an impact on the financial statements of the Organization.

3 Significant accounting policies

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

(a) Foreign currency

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

(b) Cash and cash equivalents

Cash and cash equivalents include accounts and short-term deposits with banks. Short-term deposits are deposits with an initial maturity of less than three months. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(c) Financial instruments

(i) Classification

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

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

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

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

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

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

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

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

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

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

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

(ii) Recognition

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

(iii) Measurement

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

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

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

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

(iv) Amortized cost

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

(v) Fair value measurement principles

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

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

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

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

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

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

(vi) Gains and losses on subsequent measurement

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

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

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

(vii) Derecognition

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

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

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

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

The Organization writes off assets deemed to be uncollectible.

(viii) Offsetting

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

(d) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

-	computer equipment	1 year
-	fixtures and fittings	5 years
-	motor vehicles	5 years

(e) Intangible assets

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

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

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful live is 10 years.

(f) Impairment

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

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

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

(i) Financial assets carried at amortized cost

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

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

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

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

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

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

(ii) Non financial assets

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

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

(g) Provisions

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

(h) Share capital

Share capital comprises members' shares.

(i) Taxation

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

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

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

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

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

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

(j) Income and expense recognition

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

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

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

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

(k) Grant received

Grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Organization will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Organization for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

(l) New standards and interpretations not yet adopted

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

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

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

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

4 Net interest income

	2013 AMD'000	2012 AMD'000
Interest income		
Loans to customers	731,849	503,228
Cash and cash equivalents	24,939	24,518
Receivables from finance lease	22,258	25,018
	779,046	**552,764**
Interest expense		
Loans and borrowings	316,215	225,393
	316,215	**225,393**
Net interest income	**462,831**	**327,371**

5 Income from grants received

	2013 AMD'000	2012 AMD'000
Grants related to income	151,872	326,121
Grants related to assets	18,638	21,320
	170,510	**347,441**

Grants related to income mainly represent grants received through U.S. Department of Agriculture (USDA).

6 Impairment losses

	2013 AMD'000	2012 AMD'000
Loans to customers	73,486	11,970
Receivables from finance lease	2,126	1,589
	75,612	**13,559**

7 Other general administrative expenses

	2013 AMD'000	2012 AMD'000
Depreciation and amortization	37,879	30,760
Operating lease expense	27,652	19,315
Professional services	23,854	12,454
Travel expenses	20,555	15,300
Repairs and maintenance	12,478	10,459
Representation expenses	10,261	8,570
Communications and information services	7,107	6,449
Expenses for loan disbursement	6,230	4,292
Insurance	4,964	505
Office supplies	3,946	3,488
Utilities	3,724	2,510
Taxes other than on income	3,061	2,044
Advertising and marketing	2,132	8,369
Other	6,605	4,483
	170,448	**128,998**

8 Income tax expense

	2013 AMD'000	2012 AMD'000
Current year tax expense	16,298	50,384
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	5,247	5,997
Total income tax expense	**21,545**	**56,381**

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

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

	2013 AMD'000	%	2012 AMD'000	%
Profit before tax	68,628		277,989	
Income tax at the applicable tax rate	13,724	20.0	55,598	20.0
Non-deductible costs (non-taxable income)	7,821	11.4	783	0.3
	21,545	**31.4**	**56,381**	**20.3**

(a) Deferred tax assets and liabilities

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

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

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

AMD'000	Balance 1 January 2013	Recognized in profit or loss	Balance 31 December 2013
Cash and cash equivalents	(1,012)	757	(255)
Loans to customers	(6,161)	(6,448)	(12,609)
Other assets	-	(41)	(41)
Other liabilities	2,831	485	3,316
	(4,342)	**(5,247)**	**(9,589)**

AMD'000	Balance 1 January 2012	Recognized in profit or loss	Balance 31 December 2012
Cash and cash equivalents	(173)	(839)	(1,012)
Loans to customers	-	(6,161)	(6,161)
Other liabilities	1,828	1,003	2,831
	1,655	**(5,997)**	**(4,342)**

9 Cash and cash equivalents

	2013 AMD'000	2012 AMD'000
Current accounts		
- largest 5 Armenian banks	30,256	43,900
- medium size Armenian banks	97,493	120,620
Total current accounts	**127,749**	**164,520**
Term deposits with banks		
- largest 5 Armenian banks	-	242,148
- medium size Armenian banks	-	346,969
Total term deposits with banks	**-**	**589,117**
Total cash and cash equivalents	**127,749**	**753,637**

No cash and cash equivalents are impaired or past due.

As at 31 December 2013 the Organization has no banks (2012: three banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 is AMD 706,598 thousand.

10 Loans to customers

	2013 AMD'000	2012 AMD'000
Business loans		
Small companies	428,123	267,037
Sole entrepreneurs	991,961	478,512
Total business loans	**1,420,084**	**745,549**
Loans to individuals		
Crop production	2,009,727	1,553,129
Cattle breeding	1,522,473	1,242,673
Other	250,347	172,397
Total loans to individuals	**3,782,547**	**2,968,199**
Gross loans to customers	5,202,631	3,713,748
Impairment allowance	(85,199)	(37,137)
Net loans to customers	**5,117,432**	**3,676,611**

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

	Business loans AMD'000	Loans to individuals AMD'000	Total AMD'000
Balance at the beginning of the year	7,455	29,682	37,137
Net charge	14,126	59,360	73,486
Write-offs	(7,328)	(18,096)	(25,424)
Balance at the end of the year	**14,253**	**70,946**	**85,199**

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

	Business loans AMD'000	Loans to individuals AMD'000	Total AMD'000
Balance at the beginning of the year	5,751	25,103	30,854
Net (recovery) charge	(11,624)	23,594	11,970
Recoveries/(write-offs)	13,328	(19,015)	(5,687)
Balance at the end of the year	**7,455**	**29,682**	**37,137**

(a) Credit quality of loans to customers

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

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Business loans				
Small companies				
Loans without individual signs of impairment	428,123	4,282	423,841	1.0%
Total loans to small companies	**428,123**	**4,282**	**423,841**	**1.0%**
Sole entrepreneurs				
Loans without individual signs of impairment	984,193	9,849	974,344	1.0%
Overdue or impaired loans:				
- overdue less than 90 days	7,768	122	7,646	1.6%
Total overdue or impaired loans	7,768	122	7,646	1.6%
Total loans to sole entrepreneurs	**991,961**	**9,971**	**981,990**	**1.0%**
Total business loans	**1,420,084**	**14,253**	**1,405,831**	**1.0%**
Loans to individuals				
Crop production				
- not overdue	1,974,456	20,723	1,953,733	1.0%
- overdue less than 30 days	17,640	969	16,671	5.5%
- overdue 30-89 days	5,865	1,013	4,852	17.3%
- overdue 90-179 days	3,367	2,068	1,299	61.4%
- overdue 180-270 days	8,399	7,559	840	90.0%
Total loans to crop production	**2,009,727**	**32,332**	**1,977,395**	**1.6%**
Cattle breeding				
- not overdue	1,495,143	15,007	1,480,136	1.0%
- overdue less than 30 days	7,318	282	7,036	3.9%
- overdue 30-89 days	4,835	757	4,078	15.7%
- overdue 90-179 days	7,942	4,669	3,273	58.8%
- overdue 180-270 days	7,235	6,512	723	90.0%
Total loans to cattle breeding	**1,522,473**	**27,227**	**1,495,246**	**1.8%**
Other				
- not overdue	239,836	2,400	237,436	1.0%
- overdue less than 30 days	743	197	546	26.5%
- overdue 180-270 days	9,768	8,790	978	90.0%
Total other loans	**250,347**	**11,387**	**238,960**	**4.5%**
Total loans to individuals	**3,782,547**	**70,946**	**3,711,601**	**1.9%**
Total loans to customers	**5,202,631**	**85,199**	**5,117,432**	**1.6%**

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

	Gross loans AMD'000	Impairment allowance AMD'000	Net loans AMD'000	Impairment allowance to gross loans, %
Business loans				
Small companies				
Loans without individual signs of impairment	267,037	2,670	264,367	1.0%
Total loans to small companies	**267,037**	**2,670**	**264,367**	**1.0%**
Sole entrepreneurs				
Loans without individual signs of impairment	474,679	4,747	469,932	1.0%
Overdue or impaired loans:				
- overdue less than 90 days	3,833	38	3,795	1.0%
Total overdue or impaired loans	3,833	38	3,795	1.0%
Total loans to sole entrepreneurs	**478,512**	**4,785**	**473,727**	**1.0%**
Total business loans	**745,549**	**7,455**	**738,094**	**1.0%**
Loans to individuals				
Crop production				
- not overdue	1,514,635	14,426	1,500,209	1.0%
- overdue less than 30 days	18,452	184	18,268	1.0%
- overdue 30-89 days	9,743	97	9,646	1.0%
- overdue 90-179 days	6,451	65	6,386	1.0%
- overdue 180-270 days	3,848	759	3,089	19.7%
Total loans to crop production	**1,553,129**	**15,531**	**1,537,598**	**1.0%**
Cattle breeding				
- not overdue	1,226,302	12,155	1,214,147	1.0%
- overdue less than 30 days	14,704	147	14,557	1.0%
- overdue 30-89 days	1,667	125	1,542	7.5%
Total loans to cattle breeding	**1,242,673**	**12,427**	**1,230,246**	**1.0%**
Other				
- not overdue	172,397	1,724	170,673	1.0%
Total other loans	**172,397**	**1,724**	**170,673**	**1.0%**
Total loans to individuals	**2,968,199**	**29,682**	**2,938,517**	**1.0%**
Total loans to customers	**3,713,748**	**37,137**	**3,676,611**	**1.0%**

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

(i) Business loans

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

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

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

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

In determining the impairment allowance for business loans, the Organization creates a collective provision of 1% considering the economic environment and industry average loss experience.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on business loans as at 31 December 2013 would be AMD 14,058 thousand lower/higher (2012: AMD 7,381 thousand lower/higher).

(ii) Loans to individuals

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

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 24 months;
- loss rate of 1% applied in respect of not overdue loans.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to individuals as at 31 December 2013 would be AMD 111,348 thousand lower/higher (2012: AMD 88,156 thousand).

(c) Analysis of collateral and other credit enhancements

(i) Business loans

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

	31 December 2013		31 December 2012	
AMD'000	**Loans to customers, carrying amount**	**Fair value of collateral assessed as of loan inception date**	**Loans to customers, carrying amount**	**Fair value of collateral assessed as of loan inception date**
Loans without individual signs of impairment				
Real estate	1,214,657	1,214,657	697,762	697,762
Motor vehicles	66,245	66,245	4,081	4,081
Equipment	14,698	14,698	-	-
Guarantees	102,585	-	32,456	-
Total loans without individual signs of impairment	**1,398,185**	**1,295,600**	**734,299**	**701,843**
Overdue or impaired loans				
Real estate	6,773	6,773	3,134	3,134
Guarantees	873	-	661	-
Total overdue or impaired loans	**7,646**	**6,773**	**3,795**	**3,134**
Total business loans	**1,405,831**	**1,302,373**	**738,094**	**704,977**

The tables above exclude overcollateralization. For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed.

For all business loans the fair value of collateral was assessed at the loan inception date and it was not updated for further changes.

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

(ii) Loans to individuals

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

	31 December 2013		31 December 2012	
AMD'000	**Loans to customers, carrying amount**	**Fair value of collateral assessed as of loan inception date**	**Loans to customers, carrying amount**	**Fair value of collateral assessed as of loan inception date**
Loans without individual signs of impairment				
Real estate	2,041,375	2,041,375	1,619,779	1,619,779
Motor vehicles	227,567	227,567	154,123	154,123
Equipment	30,412	30,412	22,231	22,231
Other collateral	4,161	4,161	5,538	5,538
Guarantees	1,315,834	-	1,065,205	-
No collateral or other credit enhancement	51,956	-	18,153	-
Total loans without individual signs of impairment	**3,671,305**	**2,303,515**	**2,885,029**	**1,801,671**
Overdue or impaired loans				
Real estate	19,073	19,073	38,806	38,806
Motor vehicles	1,901	1,901	4,090	4,090
Guarantees	19,322	-	10,592	-
Total overdue or impaired loans	**40,296**	**20,974**	**53,488**	**42,896**
Total loans to individuals	**3,711,601**	**2,324,489**	**2,938,517**	**1,844,567**

The tables above exclude overcollateralization. For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed.

For all loans to individuals the fair value of collateral was assessed at the loan inception date and it was not updated for further changes.

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

Loans with no collateral or other credit enhancement represent loans to the employees of the Organization.

(d) Industry and geographical analysis of the loan portfolio

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

	2013 AMD'000	**2012 AMD'000**
Crop production	2,029,005	1,583,437
Cattle breeding	1,563,602	1,266,350
Retail trade	711,843	354,753
Pisciculture	276,867	222,808
Other	621,314	286,400
	5,202,631	**3,713,748**
Impairment allowance	(85,199)	(37,137)
	5,117,432	**3,676,611**

(e) Significant credit exposures

As at 31 December 2013 the Organization has no borrowers or groups of connected borrowers (2012: none), whose loan balances exceed 10% of equity.

(f) Loan maturities

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

11 Receivables from finance leases

	2013 AMD'000	**2012 AMD'000**
Gross investment in finance leases receivables:		
Less than one year	60,366	67,272
Between one and five years	124,719	139,336
	185,085	206,608
Unearned finance income	(33,728)	(35,300)
Impairment allowance	(5,552)	(3,426)
Net investment in finance leases	**145,805**	**167,882**
The net investment in finance leases comprises:		
Less than one year	57,597	65,333
Between one and five years	88,208	102,549
	145,805	**167,882**

As at 31 December 2013 and 31 December 2012 there are no contractually overdue finance lease receivables.

(a) Concentration of receivables from finance leases

As at 31 December 2013 the Organization has no customer whose balances exceed 10% of equity (2012: nil).

(b) Finance lease maturities

The maturity of the Organization's finance lease portfolio is presented in note 16 (d), which shows the remaining period from the reporting date to the contractual maturity of the receivables from finance leases.

(c) Geographical analysis of the finance lease portfolio

The finance leases are with customers located within the Republic of Armenia and operating in the agricultural sector. The leased assets represent mainly agricultural equipment.

12 Property, equipment and intangible assets

AMD'000	Computer equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost					
Balance at 1 January 2013	28,762	35,921	114,565	13,315	192,563
Additions	13,230	10,171	3,097	-	26,498
Disposals	(540)	(342)	-	-	(882)
Transfers	205	(205)	-	-	-
Balance at 31 December 2013	**41,657**	**45,545**	**117,662**	**13,315**	**218,179**
Depreciation and amortization					
Balance at 1 January 2013	19,624	20,425	43,897	2,862	86,808
Depreciation and amortization for the year	9,874	5,376	21,247	1,382	37,879
Disposals	(540)	(21)	-	-	(561)
Balance at 31 December 2013	**28,958**	**25,780**	**65,144**	**4,244**	**124,126**
Carrying amount					
At 31 December 2013	**12,699**	**19,765**	**52,518**	**9,071**	**94,053**

AMD'000	Computer equipment	Fixtures and fittings	Motor vehicles	Intangible assets	Total
Cost					
Balance at 1 January 2012	22,365	25,787	78,138	8,008	134,298
Additions	5,148	13,707	38,446	5,307	62,608
Disposals	(1,930)	(394)	(2,019)	-	(4,343)
Transfers	3,179	(3,179)	-	-	-
At 31 December 2012	**28,762**	**35,921**	**114,565**	**13,315**	**192,563**
Depreciation and amortization					
Balance at 1 January 2012	15,866	14,778	27,762	1,748	60,154
Depreciation and amortization for the year	5,312	6,398	17,936	1,114	30,760
Disposals	(1,911)	(394)	(1,801)	-	(4,106)
Transfers	357	(357)	-	-	-
Balance at 31 December 2012	**19,624**	**20,425**	**43,897**	**2,862**	**86,808**
Carrying amounts					
At 31 December 2012	9,138	15,496	70,668	10,453	105,755
At 1 January 2012	**6,499**	**11,009**	**50,376**	**6,260**	**74,144**

There are no capitalized borrowing costs related to the acquisition or construction of plant and equipment during 2013 (2012: nil).

13 Loans and borrowings

	2013 AMD'000	2012 AMD'000
Secured loans from the CBA	2,718,920	2,711,625
Secured loans from state non-commercial organizations	1,220,113	851,979
Unsecured loans from state non-commercial organizations	400,582	163,957
Unsecured bank loan	81,221	-
	4,420,836	**3,727,561**

(a) Borrowings from the CBA

According to the agreement the CBA provides loans to the Organization, which in turn grants loans to qualifying borrowers. The monitoring and administration of the loans is performed by the "Directing Office of the "German Armenian Foundation" program".

The loans are in AMD, bear interest rates of 8-9%, are granted for period of up to five years and are to be repaid at maturity.

As at 31 December 2013, loans to customers with a gross value of AMD 2,792,401 thousand (2012: AMD 2,674,733 thousand) serve as collateral for borrowings from the CBA.

(b) Borrowings from the state non-commercial organizations

As at 31 December 2013 the secured loans from a state non-commercial organizations comprise loans received from Foreign Financing Projects Management Centre (former Millenium Challenge Account – Armenia SNCO), "Rural Finance Facility – Project Imlementation Unit" State Institution and Small and Medium Entrepreneurship Development National Center of Armenia.

The loans are provided for the purpose of lending to agricultural sector and are secured by the total amount of loans provided by the Organization to sub-borrowers and all interest paid by sub-borrowers on their loans. As at 31 December 2013 the total gross amount of such loans is AMD 1,478,424 thousand (2012: AMD 846,512 thousand).

(c) Concentrations of loans and borrowings

As at 31 December 2013 the Organization has three institutions (2012: three institutions) whose balances exceed 10% of equity. These balances as at 31 December 2013 are AMD 4,334,167 thousand (2012: AMD 3,727,561 thousand).

14 Other liabilities

	2013 AMD'000	2012 AMD'000
Liabilities to members for capital replenishment	65,399	27,342
Payables to suppliers	8,746	8,655
Payables to employees	7,832	5,518
Total other financial liabilities	**81,977**	**41,515**
Other taxes payable	20,311	400
Other non-financial liabilities	1,870	8,575
Total other non-financial liabilities	**22,181**	**8,975**
Total other liabilities	**104,158**	**50,490**

Liabilities to members for capital replenishment represent funds received for capital replenishment from existing and potential members. The funds are subject to approval of Shareholders meeting.

15 Share capital

As at 31 December 2013 the Organization had 2,489 members (2012: 1,221 members) with a share capital of AMD 560,891 thousand (2012: AMD 488,783 thouasnd). Each member of the Organization has the right of one vote at annual and general meetings of shareholders regardless of its share of participation.

During 2013 new and existing members replenished share capital by AMD 72,108 thousand.

(a) Dividends

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

16 Risk management

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

(a) Risk management policies and procedures

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

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

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

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

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

(b) Market risk

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

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

(i) Interest rate risk

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

Interest rate gap analysis

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

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2013							
ASSETS							
Cash and cash equivalents	127,749	-	-	-	-	-	127,749
Loans to customers	396,718	638,258	1,572,171	2,486,857	23,428	-	5,117,432
Receivables from finance lease	16,411	14,019	27,167	88,208	-	-	145,805
	540,878	**652,277**	**1,599,338**	**2,575,065**	**23,428**	**-**	**5,390,986**
LIABILITIES							
Loans and borrowings	623,663	31,712	146,428	2,994,110	624,923	-	4,420,836
Other financial liabilities	-	-	-	-	-	81,977	81,977
	623,663	**31,712**	**146,428**	**2,994,110**	**624,923**	**81,977**	**4,502,813**
	(82,785)	**620,565**	**1,452,910**	**(419,045)**	**(601,495)**	**(81,977)**	**888,173**
31 December 2012							
ASSETS							
Cash and cash equivalents	748,195	-	-	-	-	5,442	753,637
Loans to customers	241,812	483,217	1,168,512	1,783,070	-	-	3,676,611
Receivables from finance lease	18,750	16,729	29,854	102,549	-	-	167,882
	1,008,757	**499,946**	**1,198,366**	**1,885,619**	**-**	**5,442**	**4,598,130**
LIABILITIES							
Loans and borrowings	392,567	9,841	35,041	2,709,125	580,987	-	3,727,561
Other financial liabilities	-	-	-	-	-	41,515	41,515
	392,567	**9,841**	**35,041**	**2,709,125**	**580,987**	**41,515**	**3,769,076**
	616,190	**490,105**	**1,163,325**	**(823,506)**	**(580,987)**	**(36,073)**	**829,054**

Average effective interest rates

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

	2013 Average effective interest rate, %		**2012 Average effective interest rate, %**	
	AMD	**USD**	**AMD**	**USD**
Interest bearing assets				
Term deposits with banks	-	-	9.0%	4.2%
Loans to customers	16.6%	11.8%	16.8%	11.9%
Receivables from finance lease	12.9%	-	13.5%	-
Interest bearing liabilities				
Loans and borrowings	8.2%	4.3%	8.2%	4.0%

Interest rate sensitivity analysis

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

	2013 AMD'000	2012 AMD'000
100 bp parallel fall	4,614	10,862
100 bp parallel rise	(4,614)	(10,862)

(ii) Currency risk

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

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

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

	USD AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS			
Cash and cash equivalents	99,993	184	100,177
Loans to customers	1,078,219	-	1,078,219
Total assets	**1,178,212**	**184**	**1,178,396**
LIABILITIES			
Loans and borrowings	(558,938)	-	(558,938)
Total liabilities	**(558,938)**	**-**	**(558,938)**
Net position	**619,274**	**184**	**619,458**

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

	USD AMD'000	Other currencies AMD'000	Total AMD'000
ASSETS			
Cash and cash equivalents	472,072	237	472,309
Loans to customers	152,392	-	152,392
Total assets	**624,464**	**237**	**624,701**
LIABILITIES			
Loans and borrowings	(155,624)	-	(155,624)
Total liabilities	**(155,624)**	**-**	**(155,624)**
Net position	**468,840**	**237**	**469,077**

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

	2013 AMD'000	**2012 AMD'000**
10% appreciation of USD against AMD	61,927	46,884

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

(c) Credit risk

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

The credit policy establishes:

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

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

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

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

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

	2013 AMD'000	**2012 AMD'000**
ASSETS		
Cash and cash equivalents	127,749	753,637
Loans to customers	5,117,432	3,676,611
Receivables from finance lease	145,805	167,882
Total maximum exposure	**5,390,986**	**4,598,130**

The Organization holds collateral against loans and advances to customers in the form of mortgage interests over property and guarantees. Estimates of value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 10.

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

(d) Liquidity risk

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

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

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

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Loans and borrowings	35,245	137,505	143,311	345,918	4,751,985	5,413,964	4,420,836
Other financial liabilities	9,578	7,000	-	65,399	-	81,977	81,977
Total financial liabilities	**44,823**	**144,505**	**143,311**	**411,317**	**4,751,985**	**5,495,941**	**4,502,813**

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Loans and borrowings	120,155	10,661	40,062	207,198	4,504,875	4,882,951	3,727,561
Other financial liabilities	8,908	1,647	3,618	27,342	-	41,515	41,515
Total financial liabilities	**129,063**	**12,308**	**43,680**	**234,540**	**4,504,875**	**4,924,466**	**3,769,076**

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	127,749	-	-	-	-	-	-	127,749
Loans to customers	136,124	238,955	2,210,429	2,486,857	23,428	-	21,639	5,117,432
Receivables from finance lease	6,031	10,380	41,186	88,208	-	-	-	145,805
Current tax asset	-	-	21,758	-	-	-	-	21,758
Property, equipment and intangible assets	-	-	-	-	-	94,053	-	94,053
Other assets	-	-	19,960	-	-	4,934	-	24,894
Total assets	**269,904**	**249,335**	**2,293,333**	**2,575,065**	**23,428**	**98,987**	**21,639**	**5,531,691**
LIABILITIES								
Loans and borrowings	13,955	104,466	239,230	3,438,262	624,923	-	-	4,420,836
Grants received	-	-	-	-	-	41,322	-	41,322
Deferred tax liabilities	-	-	-	-	-	9,589	-	9,589
Other liabilities	9,578	7,000	87,580	-	-	-	-	104,158
Total liabilities	**23,533**	**111,466**	**326,810**	**3,438,262**	**624,923**	**50,911**	**-**	**4,575,905**
Net position	**246,371**	**137,869**	**1,966,523**	**(863,197)**	**(601,495)**	**48,076**	**21,639**	**955,786**

As at 31 December 2013, the Organization maintains AMD 100,000 thousand line of credit facility that is unsecured (2012: none). Interest would be payable at the rate of 14%.

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

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	753,637	-	-	-	-	-	-	753,637
Loans to customers	69,201	164,694	1,651,729	1,783,070	-	-	7,917	3,676,611
Receivables from finance lease	6,803	11,947	46,583	102,549	-	-	-	167,882
Property, equipment and intangible assets	-	-	-	-	-	105,755	-	105,755
Other assets	3,198	-	7,961	-	-	4,252	-	15,411
Total assets	**832,839**	**176,641**	**1,706,273**	**1,885,619**	**-**	**110,007**	**7,917**	**4,719,296**
LIABILITIES								
Loans and borrowings	120,155	5,094	89,324	2,932,003	580,985	-	-	3,727,561
Grants received	-	-	-	-	-	59,960	-	59,960
Current tax liability	40,348	-	-	-	-	-	-	40,348
Deferred tax liabilities	-	-	-	-	-	4,342	-	4,342
Other liabilities	8,908	1,647	39,935	-	-	-	-	50,490
Total liabilities	**169,411**	**6,741**	**129,259**	**2,932,003**	**580,985**	**64,302**	**-**	**3,882,701**
Net position	**663,428**	**169,900**	**1,577,014**	**(1,046,384)**	**(580,985)**	**45,705**	**7,917**	**836,595**

17 Capital management

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

The Organization defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Armenia, credit organizations have to maintain a minimum total capital of AMD 150,000 thousand. The Organization is in compliance with the statutory capital requirements as at 31 December 2013 and 2012.

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

18 Commitments

During the year ended 31 December 2013 the Organization entered into a contract to purchase computer equipment for AMD 45,022 thousand (2012: nil).

19 Contingencies

(a) Insurance

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

(b) Litigation

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

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

(c) Taxation contingencies

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

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

20 Related party transactions

(a) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2013 and 2012 is as follows:

	2013 AMD'000	2012 AMD'000
Short term employee benefits	**144,023**	**125,528**

The outstanding balances and average effective interest rates as at 31 December 2013 and 2012 for transactions with the members of the Board of Directors and the Management Board are as follows:

	2013 AMD'000	Average effective interest rate, %	2012 AMD'000	Average effective interest rate, %
Statement of financial position				
Loans issued (gross)	55,197	10.0%	32,725	14.3%
Loan impairment allowance	(552)		(327)	
Receivables from finance lease	4,770	14.5%	8,254	14.5%

The loans are in Armenian Drams and USD and repayable by 2017. Transactions with related parties are not secured.

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

	2013 AMD'000	2012 AMD'000
Profit or loss		
Interest income	5,478	6,886
Other general and administrative expenses	-	(3,421)

(b) Transactions with other related parties

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

	2013 AMD'000	Average effective interest rate, %	2012 AMD'000	Average effective interest rate, %
Statement of financial position				
ASSETS				
Loans to customers				
Principal balance	31,379	13.6%	15,258	12.7%
Impairment allowance	(314)		(153)	
Profit (loss)				
Interest income	1,940		1,971	

21 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

AMD'000	Loans and receivables	Other amortized cost	Total carrying amount	Fair value
Cash and cash equivalents	127,749	-	127,749	127,749
Loans customers:				
Business loans	1,405,831	-	1,405,831	1,405,831
Loans to individuals	3,711,601	-	3,711,601	3,711,601
Receivables from finance lease	145,805	-	145,805	145,805
	5,390,986	**-**	**5,390,986**	**5,390,986**
Loans and borrowings	-	4,420,836	4,420,836	4,420,836
	-	**4,420,836**	**4,420,836**	**4,420,836**

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

AMD '000	Loans and receivables	Other amortized cost	Total carrying amount	Fair value
Cash and cash equivalents	753,637	-	753,637	753,637
Loans customers:				
Business loans	738,094	-	738,094	738,094
Loans to individuals	2,938,517	-	2,938,517	2,938,517
Receivables from finance lease	167,882	-	167,882	167,882
	4,598,130	**-**	**4,598,130**	**4,598,130**
Loans and borrowings	-	3,727,561	3,727,561	3,727,561
	-	**3,727,561**	**3,727,561**	**3,727,561**

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

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

- discount rates of 6% - 20% and 11% - 20% are used for discounting future cash flows from loans to customers and receivables from finance lease;
- discount rates of 4% - 10% are used for discounting future cash flows from liabilities.